



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

| | | |
|----------------|---------------------------------|---|
| 7.00 pm | Tuesday 30 June 2026 | Appointment Centre Rooms 7 & 8 |
|----------------|---------------------------------|---|

Members 5: Quorum 3

COUNCILLORS:

**Reform UK Group
(4)**

**Havering Aligned Residents'
Association Group
(1)**

Luke Barry (Chairman)
Geoff Burgess
Robert Attree
Iurie Bivol

Julie Wilkes

**For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@havering.gov.uk**

Please would all Members and officers attending ensure they sit in their allocated seats as this will enable correct identification of participants on the meeting webcast.

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

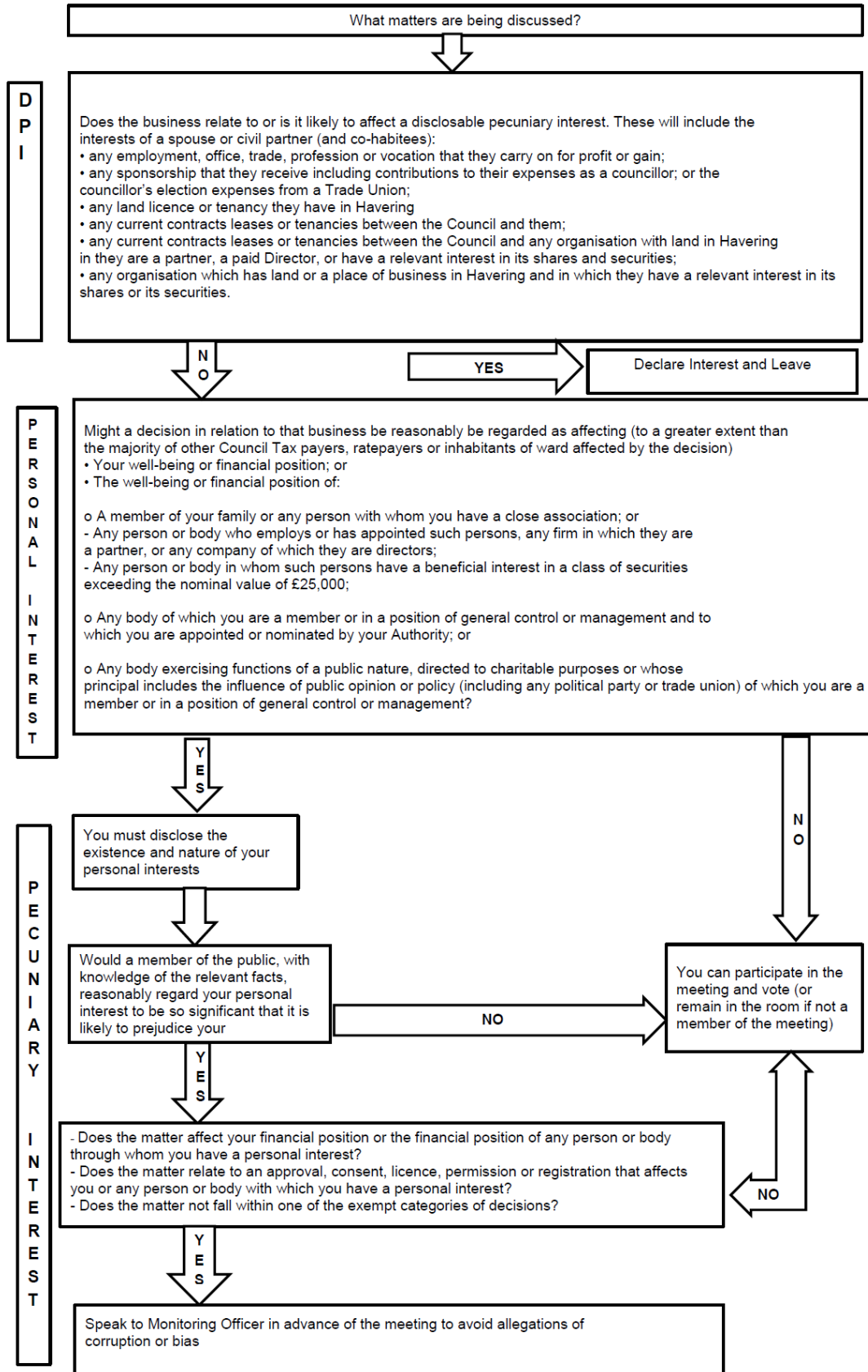
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



Principles of conduct in public office

In accordance with the provisions of the Localism Act 2011, when acting in the capacity of a Member, they are committed to behaving in a manner that is consistent with the following principles to achieve best value for the Borough's residents and to maintain public confidence in the Council.

SELFLESSNESS: Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

INTEGRITY: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

ACCOUNTABILITY: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

LEADERSHIP: Holders of public office should promote and support these principles by leadership and example.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 7 - 8)

To approve as correct the minutes of the meeting held on 24th February 2026 and authorise the Chairman to sign them.

5 EXTERNAL AUDIT PLANS 2025-26 (Pages 9 - 108)

Report and appendices attached

6 ANNUAL TREASURY MANAGEMENT REPORT 2025/26 (Pages 109 - 128)

Report attached

7 HEAD OF ASSURANCE ANNUAL OPINION 2025-26 & INTERNAL AUDIT PLAN OUTTURN (Pages 129 - 160)

Report and appendices attached

8 ANNUAL GOVERNANCE STATEMENT 2025/26 (Pages 161 - 184)

Report and appendix attached

Zena Smith
Head of Committee and
Election Services

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**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Appointment Centre Rooms 7 & 8
24 February 2026 (7.03 - 8.33 pm)**

Present:

COUNCILLORS:

| | |
|--|---|
| Conservative Group | David Taylor |
| Residents' Group | Julie Wilkes (Chair) and Jacqueline Williams (Vice-Chair) |
| Residents Association Independent Group | Philip Ruck |

Apologies were received for the absence of Councillors John Crowder.

The Chairman made announcements regarding emergency evacuation arrangements.

Councillor Keith Prine attended as an observer.

32 MINUTES OF THE MEETING

The minutes and exempt minutes of the meeting held on 25th November 2025 were agreed as a correct record and signed by the Chairman.

33 STATEMENTS OF ACCOUNTS 2024/25 AND EXTERNAL AUDIT REPORTS TO THOSE CHARGED WITH GOVERNANCE

The Committee was presented with the Statement of Accounts 2024/25 and External Audit reports.

Officers explained that although the draft accounts had been published by the statutory deadline, the continuing national audit backlog meant the external audit could not be completed before the backstop date of 27th February 2026. As a result, the Council would again receive an unqualified opinion for 2024/25.

EY presented their findings and confirmed that materiality had been revised to £8.8m, with reporting set at £400,000. It was advised that the audit work was substantially complete and only the final documentation was outstanding. It was highlighted that although assurance levels had improved since the previous year, gaps remained in areas such as creditors, debtors and leases under IFRS 16. Officers further reported that internal audit findings had identified suspected fraudulent activity and underlying control weaknesses which contributed to a significant weakness in value for money.

Members questioned the sufficiency of internal controls, the impact of known control weaknesses and the Council's approach to debt write-off and debt recovery. Officers provided assurance that control weaknesses in temporary accommodation had been addressed and explained the ongoing work to improve debt management and the debt write-off processes.

Members noted that the Pension Fund audit was substantially complete and the Council would receive an unqualified opinion. All recommendations had been accepted by officers.

Members raised concerns about the accuracy of wording that described weaknesses as “isolated”. Officers explained that the AGS already included wording that reflected control failures but agreed that the recommendations would be amended to acknowledge the Audit Committee’s concerns.

The Committee approved the recommendations as set out in the report.

34 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2026/27

The Committee received a report on the Treasury Strategy for 2026/27.

The Committee noted that long-term interest rates were forecast to fall and therefore the Council would continue its policy of short-term borrowing for periods between one and five years, with the intention of locking into longer-term rates when the rates were lower. A significant volume of refinancing was anticipated in the coming year due to previous reliance on short-term borrowing.

Officers confirmed that the Council remained compliant with the CIPFA Prudential Code, with the exception of concerns arising from exceptional financial support and the associated impact on financial sustainability. The investment strategy remained unchanged with funds placed short-term with the DMO or other local authorities.

The Committee agreed the recommendations as set out in the report.

35 INTERNAL AUDIT REPORT

The Committee received the Head of Assurance Progress report.

Members noted that improvements had been made to the format following earlier committee feedback. It was confirmed that thirteen school audits would be completed during the final quarter. Members also noted a reduction in right-to-buy investigative referrals following the previous year’s surge.

The Committee received updates on limited assurance reports issued for temporary accommodation, garage allocations and tenant management organisations. Officers confirmed that follow-up work was ongoing and that many actions had already been completed. Members queried the deferral of contract-related audit work, however, officers explained that this had been necessary due to ongoing procurement reform and the absence of high-risk contracts arising during the year. The Committee requested that the Terms of Reference for the forthcoming waste contract audit be brought back for review.

The Committee agreed the recommendations as set out in the report.

Chairman



AUDIT COMMITTEE

30th June 2026

Subject Heading:

External Audit Plans 2025/26

ELT Lead:

Kathy Freeman, Strategic Director of Resources

Report Author and contact details:

Heather Salmon, Head of Finance
Telephone: 01708 432151
E-mail: heather.salmon@havering.gov.uk

Policy context:

Audit Committee to consider the External Audit Plans for the London Borough of Havering and for the Pension Fund.

Financial summary:

The cost of the audits is set out within the audit plans.

The subject matter of this report deals with the following Council Objectives

- People - Supporting our residents to stay safe and well
- Place - A great place to live, work and enjoy
- Resources - Enabling a resident-focused and resilient Council - X

SUMMARY

The Council's external auditor, Ernst and Young (EY), has prepared audit plans for 2025/26 for both the Council and the Pension Fund (Appendices A and B). The plans set out EY's proposed audit approach, including scope, key risks, materiality thresholds and arrangements for delivering the audits in line with statutory deadlines.

While the overall audit approach is consistent, the plans reflect differing risk profiles between the Council and the Pension Fund. In particular, there remains a continued focus on rebuilding audit assurance for the Council and Group accounts following prior year disclaimer opinions, whereas the Pension Fund accounts have continued to receive unqualified audit opinions in all years.

The plans also highlight areas of progress in improving financial reporting and supporting evidence, alongside key audit risks requiring significant judgement, and the importance of timely, high-quality financial statements, working papers and supporting evidence to enable efficient audit delivery.

The Council has continued to meet statutory deadlines for the publication of draft financial statements despite the national audit backlog. EY's plans reflect a phased approach to rebuilding assurance over prior year balances for the Council and Group accounts, alongside progressing the audits of the current year.

RECOMMENDATIONS

The Committee is asked to:

1. Note the contents of the audit plans (Appendices A and B), including the significant audit risks, materiality thresholds and proposed audit approach.
2. Note the planned audit timetable, including EY's intention to present the Audit Results Reports in November 2026, and the statutory backstop date of 31 January 2027.

REPORT DETAIL

1. Introduction

Each year the Council's external auditor presents its audit plans to the Audit Committee. These plans outline EY's proposed audit scope and approach to the audit of the financial statements, including significant risks, materiality levels, and work on value for money arrangements.

The plans also reflect the wider national context of audit recovery, including the impact of backstop dates and the requirement to rebuild assurance over historic balances. EY's approach therefore combines delivery of the current year audit with a longer-term process to restore assurance over the Council's financial statements.

2. Key Matters for the Committee

The audit plans highlight the following key matters for the Committee's attention:

- **Rebuilding audit assurance (Council and Group Accounts):**
EY recognise that progress has been made in financial reporting and audit readiness, providing a foundation for rebuilding assurance. However, prior years that were unaudited or disclaimed mean that assurance over opening balances and reserves remains incomplete, and a return to unqualified opinions for the Council accounts will take time. The Pension Fund accounts

are not affected by this position and have continued to receive unqualified audit opinions.

- **Audit recovery context:**

The Council is operating within the national audit recovery framework, including the application of statutory backstop dates. EY's plans reflect a phased approach to rebuilding assurance over historic balances for the Council and Group accounts, alongside progressing the audits for the current year.

- **Key audit risks and judgements:**

Significant audit risks remain in key areas including asset valuations, pensions (within the Council's financial statements), group accounts, leasing (IFRS 16) and bad debt provisions.

- **Quality and timeliness of audit evidence:**

The timely provision of complete, accurate and well-supported working papers remains critical to enabling audit delivery in line with the agreed timetable and avoiding further delays.

- **Governance and internal control improvements:**

EY's value for money work continues to highlight the need to strengthen governance arrangements and internal controls, particularly in response to prior year findings and internal audit conclusions.

3. Materiality and audit approach

EY have set materiality thresholds to focus audit work on areas with the greatest potential impact on the financial statements.

- For the Council and Group audit, planning materiality has been set at £8.0m (1% of gross expenditure), with performance materiality of £4.0m and a reporting threshold of £0.4m.
- For the Pension Fund, planning materiality is £10.08m (1% of net assets), with performance materiality of £7.56m and a reporting threshold of £0.5m.

These thresholds determine the nature and extent of audit testing and reflect both the size of the balances and the level of audit risk identified.

4. Audit timetable and delivery

EY have agreed an audit timetable with officers, with planning and interim work commencing early in the year and detailed risk assessment work undertaken by June 2026. Substantive audit testing will take place over the summer and autumn, with the Audit Results Reports planned for November 2026.

The audit process requires ongoing engagement between the auditor and finance team throughout this period, with audit work undertaken in phases across the year. Timely provision of working papers and responses to audit queries will be critical to maintaining progress against the agreed timetable.

5. Background

At its meeting on 22 March 2022, the Council approved the decision to procure an external audit contract through Public Sector Audit Appointments Ltd (PSAA) for both the Council and the Pension Fund. EY was appointed as the Council's external auditor for the current contract period, which runs to 2027/28.

PSAA sets and publishes scale fees for each audited body. The scale fees for the 2025/26 accounts are:

- LB Havering Council £464,973
- Pension Fund £ 97,873

The scale fee assumes delivery of the audit in line with agreed timetables and requirements. Where additional work is required due to local circumstances or changes in audit requirements, fee variations may be proposed to PSAA.

Audit backstop context and prior year audit position

Members should note the national context of the local audit backlog and the introduction of statutory backstop dates, which require audits to be concluded by a fixed deadline regardless of whether sufficient assurance has been obtained.

For Havering, the Council's 2021/22 and 2022/23 accounts were not subject to audit. The 2023/24 and 2024/25 Council accounts were subject to audit but resulted in disclaimed opinions due to the absence of assurance over opening balances and reserves arising from the prior unaudited years. In contrast, the Pension Fund accounts have been fully audited in all years and have received unqualified opinions up to and including 2024/25.

This position was anticipated in line with the national audit recovery approach and reflects the need for a phased rebuilding of assurance over historic balances.

Notwithstanding these sector-wide challenges, the Council has achieved publication of unaudited accounts in line with statutory deadlines each year, providing a strong foundation for the recovery of the audit position.

IMPLICATIONS AND RISKS

Financial implications and risks:

Public Sector Audit Appointments Ltd (PSAA) appoints auditors and sets scale fees for a five-year period. This contract was retendered for 2023/24, and Ernst and Young was reappointed up to 2027/28.

The scale fees for the 2025/26 audit will be £464,973 (prior year £452,308) for the Council and £97,873 (prior year £96,974) for the Pension Fund. The scale fees reflect the agreed audit arrangements however; the regulations allow for a fee variation proposal to be submitted to PSAA where further audit work is required.

Legal implications and risks:

The audit plan and related timetable as noted in the recommendations will enable the Council to comply with the requirements of the Local Audit and Accountability Act 2014, section 4. The Act requires that the Council's accounts be audited in accordance with the provisions of the Act by an auditor appointed under the arrangements prescribed in the Act.

The Council is also obliged to comply with the National Audit Office Code of Audit Practice published under the 2014 Act; the Statement of Responsibilities issued by the Public Sector Audit Appointments (PSAA) Ltd; the Accounts and Audit (amendment) Regulations 2024; Auditing Standards and other professional requirements.

The Plan outlined by Ernst & Young (EY) in discharge of its responsibility as the appointed auditor, will ensure that the audit fulfils the statutory requirements.

Human Resources implications and risks:

There are no direct Human Resources implications in this report.

Equalities implications and risks:

There are no direct equalities implications in this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage

and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Environmental and Climate Change implications and risks:

None arising directly from this report.

Appendices:

Appendix A – London Borough of Havering Audit Plan, Year ended 31 March 2026

Appendix B – Havering Pension Fund Audit Plan, Year ended 31 March 2026

London Borough of Havering

Provisional Audit Plan
Year ended 31 March 2026

30 April 2026



The better the question. The better the answer. The better the world works.



Shape the future
with confidence

Appendix A

30 April 2026



Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

Dear Audit Committee

Provisional Audit Plan 2025/26

We are pleased to attach our Provisional Audit Plan for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements.

This report is intended solely for the information and use of the Audit Committee and Management, and is not intended to be, and should not be used, by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on at the next Audit Committee as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Mark Hodgson
Partner
For and on behalf of Ernst & Young LLP
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Appendix A

Contents

- 1 Overview of our 2025/26 audit strategy
- 2 Audit risks
- 3 Value for Money
- 4 Audit materiality
- 5 Scope of the audit
- 6 Audit team
- 7 Audit timeline
- 8 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated October 2025)' issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/contract-monitoring-2023-24-to-2027-28/terms-of-appointment-from-2023-24/terms-of-appointment-and-further-guidance-from-1-october-2025/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and Management of London Borough of Havering. Our work has been undertaken so that we might state to the Audit Committee and Management of London Borough of Havering those matters we are required to state to them in this 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 Audit Committee and Management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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Overview of our 2025/26 audit strategy

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2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Council's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by Management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

As part of our responsibilities, we assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Audit Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and Management's responsiveness to issues identified during the audit. Wherever necessary, we will consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements. We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Our shared strategy to rebuild assurance

We are now in Phase 2 of the implementation of the Ministry for Housing, Communities and Local Government's (MHCLG) measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the Council's own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

Management has overall responsibility for leading and sustaining the Council's recovery from a disclaimed audit opinion. This includes ensuring that the financial statements are prepared in accordance with proper practices and supported by complete, accurate and timely audit evidence.

To deliver this, it is essential that Management:

- Strengthen the underlying control environment, particularly in areas linked to prior year disclaimers.
- Provide high quality working papers and ensure that all audit evidence is complete, consistent and readily accessible.
- Allocate sufficient, knowledgeable resources throughout the audit cycle.
- Actively engage with auditors, promptly addressing findings and resolving weaknesses in financial reporting arrangements.
- Communicate transparently with the Audit and Risk Committee, as Those Charged with Governance, ensuring that Committee members have clear visibility of risks, progress and emerging issues.

In line with the National Audit Office's Local Audit Reset and Recovery Implementation Guidance (LARRIGs) - and specifically the guidance on rebuilding assurance following a disclaimed opinion - Management must support the restoration of reliable opening balances and enable a phased progression from disclaimed to qualified and ultimately unmodified audit opinions. Achieving this requires sustained delivery of the "natural rebuild," through the completion of all planned audit procedures across successive annual cycles, alongside targeted work to rebuild assurance over historical balances, including both usable and unusable reserves, where cumulative gaps in evidence present the most significant challenges.

2025/26 audit strategy overview: Rebuilding Assurance

Our shared strategy to rebuild assurance continued

Appendix A explains the expected timeline to full assurance set out within the NAO’s LARRIG 01 guidance, along with our assessment of the Council’s status. During 2023/24 and 2024/25, the focus of the rebuild process has been on this “natural” rebuild, to complete all planned audit procedures for each respective audit year. As set out in our Audit Results Reports dated 11 February 2026, we were not able to complete all planned audit procedures for the following reasons:

- **2023/24:** As a result of the 2022/23 disclaimed audit report, we did not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we did not have assurance over 2023/24 in-year movements and some closing balances. We also did not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild assurance in our 2023/24 audit and we were also unable to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over 2023/24 closing balances and in-year transactions. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances meant we were unable to conclude that the 2023/24 financial statements were free from material and pervasive misstatement.
- **2024/25:** Due to the disclaimers of opinion on the financial statements in the prior years and delays in receiving associated audit evidence, we were unable to complete all detailed audit procedures in advance of the backstop date, we were therefore not able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over in-year transactions and closing balances for the year ended 31 March 2025.

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As part of our interim audit procedures for 2025/26, we will undertake a detailed risk assessment to evaluate the risk of material misstatement in the opening reserves balances at 1 April 2025, and to assess Management’s readiness to support the historic rebuild process over transactions and balances in 2021/22 and 2022/23 that were not subject to audit. This work is expected to be completed by 30 June 2026 and is essential to determining whether the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed to support future progression towards qualified or unmodified audit opinions.

We will discuss the outcome of our risk assessment over the opening reserves balances with Management to confirm our planned approach for 2025/26. However, because we were unable to complete all planned audit procedures for 2023/24 and 2024/25 for the reasons outlined above, it is unlikely that we will commence any rebuilding of assurance over the historic position during the 2025/26 audit cycle. In line with our established prioritisation principles, we will focus our audit resources on rebuilding assurance for those bodies where planned audit procedures were completed in 2023/24 and 2024/25, in order to support the sector wide objective of returning to unmodified audit opinions as quickly and sustainably as possible. As a result, it is likely that we would not be able to gain sufficient audit assurance to move away from a disclaimed audit opinion outcome, though will keep this under review during our audit.

It is therefore critical that Management ensure they can provide high quality working papers, robust audit evidence, and resolve the underlying issues identified in prior years as part of the 2025/26 audit cycle. This will be essential to avoid any further delay in the eventual process for rebuilding assurance over the Council’s historic position.

Appendix A 2025/26 audit strategy overview: Rebuilding Assurance

Preparedness for audit

Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and Management's responsiveness to issues identified during the audit. Our 2024/25 reporting included our assessment of the effectiveness of the Council's arrangements to support the external audit process across a range of relevant measures (reproduced in Appendix A). We concluded that the Council was not fully prepared for the audit and that improvements were required in relation to:

- The provision of working papers in line with the agreed Client Assistance Schedule and timetable. Approximately 20% of working papers in 2024/25 were not provided to the agreed timetable.
- The provision of timely/high quality supporting evidence. In 2024/25 we encountered some delays in the provision of additional supporting evidence from the Council and in a number of areas the quality of evidence provided to support accounting balances and transactions has not been to the quality required to allow us to conclude work first time, resulting in a significant number of requests for clarification and further evidence.
- The availability of key finance personnel to support the execution phase of the audit in accordance with the agreed project plan. During the 2024/25 execution phase of the audit the Council was impacted by changes in IT systems resulting in access issues for Council officers to the Council's own systems and supporting documentation/evidence and access to EY's client portal, delaying responses to audit queries during this period.

We will continue to report on our assessment of the quality of the Council's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

Scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to establish whether the Council has proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that summarises our opinion on the financial statements by 30 November 2026 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix C and D).

In addition, our Auditor's Annual Report will conclude on whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Timeline

An audit timetable has been agreed with Management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

Our independence considerations

Please refer to Appendix B for our update on independence.

Appendix A

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error. There is one significant change to the scoping for the audit of the 2025/26 financial statements, relating to the implementation of CIPFA's Bulletin 22 in relation to the valuation of Property, Plant and Equipment.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

| Risk/area of focus | Risk identified | Change from PY | Details |
|--|-----------------|----------------------------|---|
| Council and Group financial statements: Presumptive risk of management override of controls | Fraud risk | No change in risk or focus | There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. |
| Council and Group financial statements: Risk of incorrect capitalisation of revenue expenditure | Fraud risk | No change in risk or focus | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Linking to our fraud risk identified above, we have determined that a way in which Management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute. |
| Council and Group financial statements: Valuation of Investment Property | Inherent risk | Decrease in risk | Investment Property represents a significant balance in the Council and Group financial statements (2024/25: £110.1 million). Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income-based measures, given difficulties in estimating future income. |

Appendix A

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

| Risk/area of focus | Risk identified | Change from PY | Details |
|--|------------------|----------------------|--|
| Council financial statements: Valuation of Land and Buildings and Council dwellings | Significant risk | Change in risk focus | <p>The valuation of Land and Buildings and Council dwellings represent significant balance in the Council's financial statements (2024/25: £1,320 million). These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balance sheet, Management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by Management are likely to have a material impact on the valuation of these assets.</p> <p>In addition, the 2025/26 financial statements the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years.</p> <p>Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years.</p> |
| Group financial statements: Consolidation procedures in the Group financial statements | Inherent risk | Decrease in risk | <p>The Council prepares group accounts to consolidate the following components: the Council, Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP with the financial statements of the corporate components being audited by three different audit firms.</p> <p>Given the number of components being consolidated and the number of different component auditors, we consider this to increase the complexity of consolidation procedures and therefore there is a heightened risk that the group accounts maybe misstated.</p> |
| Group financial statements: The accounting treatment and valuation of Inventory held in the group subsidiaries. | Inherent risk | Decrease in risk | <p>The group subsidiaries have material Inventory held as a current asset in the Balance Sheet in the subsidiary's financial statements, accounted for under IAS 2.</p> <p>This is reclassified within the Group financial statements as a Non-current Asset within Property, Plant & Equipment, accounted for under IAS 16.</p> <p>Given the differences in accounting treatment under the different accounting standards there is a risk that these balances maybe incorrectly accounted for in the Group financial statements.</p> |

Appendix A

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

| Risk/area of focus | Risk identified | Change from PY | Details |
|--|-----------------|----------------------------|--|
| Council financial statements: IFRS 16 Implementation | Inherent risk | No change in risk or focus | <p>In 2024/25, we performed procedures to gain an understanding of the Council's implementation of IFRS 16, including its processes, controls, and related policies and commenced our detailed testing of leases. However, we were unable to complete these procedures as we were unable to gain assurance over lease terms applied to property assets.</p> <p>There therefore, remains a heightened risk of misstatement in 2025/26 as the improper implementation of IFRS 16, including the valuation and accounting treatment of leases, could lead to a misstatements in the financial statements.</p> |
| Council financial statements: Pension valuation | Inherent risk | No change in risk or focus | <p>The Council's Pension Fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore Management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of Management experts and the assumptions underlying fair value estimates.</p> |
| Council financial statements: Accounting for the impairment of Receivables (Bad debt provision) | Inherent risk | No change in risk or focus | <p>The Council's Bad Debt provision (impairment) for 2024/25 was £66.2 million, comprising of several individual elements each requiring Management to make a number of accounting judgements as to the recoverability of debt.</p> <p>In 2024/25, we were unable to complete our planned procedures over the Bad Debt Provision due to the complexity of the provision and access to the historic data upon which the provision is calculated.</p> <p>As a result, there remains a heightened risk of misstatement in 2025/26.</p> |
| Council financial statements: Debtors, Creditors and Net cost of Services - Other Expenditure | Inherent risk | New risk | <p>In the prior year (2024/25) audit, we were unable to complete our planned procedures over Debtor's, Creditor's and Net cost of Services - Other Expenditure as reported in our 2024/25 Audit Results Report due to delays in the receipt of working papers and the quality of evidence provided to support our sample testing.</p> <p>There is a heightened risk of misstatement in these areas in 2025/26.</p> |

2025/26 audit strategy overview: Audit risks and materiality

Group Materiality

Planning materiality
£8.0m

Group Materiality has been set at £8.0 million, which represents 1% of total gross expenditure on provision of services.

We have set this at the lower end of our range, as we believe there will be additional focus by key external stakeholders on the Council's financial statements, together with a higher expectation of our consideration of audit differences impacting those statements.

A lower materiality level provides a greater level of assurance, but requires a higher level of audit testing to achieve that level, which will have implications for the Scale Fee and variations to that fee.

Performance materiality
£4.0m

Group Performance materiality has been set at £4.0 million, which represents 50% of materiality.

We have set this at the lower end of our range to provide greater level of assurance, in response to the identified weaknesses in internal control reported in our 2024/25 Audit Results Report which increases the risk of misstatement in the financial statements.

Audit differences
£0.4m

We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the Other Comprehensive Income statement over £0.4 million.

Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

2025/26 audit strategy overview: Value for Money

Our risk assessment

Under the NAO Code we are required to:

- Satisfy ourselves that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, having regard to [NAO AGN 03](#).
- Design work to provide sufficient assurance to support reporting against the Code's specified reporting criteria outlined below; and
- Apply a risk-based approach to our work, informed by sector knowledge, the annual governance statement, evidence from the financial statements audit and relevant work of other bodies.

In undertaking our risk assessment, we obtain an understanding of the key processes the Council has in place, including financial management, risk management and partnership working arrangements. Our Auditor's Annual Report, which will be issued before 30 November 2026 will include a summary of our commentary on the arrangements in place against each of the three value for money criteria and recommendations raised as a result of any significant weaknesses identified. A key part of our work will be the follow up of previous recommendations to provide the Committee with assurance on the pace of planned improvements.

Our work in this area is underway, where any significant weaknesses are identified, we are required to report these to the Council and to the Audit Committee at the earliest opportunity in the audit cycle.

The table on the next page sets out our initial 2025/26 risk assessment by VFM category based upon our 2024/25 findings. In 2024/25 we identified a number recommendations these are detailed in Appendix D.

Appendix A

2025/26 audit strategy overview: Value for Money

Our risk assessment

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Risks of significant weaknesses in arrangements identified in 2025/26:

Significant weaknesses identified in 2024/25:

| |  <p>Financial sustainability</p> <p>How the Council plans and manages its resources to ensure it can continue to deliver its services.</p> |  <p>Governance</p> <p>How the Council ensures that it makes informed decisions and properly manages its risks.</p> |  <p>Improving economy, efficiency and effectiveness</p> <p>How the Council uses information about its costs and performance to improve the way it manages and delivers its services.</p> |
|--|--|---|--|
| Risks of significant weaknesses in arrangements identified in 2025/26: | No risks identified. | <p>One risk of weakness identified:</p> <p>Internal control weaknesses</p> <p>The 2024/25 Head of Internal Audit's audit opinion was one of limited assurance, highlighting weaknesses in the Councils internal control linked to a number of suspected frauds. Following our VFM work in 2024/25 we determined that a significant weakness existed in the Councils governance arrangements.</p> <p>If the Council has been unable to make adequate progress in addressing these weaknesses, there is a risk that the Council is incurring unnecessary expenditure and therefore there remains a risk of weakness in governance arrangements in 2025/26.</p> | No risks identified. |
| Significant weaknesses identified in 2024/25: | No significant weaknesses identified. | One significant weakness identified which was report as an 'other matter' and reported by exception within our 2024/25 audit report relating to suspected fraudulent activity and weaknesses in internal control. | No significant weaknesses identified. |



02 Audit risks

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Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?

In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk.

- Management has the primary responsibility to prevent and detect fraud. It is important that Management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

Our response: Key areas of challenge and professional judgement

In order to address the risks outlined we will carry out a range of procedures including:

- Identifying fraud risks during the planning stages.
- Inquiry of Management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of Management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Considering the effectiveness of Management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertaking procedures to identify significant unusual transactions.
- Considering whether Management bias was present in the key accounting estimates and judgements in the financial statements.

Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

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| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|--|---|
| <p>We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:</p> <ul style="list-style-type: none"> Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so. Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. <p>If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE)/Investment Property (IP) additions and/or REFCUS in the financial statements.</p> | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For the Council and Group financial statements we have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Testing Property, Plant and Equipment (PPE)/Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. Assessing whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred. Considering whether any development or other related costs that have been capitalised are reasonable to capitalize, i.e., the costs incurred are directly attributable to bringing the asset into operational use. Testing REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year. Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. |

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|--|--|
| <p>Valuation of Land and Buildings and Council dwellings</p> | | |
| <p>The valuation of Land and Buildings and Council dwellings represent significant balance in the Council's financial statements:</p> <p>Property, plant and equipment: £1,597 million (2024/25)</p> <p>Relating to Land and Buildings, including council dwellings: £1,320 million (2024/25)</p> | <p>The valuation of Land and Buildings and Council dwellings are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balances sheet, Management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by Management are likely to have a material impact on the valuation of these assets.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>In the 2025/26 financial statements the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Review and assess Management's assessment and planned approach to CIPFA Bulletin 22, in the context of other challenges in the application. In particular considering the appropriateness of indices applied to assets not revalued during intervening years and triggers for revaluation. Consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre). Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. Review assets not subject to valuation in 2024/25 to confirm that the remaining asset base is not materially misstated. Consider changes to useful economic lives as a result of the most recent valuation. Test accounting entries have been correctly processed in the financial statements. |

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Other areas of audit focus

Financial statement impact

What is the risk, and the key judgements and estimates?

Our response: Key areas of challenge and professional judgement

Consolidation procedures in the Group Financial Statements

The Local Authority Accounting Code of Practice requires the Council to prepare group accounts and supporting disclosures within its financial statements when the group operations become material to the Council.

The Council has consolidated four entities and is required to prepared group accounts. The Council will need to undertake its annual assessment of the group boundary to determine the procedures its needs to consolidate the relevant component entities.

The Council prepares group accounts to consolidate the following components: the Council, Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP.

The financial statements of the corporate components are audited by three different audit firms.

Given the number of components being consolidated and the number of different component auditors, we consider this to increase the complexity of consolidation procedures and therefore there is a heightened risk that the group accounts maybe misstated.

Management will also need to continue to consider the timing of the subsidiary audits to ensure that subsidiary auditors are able to complete their procedures to allow reporting to us as the group auditor.

In order to address the risks outlined we will carry out a range of procedures including:

- Review the Council's assessment of its group boundary and the significance of the components in the group financial statements.
- Prepare group instructions for the component auditors of the Council's subsidiaries.
- Review the work undertaken by component auditors and determine whether we can place reliance on their work to obtain assurance over the balances consolidated into the group accounts.
- Ensure that appropriate consolidation procedures are applied in line with the Code of Practice when consolidating subsidiaries into the Council's group financial statements.
 - Understand the process for consolidation;
 - Understand transactions between group subsidiaries and test that the appropriate accounting entries have been made to eliminate inter-group transactions;
 - Understand and test the differences in accounting policies, ensuring that the appropriate adjustments are made on consolidation to align accounting policies set for the group; and
 - Review the disclosures in the group financial statements to ensure that they are materially accurate and complete.

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Other areas of audit focus

Financial statement impact

What is the risk, and the key judgements and estimates?

Our response: Key areas of challenge and professional judgement

The accounting treatment and valuation of inventory held in the group subsidiaries

The group subsidiaries hold £39.2 million (in 2024/25) of inventories held as a Current Asset in the Balance Sheet in the subsidiaries financial statements.

The group subsidiaries have material inventory held as a Current Asset in the balance sheet in the subsidiaries financial statements.

These inventories are reclassified within the Group financial statements as a Non-current Asset within Property, Plant & Equipment.

Inventories in the subsidiary's financial statements are measured under IAS 2 at the lower of cost and net realisable value where various assumptions are adopted. These assumptions could be impacted by the prevailing economic conditions and could have a material impact on the ultimate net realisable value.

Non-current asset within Property, Plant & Equipment in the Group financial statements are held at cost under IAS 16.

Given the differences in accounting treatment under the different accounting standards there is a risk that these balances maybe incorrectly accounted for in the Group financial statements.

In order to address the risks outlined we will carry out a range of procedures including:

- Request Management to prepare an assessment as to the accounting treatment of these 'inventory' balances against the requirements of the CIPFA Code of Practice considering the nature of these balances.
- Test Managements assessment to confirm the appropriate accounting treatment in the Group financial statements.
- Prepare Group Instructions for the component auditors of the Council's subsidiaries.
- Review the work undertaken by component auditors and determine whether we can place reliance on their work to obtain assurance over the Inventory balances consolidated into the group accounts.

Other areas of audit focus

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| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|--|---|--|
| <p>IFRS 16 Implementation</p> <p>IFRS 16 Leases introduced a number of significant changes in 2024/25. These changes have the potential to impact on the procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.</p> | <p>IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. It has been adopted, interpreted and adapted in the 2024/24 CIPFA Code of Practice on Local Authority Accounting which sets out the financial reporting framework for the Council and Group's financial statements.</p> <p>IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short-term leases. Where the Council is lessee these will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.</p> <p>In 2024/25, we performed procedures to gain an understanding of the Council's implementation of IFRS 16, including its processes, controls, and related policies and commenced our detailed testing of leases. However, we were unable to complete these procedures as were unable to gain assurance over lease terms applied to property assets.</p> <p>Therefore, there remains a heightened risk of misstatement in 2025/26 as the improper implementation of IFRS 16, including the valuation and accounting treatment of leases, could lead to a misstatements in the financial statements.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▪ Reconfirm our understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16 and accounting treatment of leases. ▪ Re-review Management policies, including whether to use a portfolio approach, low value threshold, and asset classes where Management is adopting as the practical expedient to non-lease components. ▪ Gain assurance over the right of use asset included in the financial statements. ▪ Sample test leases to test that appropriate lease terms have been appropriately applied with particular focus on the Council's leased property assets. |

Other areas of audit focus

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| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|---|
| Pension Valuation | | |
| <p>The valuation of pension liability represent significant balance in the Council’s financial statements:</p> <ul style="list-style-type: none"> Net pension liability: £26.2 million (2024/25) | <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.</p> <p>The Council’s Pension Fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council’s balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore Management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of Management experts and the assumptions underlying fair value estimates.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Liaise with the auditor of Havering Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions. Engage our actuarial specialists to assess the work of the actuary. This will involve a consideration of the net asset/liability and any calculation of the asset ceiling in accordance with IFRIC 14 where relevant. Assessing the work of PwC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. Review and test the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19. Consider the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities. Assess the impact of the Triennial Valuation on the IAS 19 pension liability by evaluating changes in key actuarial assumptions and considering whether these have been appropriately reflected in the year-end actuarial report. |

Other areas of audit focus

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| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|--|---|
| Accounting for impairments of Receivables | | |
| <p>The valuation of Bad Debt provision represent significant balance in the Council's financial statements:</p> <ul style="list-style-type: none"> Total Bad Debt provision: £66.2 million (2024/25) | <p>The Council's Bad Debt provision (impairment) for 2024/25 was £66.2 million, reducing total Short-term Debtors from £140.9 million to £74.7 million as disclosed in the Balance Sheet. This provision comprises several individual elements, including Council Tax, NNDR, Housing, Housing Benefit, Social Services, Parking Enforcement, and Other Sundry Debtors, based on historic data dating back to 2017/18. Each individual element of the provision requires Management to make a number of accounting judgements as to the recoverability of debt.</p> <p>In 2024/25, we were unable to complete our planned procedures over the Bad Debt Provision due to the complexity of the provision and access to the historic data upon which the provision is calculated.</p> <p>Therefore, there remains a heightened risk of misstatement in 2025/26.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Review the calculation of the bad debt provision for reasonableness and accuracy. Reperform the bad debt calculation and test Managements judgements regarding the recoverability of debt by testing a sample of trade receivables. |

Other areas of audit focus

Page 37

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|---|
| Debtors, Creditors and Net cost of Services - Other Expenditure | | |
| <p>The value of Debtors, Creditors and Net cost of Services - Other Expenditure represent significant balances in the Council's financial statements:</p> <ul style="list-style-type: none"> ▪ Total Debtors: £74.7 million (2024/25) ▪ Total Creditors: £126.8 million (2024/25) ▪ Total Net cost of Services - Other Expenditure: £433.3 million (2024/25) | <p>In the prior year 2024/25 audit, we were unable to complete our planned procedures over Debtors, Creditors and Net cost of Services - Other Expenditure as reported in our 2024/25 Audit Results Report due to delays in the receipt of working papers and the quality of evidence provided to support our sample testing.</p> <p>Our audit procedures for the testing of Debtors and Creditors requires yearend listings which show the outstanding debt owed to the Council or outstanding credit owed by the Council at an individual transaction level. The Councils financial system does not allow the Council to directly run a report from the system showing what individual invoices and payments are outstanding at year end and therefore the Council in 2024/25 undertook an extensive manual exercise to cleanse the data from their system to produce the required listings. This was a labour-intensive processes which resulted in Debtor and Creditor working papers not being provided in line with the agreed 2024/25 project plan. Given the level of manual input required in providing the required Debtor and Creditor listings there is a risk that these could be misstated and Management in 2025/26 will need to put in place an efficient and effective processes for compiling these listings ensuring they are complete, accurate and reconcile to the underlying financial system.</p> <p>The Council in 2024/25 were unable to provide all evidence to support our sample of Net cost of Services - Other Expenditure. There is a risk that expenditure maybe incorrectly raised in the Council's financial systems and therefore misstated in the financial statements if financial records to support these transactions are not complete and accurate.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> • Obtaining an understanding of managements process to produce year end Debtor and Creditor listings. • Reconciliation of the Council's year end Debtor and Creditor listing to the underlying financial system. • Sample selection of Debtors, Creditors and Net cost of Services - Other Expenditure and testing of selected transactions to underlying evidence including third party sources to verify the accuracy of the transactions and that they exists and are correctly classified in the financial statements. |



03

Value for Money

Page 03

Value for Money

Council's responsibilities for Value for Money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together a commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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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.



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.

Value for money

Planning and identifying risks of significant weakness in value for money arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The Annual Governance Statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered significant if it:

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation or unlawful actions; and
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Audit Committee.

Reporting on Value for Money arrangements

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's attention. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2025/26 Auditor's Annual Report must be issued in draft by 30 November 2026 to comply with the revised requirements of the NAO Code.

Value for money

Value for money risk assessment

We have completed our initial Value for Money planning, where we have considered:

- Our entity level controls and understanding the business assessment
- The Council’s Risk Register/the Annual Governance Statement
- Council meeting minutes and/or our planning meetings with Management
- Key financial and budget information
- Key performance reports/internal audit reports

As part of our initial planning work, we considered whether there were any risks of significant weakness in the body’s arrangements for securing value for money that we needed to perform further procedures on. The risks we have identified are detailed on the table below along with the further procedures we will perform. We will continue to review the body’s arrangements and report any additional identified risks of significant weaknesses in arrangements.

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| Criteria | 2024/25 judgements on arrangements | 2025/26 risk assessment | 2025/26 expected procedures to respond risks of weakness identified |
|--------------------------|---|--|---|
| Financial sustainability | No significant weaknesses identified. The Council had proper arrangements in place in 2024/25 to plan and manage its resources to ensure it can continue to deliver its services. | No risks of significant weakness identified in 2025/26 from initial planning procedures. | No risks identified. |

Value for money

Value for money risk assessment (continued)

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| Criteria | 2024/25 judgements on arrangements | 2025/26 risk assessment | 2025/26 expected procedures to respond risks of weakness identified |
|---|--|---|--|
| Governance | <p>One significant weakness identified which was reported as an 'other matter' and reported by exception within our 2024/25 audit report relating to identified potentially fraudulent activity and weaknesses in internal control.</p> <p>Our 2024/25 recommendations relating to this weakness in arrangements are detailed in Appendix D.</p> | <p>One risk of weakness identified:</p> <p>Internal control weaknesses</p> <p>The 2024/25 Head of Internal Audit's audit opinion was one of limited assurance, highlighting weaknesses in the Councils internal control linked to a number of potential frauds. Following our VFM work in 2024/25 we determined that a significant weakness existed in the Council's governance arrangements.</p> <p>If the Council has been unable to make adequate progress in addressing these weaknesses and respond to the recommendations raised by internal audit and by us this increases the risk that the Council is incurring unnecessary expenditure. There therefore remains a risk of weakness in governance arrangements.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> Review Internal Audits 2025/26 reports and findings and the Head of Internal Audits 2025/26 opinion. Review Councils current action plans to address the internal control weaknesses identified. Assess the progress the Council has made against Internal Audits and our recommendations to address the weakness identified 2024/25. Consider the impact of any 2025/26 limited assurance reports or other key findings reported by internal audit in conjunction with the Council's progress to address the 2024/25 weakness identified to assess the Council's overall control environment and governance arrangements. |
| Improving economy, efficiency and effectiveness | <p>No significant weaknesses identified. The Council had proper arrangements in place in 2024/25 in how it uses information about its costs and performance to improve the way it manages and delivers its services.</p> | <p>No risks of significant weakness identified in 2025/26 from initial planning procedures.</p> | <p>No risks identified.</p> |



04 Audit materiality

Appendix A

Materiality

Appendix A

Group materiality

For planning purposes, Group materiality for 2025/26 has been set at £8.0 million. This represents 1% of the Group's 2025/26 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have set this at the lower end of our range, as we believe there will be additional focus by key external stakeholders on the Council's financial statements together with a higher expectation of our consideration of audit differences impacting those statements.

We have provided supplemental information about audit materiality in Appendix G.

Gross expenditure on provision of services

£801.8 million

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Planning materiality
£8.0m

Performance materiality
£4.0m

Audit differences
£0.4m

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

We have set this at the lower end of our range, as we believe there will be additional focus by key external stakeholders on the Council's financial statements together with a higher expectation of our consideration of audit differences impacting those statements.

A lower materiality level provides a greater level of assurance but requires a higher level of audit testing to achieve that level, which will have implications for the Scale Fee and variations to that fee. Council, which increases the audit risk.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.0 million which represents 50% of group materiality.

We have set this at the lower end of our range to provide greater level of assurance, in response to the identified weaknesses in internal control reported in our 2024/25 Audit Results Report which increases the risk of misstatement in the financial statements.

Audit difference threshold – We will report to you all uncorrected misstatements over £0.4 million, relating to the income statement and balance sheet that have an effect on income and misstatements in the Other Comprehensive Income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



05

Scope of our audit

Audit process and strategy

Appendix A

Objectives of our audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the financial position of the group and its expenditure and income for the period in question; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

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4. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Internal Audit

We will review Internal Audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

The Council prepares its financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

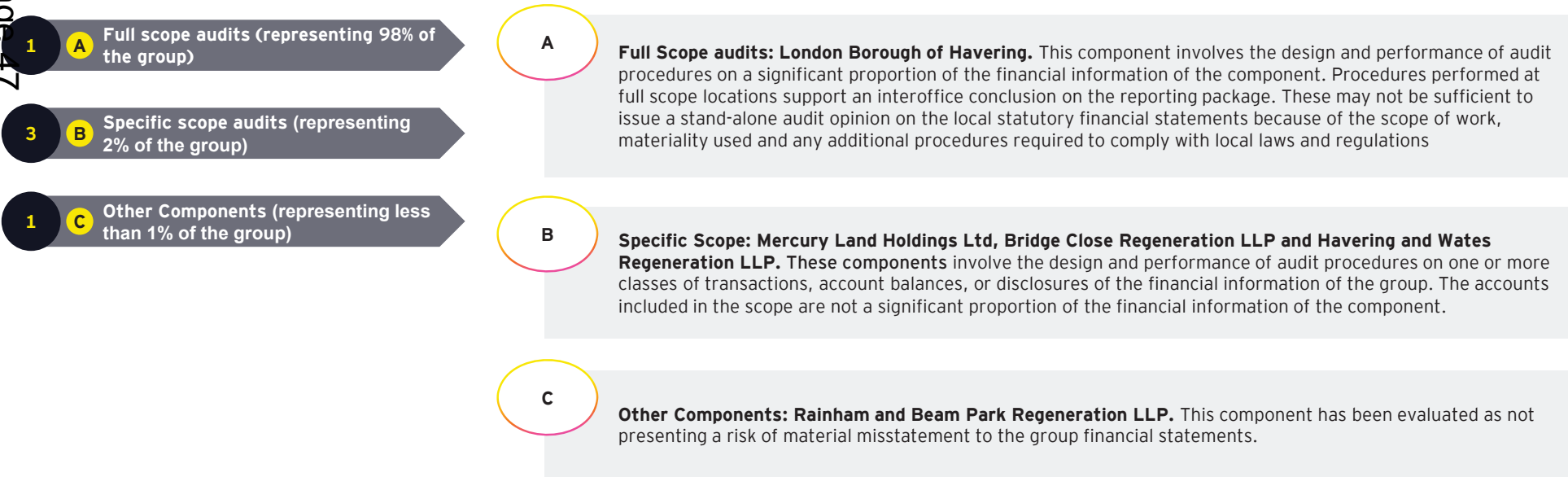
We first identified individually relevant components based on various risk characteristics and applied professional judgement to determine which accounts were to be included in the work performed at these components. We then considered whether the remaining group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. When determined that these residual balances could give rise to a risk of material misstatement of the group financial statements, we determine whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the

risks of material misstatement of the group financial statements. Having identified the components for which work will be performed, we determined the scope to assign to each component.

For the remaining residual amount of balances and accounts of the group financial statements which are not included within the group scope we perform further risk assessment procedures to confirm that there is no risk of material misstatement within those amounts.

Based on the Group's 2024/25 financial statement, our preliminary group scoping is set out below.

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Scoping the group audit continued

Non-EY member firms

The following components will be audited by non-EY member firms:

| Component name | Group Audit Scope | Component Auditor |
|--|-------------------|---------------------------|
| Mercury Land Holdings Ltd | Specific Scope | THP Chartered Accountants |
| Bridge Close Regeneration LLP | Specific Scope | HaysMac LLP |
| Havering and Wates Regeneration LLP | Specific Scope | BDO |
| Rainham and Beam Park Regeneration LLP | Other component | BDO |

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Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The Group Audit team's involvement in the work of the component teams is not uniform. The involvement is affected by the assessed risks of material misstatement, their effect on different locations, the nature and extent of work and scope assigned to component teams and the Group Audit team's experience and understanding of the component teams. The group audit team's involvement takes different forms and will include: site visits; involvement in key decision discussions, such as: component team's involvement in discussions of the Group Audit team or the group team's involvement in component team discussions; other discussions and sharing of information, such as: regular team discussions/touch points, risk assessment discussions, discussions with component management and/or those charged with governance of components, or other ad hoc discussions; review of component team workpapers, such as: audit deliverables and underlying workpapers.



06 **Audit team**

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Audit team

Audit team leadership

The Engagement team is led by Mark Hodgson, who has overall responsibility for the performance of the audit and for the auditor’s report issued on behalf of EY.

Our approach to the use of specialists

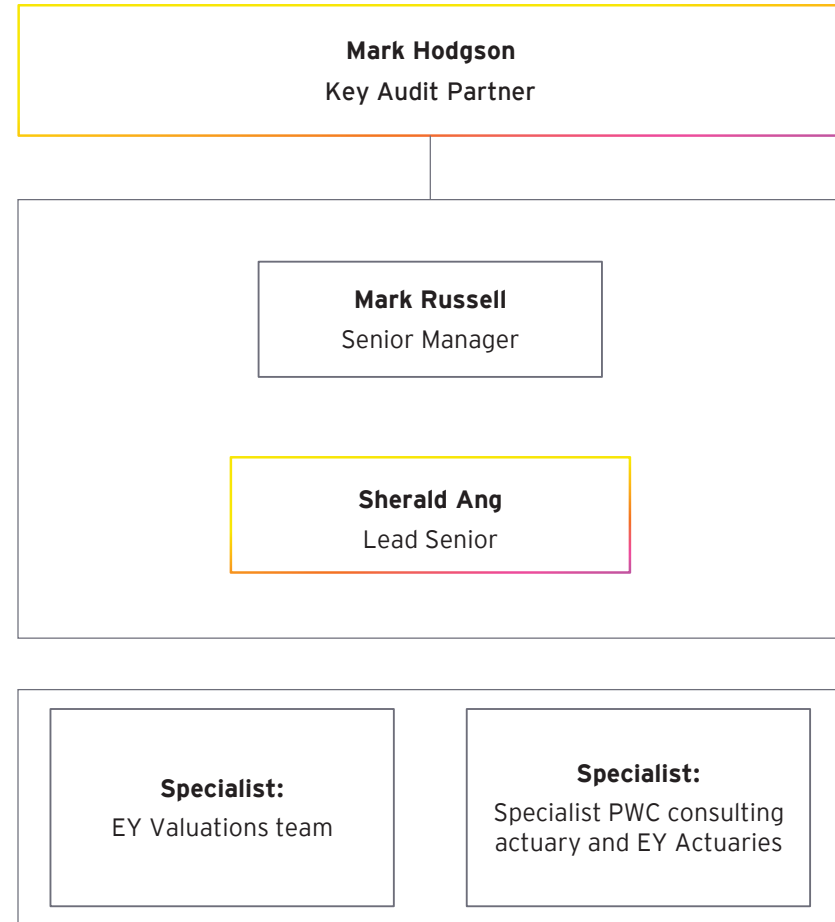
When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

| Area | Specialists |
|---------------------------------|---|
| Valuation of Land and Buildings | EY Valuations team |
| Pensions disclosure | PWC consulting actuary and EY Actuaries |

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group’s business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.



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07

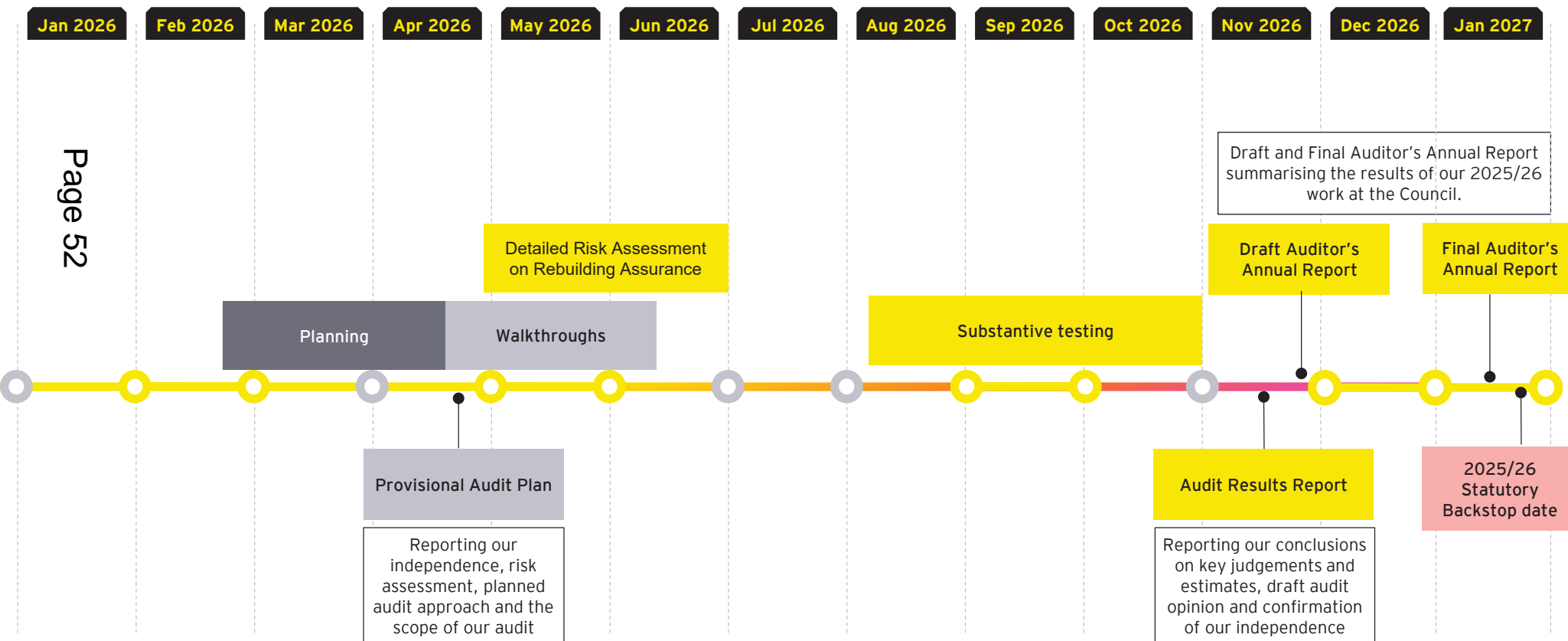
Audit timeline

Appendix A Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2025/26.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08 Appendices

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Appendix A – Rebuilding assurance: responsibilities

The Council's responsibilities

As set out in Appendix [B] our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular, the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the financial statements

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their financial statements, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by Management;
- ensure that senior Management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top Management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Observations from 2024/25

As we have outlined in prior years, our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and Management's responsiveness to issues identified during the audit. We presented our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures as part of our 2024/25 Audit Results Report.

We have repeated this assessment on the following page.

Appendix A – Rebuilding assurance: responsibilities

Factors impacting the execution of the 2024/25 audit

| Area | Status | | | Explanation |
|--|----------------------|---|---|---|
| | R | A | G | |
| Timeliness of the draft financial statements | Effective | | | The Financial Statements were published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. |
| Quality and completeness of the draft financial statements | Requires Improvement | | | On initial review we identified a number of non-material internal inconsistencies, disclosure, typographical and arithmetic errors in the draft Financial Statements. Overall the draft Financial Statements were of a reasonable quality for audit. |
| Delivery of working papers in accordance with agreed client assistance schedule | Requires Improvement | | | Approximately 20% of working papers were not provided to the agreed timetable. The most significant of these were working papers relating to Debtors and Creditors. |
| Quality of working papers and supporting evidence | Requires Improvement | | | We experienced some delays in the provision of additional supporting evidence from the Council and in a number of areas the quality of evidence provided to support accounting balances and transactions was not to the quality required to allow us to conclude work first time, resulting in a significant number of requests for clarification and further evidence. |
| Timeliness and quality of evidence supporting key accounting estimates | Effective | | | Working papers to support estimates (excepting Creditors as above) in the Financial Statements were provided as per our agreed project plan. |
| Access to finance team and personnel to support the audit in accordance with agreed project plan | Requires Improvement | | | We did not encounter significant issues or delays regarding access to the finance team and other personnel. However, the Council in November was impacted by changes in IT systems due the Council migrating away from OneSource systems. This resulted in access issues for Council officers, to the Council's own systems and supporting documentation/evidence and access to EY's client portal, delaying responses to audit queries during this period. |
| Volume and value of identified misstatements | Effective | | | A relatively small number of misstatements were detected through our audit procedures. |
| Volume of misstatements in disclosure | Effective | | | We identified a limited number of disclosure misstatements through our audit procedures. |

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Key:

■ **Red: Ineffective.** In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

■ **Amber: Requires Improvement.** Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

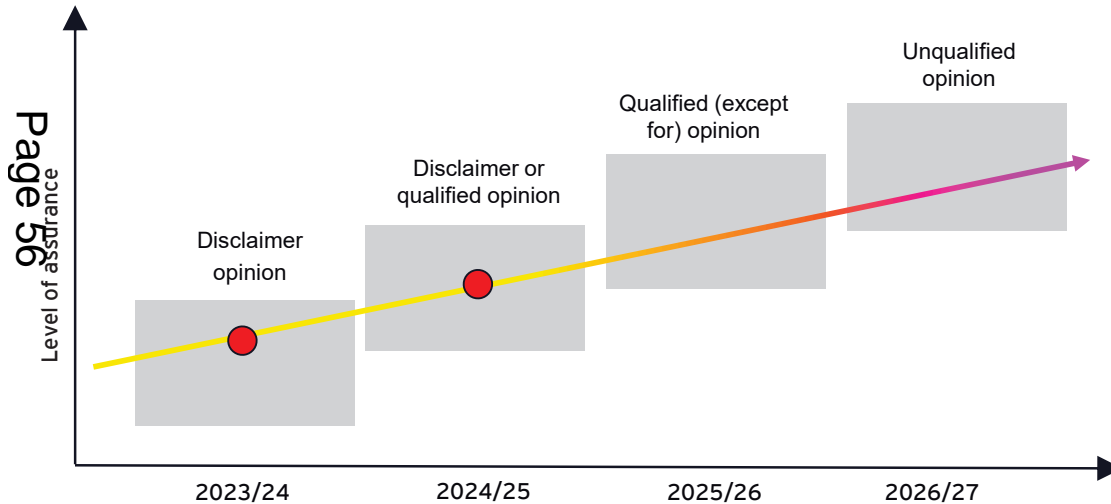
■ **Green: Effective.** There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix A – Rebuilding assurance continued

Progress to full assurance

The chart below sets out the illustrative timescale for the process of rebuilding assurance set out in the NAO’s Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council’s actual progress against that timescale, the reasons for that assessment and what still needs to be done to successfully rebuild assurance.

The guidance recognises that the path to full assurance, and therefore an unqualified opinion, will usually take a number of years to achieve, and depends upon co-ordination and engagement between the Council and audit team. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements.



London Borough of Havering progress

- In the audit reports for the years ended 31 March 2024 and 31 March 2025, a disclaimer of opinion was issued due to areas where we were unable to conclude on planned procedures and the application of the backstop. This means the auditor has not been able to form an opinion on the financial statements.

In our view, the Council's progress falls behind the expected timescales set out in LARRIG 01. As set out in our 2024/25 Audit Results Report this means it is unlikely that audit assurances can be rebuilt to enable an unqualified opinion in 2026/27.

In 2024/25, additional assurance was achieved but there remained a number of areas where we were unable to complete our planned procedures including Debtors (including Bad-Debt provision), Creditors, Other Expenditure and Reserves. As a result of these areas and the continuing lack of assurance over comparator income and expenditure balances, property plant and equipment balances and reserves, we anticipate that for 2025/26:

- We will have limited assurance over the opening balances for 2025/26; and
- Limited assurance over the closing reserves balance, due to uncertainty over the opening amount.

We will continue to work with the Council to rebuild assurance over time subject to recommendations made in Appendix C. Our objective is to continue to rebuild assurance, by providing assurance over the in year 2025/26 transactions and movements, where possible, and closing balances which can be materially determined without the opening balance, such as debtors and creditors.

Appendix B - Independence and Fees

The FRC Ethical Standard 2024 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
 - The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
 - The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior Management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence (for breaches of the FRC Ethical Standard include details of its significance); and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Appendix B - Independence and Fees continued

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your Audit Engagement Partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2024 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. There were no non-audit fees for the past three years. There are also no non-audit fees planned in relation to 2025/26.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with FRC ES Section 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of Management of your company. Management threats may also arise during the provision of a non-audit service in relation to which Management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2025 and can be found here: [EY UK 2025 Transparency Report](#).

Appendix B – Independence and Fees continued

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

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- officers meeting the agreed timetable of deliverables;
- our financial statement opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council;
- an effective control environment; and
- compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

| | Current Year 2025/26 | Prior Year 2024/25 |
|-----------------------|-------------------------|-----------------------|
| | £'s | £'s |
| Scale Fee – Code Work | 464,973 | 452,308 |
| Scale Fee variation | TBC (Note 2) | TBC (Note 1) |
| Total fees | TBC | TBC |

All fees exclude VAT

1. The 2024/25 work has been completed, and we have submitted a scale fee variation to PSAA Ltd for determination in line with their required process.
2. The 2025/26 scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
 - New or emerging audit risks, which are different from the base year upon which the Scale Fee was predicated.
 - Consideration of correspondence from the public and formal objections.
 - Non-compliance with law and regulation with an impact on the financial statements.
 - Use of lower materiality thresholds.
 - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
 - The need to exercise auditor statutory powers.
 - Prior period adjustments.
 - Modified financial statement opinions.

Appendix C – Prior year financial control recommendations

As part of our annual audit procedures we will follow up on open and in progress recommendations reported within our 2024/25 reporting, these are detailed below.

| Classification of recommendations | | |
|--|---|---|
| Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently. | Grade 2: Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by Management. | Grade 3: Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by Management. |

Financial control weaknesses

| No. | Finding and/or risk | Recommendation and grading |
|-----|--|---|
| 1 | <p>Journals</p> <p>We identified one journal where the approval for the journal had been completed via Microsoft Teams and therefore due to the councils 30-day Microsoft Teams message retention policy the approval was unavailable for testing. Whilst there was no evidence of approval for the journal, we did not identify any misstatements or indications of fraud from our testing of the journal.</p> | <p>Grade 3:</p> <p>All journal approvals should be performed by a method which allows evidence of approval to be retained by the Council.</p> |
| 2 | <p>Leases</p> <p>Our testing of leases and the implementation of IFRS 16 identified issues in the calculation of lease liabilities and right-of-use (ROU) asset valuations. Specifically, for some sampled leases, the lease term applied was incorrect, and for others, there was no supporting evidence for the lease term used.</p> | <p>Grade 2:</p> <p>Management should review its working papers to ensure that lease terms applied to assets are accurate and supported by appropriate lease agreements.</p> |

Appendix C – Prior year financial control recommendations

Financial control weaknesses (continued)

| No. | Finding and/or risk | Recommendation and grading |
|-----|--|--|
| 3 | <p>Land and Buildings Asset valuations</p> <p>We identified that for assets valued under the Depreciated Replacement Cost approach; the Council's valuer applied an average build cost adjustment rather than the actual build cost for the type being valued</p> | <p>Grade 2:</p> <p>Management should, as part of its review of the specialist's report, ensure that the assumptions and methodologies applied are appropriate and tailored to the specific assets being valued.</p> |
| 4 | <p>Bad Debt Provision</p> <p>We identified that the Council's Bad Debt Provision is based on historic data going back to 2017/18 accumulating each year with the oldest debts being 100% provided for with a reducing provision for more recent years.</p> | <p>Grade 2:</p> <p>Given that the Council's current bad debt provision represents nearly 50% of its outstanding short-term debtors and includes balances dating back to 2017/18, Management should review the provision and assess the collectability of these historic debts. While these amounts are fully provided for in the financial statements, the Council should consider whether, given the age of the debts, they should be formally written off.</p> |

Appendix C – Prior year financial control recommendations

Financial control weaknesses (continued)

| No. | Finding and/or risk | Recommendation and grading |
|-----|---|--|
| 5 | <p>Preparation of robust draft financial statements, provision of quality working papers and support during the audit</p> <p>As detailed in appendix A we identified a number of issues regarding provision of working papers and supporting evidence. These issues caused slippage to the agreed project plan and inefficient use of the planned audit resources resulting in areas of the audit that we were unable to conclude contributing to our consideration of disclaiming the audit opinion in 2024/25.</p> | <p>Grade 2: The Council should continue to enhance its approach for supporting the audit process in the following areas:</p> <p>Build Capacity and Expertise for Audit Support</p> <ul style="list-style-type: none"> • Ensure sufficient capacity of skilled finance professionals with the necessary technical knowledge and experience to support the audit. <p>Improve Quality of Audit Working Papers</p> <ul style="list-style-type: none"> • Continue to implement robust processes to produce high-quality financial statements supported by complete, accurate, and well-referenced working papers. • Ensure all responses to audit queries are timely, address the questions raised and include appropriate supporting evidence. <p>Enhance Responsiveness and Communication</p> <ul style="list-style-type: none"> • Adhere to agreed turnaround times for audit queries (3 days) and sample evidence (5 days) or clearly communicate where these are not possible. • Establish clear escalation protocols for delays or unresolved issues. • Continue regular communication between audit leads and the Finance Team to monitor progress and resolve issues promptly. |

Appendix D – Prior year VFM recommendations

As part of our Value for Money procedures we will follow up on open and in progress recommendations reported within our 2024/25 reporting, these recommendations are detailed below.

Value for money arrangements

| No. | Value for money reporting criteria | Finding and/or risk | Recommendation |
|-----|------------------------------------|---|---|
| 1 | Governance | In 2024/25 we identified a significant weakness in VFM arrangements relating to weaknesses in internal control and suspected fraudulent activity. | <p>Recommendation 1 - Review and document all operational controls to ensure they support effective budget Management and identify gaps in oversight, roles, and responsibilities within the service.</p> <p>Recommendation 2 - Ensure adequate training for Budget Managers, including effective use of financial systems and report generation.</p> <p>Recommendation 3 - Build dedicated time into work schedules to support proactive budget monitoring and control.</p> <p>Recommendation 4 - Identify and define the key management information required to support effective budget oversight and decision-making.</p> <p>Recommendation 5 - Implement clear procedures for budget monitoring and payment approvals.</p> <p>Recommendation 6 - Ensure there is comprehensive, mandatory and ongoing Fraud Awareness Training for officers.</p> |

Appendix E – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

| Required communications | What is reported? | When and where |
|-------------------------------------|--|--|
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | <p>Communication of:</p> <ul style="list-style-type: none"> ▪ The planned scope and timing of the audit ▪ The planned use of internal audit ▪ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p> | Provisional Audit Plan - Audit Committee - June 2026 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with Management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report - Audit Committee - November 2026 |

Appendix E – Required communications with the Audit Committee

| | | Our Reporting to you |
|-------------------------|--|--|
| Required communications | What is reported? | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements | Audit Results Report – Audit Committee - November 2026 |
| Misstatements | <ul style="list-style-type: none"> ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by Management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods | Audit Results Report – Audit Committee - November 2026 |
| Fraud | <ul style="list-style-type: none"> ▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, unless prohibited by law or regulation any identified or suspected fraud involving: <ul style="list-style-type: none"> ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others, when the identified or suspected fraud is other than clearly inconsequential. ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving Management is suspected ▪ Matters, if any, to communicate regarding Management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility | Audit Results Report – Audit Committee - November 2026 |

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Appendix E – Required communications with the Audit Committee

| | | Our Reporting to you |
|-------------------------|--|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the entity’s related parties | Audit Results Report – Audit Committee - November 2026 |
| Independence | <p>Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity.</p> <p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, integrity, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2024:</p> <ul style="list-style-type: none"> ▪ Relationships (including the provision of non-audit services) that may bear on EY’s integrity, objectivity and independence; this is required to have regard of the relationships between EY, the entity, its directors and senior Management, its affiliates and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. ▪ Related safeguards ▪ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees | <p>Provisional Audit Plan – Audit Committee - June 2026</p> <p>Audit Results Report – Audit Committee - November 2026</p> |

Appendix E – Required communications with the Audit Committee

Our Reporting to you

| Required communications | What is reported? | When and where |
|---------------------------------------|--|--|
| | <ul style="list-style-type: none"> ▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▪ Details of any inconsistencies between the Ethical Standard and Group’s policy for the provision of non-audit services, and any apparent breach of that policy ▪ Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence ▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | <ul style="list-style-type: none"> ▪ Management’s refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures | Audit Results Report - Audit Committee - November 2026 |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit Results Report - Audit Committee - November 2026 |
| Internal controls | <ul style="list-style-type: none"> ▪ Significant deficiencies in internal controls identified during the audit | Audit Results Report - Audit Committee - November 2026 |
| Group audits | <ul style="list-style-type: none"> ▪ An overview of the work to be performed at the components and the nature of the group audit team’s planned involvement in the work to be performed by component teams ▪ Instances when the group audit team’s review of the work of a component team gave rise to a concern about the quality of that team’s work, and how the group audit team addressed the concern ▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team’s access to people or information may have been restricted | Audit Results Report - Audit Committee - November 2026 |

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Appendix E – Required communications with the Audit Committee

| | | Our Reporting to you |
|--|---|--|
| Required communications | What is reported? | When and where |
| | <ul style="list-style-type: none"> Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud has the potential for having a "more than inconsequential" effect Significant deficiencies identified in the group's system of internal control | |
| Representations | Written representations we are requesting from Management and/or those charged with governance | Audit Results Report - Audit Committee - November 2026 |
| System of quality management | How the system of quality management (SQM) supports the consistent performance of a quality audit | Audit Results Report - Audit Committee - November 2026 |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which Management has refused to revise | Audit Results Report - Audit Committee - November 2026 |
| Auditors report | <ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report - Audit Committee - November 2026 |

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Appendix F – Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Council's financial statements. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key measures | Impact on London Borough of Havering |
|---|--|---|
| <p>English Devolution and Community Empowerment Bill</p> <p>Renters Right Act</p> | <p>The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted:</p> <ul style="list-style-type: none"> ▪ Local audit system reforms: The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. ▪ Combined authorities and Combined County Authorities: The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. ▪ Devolution of functions to “Strategic Authorities”: The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. ▪ Local Government Reorganisation: The Bill supports changes to council structures to support devolution. ▪ The Renter’s Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. ▪ Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters’ Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area. | <ul style="list-style-type: none"> ▪ Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years. ▪ The Bill provides that the Council must have an audit committee, and that at least one member of the committee be an independent person. <p>Enforcement guidance for local Councils has now been published. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation. There will be a bespoke programme of training, webinars and resources through ‘Operation Jigsaw’, a cross-local Councils initiative; Changes will start coming into effect from 1st May 2026.</p> |

Appendix F – Regulatory update continued

Key regulatory changes continued

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| Name | Summary of key measures | Impact on London Borough of Havering |
|---|--|--|
| Public Office (Accountability) Bill | <p>The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to “at all times act with candour, transparency and frankness in their dealings with inquiries and investigations.” Breach of the duty would be a criminal liability.</p> <p>The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract.</p> <p>The Bill also proposes:</p> <ul style="list-style-type: none"> ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or “Nolan Principles”; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public. | <ul style="list-style-type: none"> ▪ While the Bill continues to make its way through the House of Commons Committee processes, the Council should ensure that training and support for Councillors is enhanced to take account of greater expectations in relation to local government standards. |
| Fair Funding Review | <ul style="list-style-type: none"> ▪ On 20 November 2025, the government announced a multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review . Key measures include: ▪ There will be a single settlement for 2026/27 to 2028/29 ▪ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and ▪ The Children and Young People’s Services formula will use the latest index of deprivation affecting children. <p>The new indices are expected to lead to greater transparency and a reduced reliance on competitive bidding for funds. The Government also announced it will simplify 33 funding streams, worth almost £47 billion over three years.</p> | <p>Using new indices will result in some Councils seeing increases in their allocations, whilst others see decreases. The government has, however, set out transitional arrangements to help with managing change:</p> <ul style="list-style-type: none"> ▪ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant; ▪ Funding floors and phasing in of new allocations across the multi-year settlement; and ▪ Additional money in the national settlement for children’s social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years. |

Appendix F – Regulatory update continued

National Audit Office reporting

There are a number of key publications from the National Audit Office that have an impact on the Council. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key messages | Impact on London Borough of Havering |
|--|---|---|
| Local government finance report 2026 to 2027 | <p>The 2026-27 Local Government Finance Report introduces a multi-year settlement covering 2026/27 to 2028/29 and implements the Fair Funding Review 2.0. Updated distribution formulas will reallocate resources between councils, reflecting more recent demographic and deprivation data.</p> <p>The report confirms the continuation of council tax referendum principles and introduces significant changes to Special Educational Needs and Disabilities (SEND) funding, including the extension of the statutory override for DSG deficits to 2027/28 and a government-funded write-off of approximately 90% of historical DSG deficits. These policy changes represent one of the most substantial re-baselining exercises in recent years.</p> | <ul style="list-style-type: none"> ▪ Councils must re-model their Medium-Term Financial Plans (MTFPs) to account for formula redistribution effects and redesigned SEND funding arrangements. The ongoing restrictions on council tax increases will continue to limit local financial flexibility. For many authorities, particularly those with substantial DSG deficits, the reforms will have material implications for reserves management and financial stability. |
| Exceptional Financial Support for local authorities for 2025-26 | <p>Exceptional Financial Support (EFS) remains a mechanism for councils facing acute short-term financial pressures.</p> <p>For 2025-26, thirty authorities received in-principal approval for EFS, allowing them to treat certain revenue costs as capital expenditure through capitalisation directions. The government has removed the additional 1% borrowing premium previously applied and has imposed conditions including enhanced assurance reviews and restrictions on community-asset disposals.</p> <p>The NAO notes that, although EFS can prevent immediate failure, it shifts the burden to future years through increased borrowing.</p> | <ul style="list-style-type: none"> ▪ For the sector, the continuation of EFS signals sustained financial fragility. Authorities using EFS must demonstrate credible, independently-scrutinised recovery and savings plans, along with significant improvements in governance, financial management, and internal controls. ▪ Councils should expect intensive oversight and stringent follow-up from central government when accessing this mechanism. |
| Local audit reform: Government response to the consultation to overhaul local audit in England | <p>The government response sets out a comprehensive overhaul of the local audit system in England. Central to the reforms is the creation of the Local Audit Office (LAO), which will assume responsibility for appointing auditors, preparing Codes of Audit Practice, enforcing quality standards, and overseeing audit delivery.</p> <p>A phased transition plan will move existing responsibilities from Public Sector Audit Appointments (PSAA) and other bodies to the NAO between 2026 and 2027, with the aim of stabilising the system, addressing audit backlogs, and restoring confidence in the timeliness and quality of local audit.</p> | <ul style="list-style-type: none"> ▪ For councils, the reforms will lead to more prescriptive expectations around audit readiness, governance, documentation quality, and responsiveness. Authorities should anticipate tighter reporting deadlines and increased scrutiny of working papers, internal controls, and VFM arrangements. |

Appendix F – Regulatory update continued

National Audit Office reporting continued

| Name | Summary of key messages | Impact on London Borough of Havering |
|---|---|---|
| Local Government Financial Sustainability | <p>The National Audit Office most recently reported on the context of local government finances in February 2024, which included their consideration of service and financial pressures. They concluded that although total local government funding has risen modestly in recent years, it has not kept pace with population growth, rising service demand, or the increasing complexity and cost of supporting people with high needs. Real-terms funding per person fell between 2015-16 and 2023-24, while demand for essential services such as adult social care, children’s social care, SEND provision and homelessness continued to escalate. The NAO highlights growing evidence of strain across services, including delays in Education, Health and Care Plans and a sharp rise in families housed in temporary accommodation for longer than legally permitted. Repeated delays to long-promised funding reforms mean councils continue to rely on short-term, stop-gap measures. Exceptional Financial Support has become increasingly common, but while it prevents immediate failure, it also shifts financial risk into future years, reflecting underlying structural weaknesses in the local government finance system</p> | <ul style="list-style-type: none"> ▪ The report signals deepening financial fragility across the sector, with many councils facing heightened risk of issuing Section 114 notices unless systemic pressures are addressed. Rising demand and cost escalation in statutory services are absorbing an ever-greater share of local authority budgets, reducing the capacity to invest in preventative activity and long-term service improvement. The NAO warns that widespread reliance on temporary fixes—including Exceptional Financial Support—creates additional future liabilities and limits councils’ ability to plan sustainably. Without coordinated, cross-government reform of funding, accountability and service oversight frameworks, councils will remain locked in reactive financial management, with growing consequences for service quality, citizen outcomes and long-term financial resilience. |
| Unlocking land for housing | <p>The National Audit Office reported in February 2026 that the government aims to deliver 1.5 million new homes by July 2029. To support this ambition, various land-unlocking programmes have been introduced to address constraints such as inadequate infrastructure, land assembly challenges, and site viability issues. Since 2016, £10.5 billion has been allocated across 768 projects, with £8.4 billion committed and £5.7 billion spent.</p> <p>Although these programmes collectively predict enabling around 713,000 homes, the NAO highlights that only a small proportion—around 33,300 homes—can currently be evidenced as completed, pointing to gaps in monitoring and programme assurance. Additionally, the creation of the National Housing Delivery Fund and a new National Housing Bank from April 2026 signals a shift toward a more consolidated and strategic funding model.</p> | <ul style="list-style-type: none"> ▪ The sector will experience increased expectations to produce detailed and evidence-based infrastructure planning to secure funding from the new mechanisms. Councils will be required to strengthen the robustness of business cases, improve monitoring of actual housing delivery, and anticipate tighter central-government scrutiny of riskier or larger projects. The shift to a single-gateway funding structure will also compel councils to maintain well-developed pipelines to access multi-year support. |

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Appendix F – Regulatory update continued

National Audit Office reporting continued

| Name | Summary of key messages | Impact on London Borough of Havering |
|---|---|---|
| Improving local areas through developer funding | <p>The NAO identifies developer contributions—primarily Section 106 agreements and the Community Infrastructure Levy (CIL)—as essential tools for funding local infrastructure and affordable housing. However, the report finds significant variation across councils in both the application and governance of these mechanisms. Negotiated viability assessments often reduce the contributions developers agree to provide, while only around half of planning authorities have formally adopted CIL.</p> <p>Developer contributions account for roughly 44% of affordable housing delivery nationally, yet over 17,000 S106-linked affordable homes with planning consent lacked a housing association buyer at the time of review, indicating a delivery bottleneck. The government is providing additional planning capacity funding and establishing a Section 106 Affordable Homes Clearing Service to support councils in unlocking stalled developments.</p> | <ul style="list-style-type: none"> For councils, strengthening internal governance and transparency around developer contributions will be increasingly important. Authorities will need improved planning capacity, including specialist viability expertise, to mitigate risks of reduced contributions and ensure developer obligations are properly monitored. With the proposed Infrastructure Levy no longer being taken forward, councils must optimise and professionalise the existing S106 and CIL frameworks. |

Appendix G – Additional audit information

Objective of our audit

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Other required procedures during the course of the audit

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
 - Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
 - Concluding on the appropriateness of Management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the audit committee reporting appropriately addresses matters communicated by us to the audit committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
 - Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The components at which we conduct audit procedures to support the opinion given on the Group financial statements
- The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix A

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EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

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Havering Pension Fund

Audit planning report

Year ended 31 March 2026

28 April 2026



The better the question. The better the answer. The better the world works.



Shape the future
with confidence

28 April 2026



Private and Confidential

Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

Dear Audit Committee Members,

Audit planning report 2025/26

We are pleased to attach our audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be used, by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 30 June 2026 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

For and on behalf of Ernst & Young LLP

Enc

Appendix B

Contents

- 1 Overview of our 2025/26 audit strategy
- 2 Audit risks
- 3 Audit materiality
- 4 Scope of the audit
- 5 Audit team
- 6 Audit timeline
- 7 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated July 2021)' issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Havering Pension Fund. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Pension Fund those matters we are required to state to them in this 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 Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2025/26 audit strategy

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2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Fund's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Preparedness for audit

Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit.

We will continue to report on our assessment of the quality of the Fund's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

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Scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Fund. Additionally, we aim to ensure that the Fund has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that summarises our opinion on the financial statements by 30 November 2026 and other procedures required by the Code. This includes our assessment of the control environment.

Timeline

An audit timetable has been agreed with management. In Section 6 we include our planned timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

Our independence considerations

There are no issues that we believe impact our independence and objectivity. Please refer to Appendix A for our update on independence.

Appendix B

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

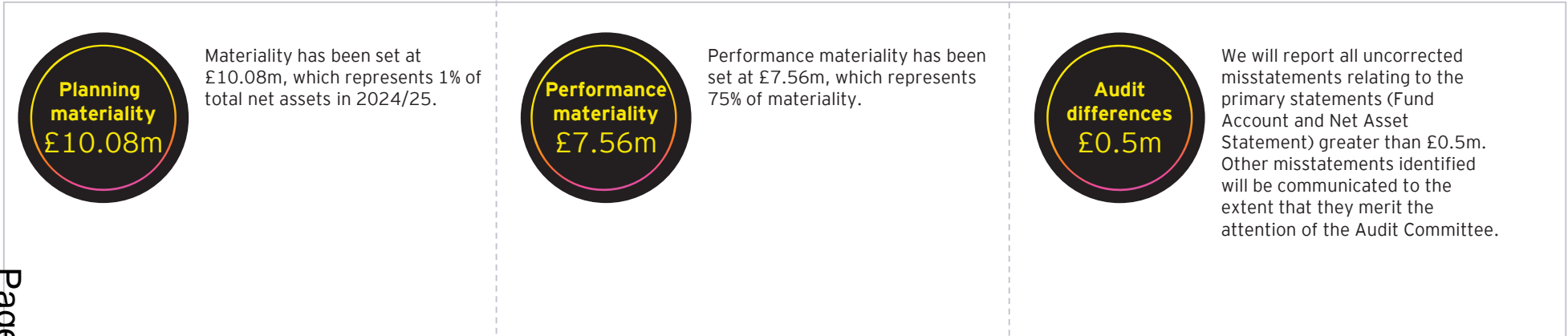
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

| Risk/area of focus | Risk identified | Change from PY | Details |
|---|------------------|----------------------------|---|
| Presumptive risk of management override of controls | Fraud risk | No change in risk or focus | There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. |
| Valuation of complex investments (unquoted investments) | Significant risk | No change in risk or focus | The Fund's investments includes a significant balance of Level 3 investments such as unquoted pooled investment vehicles, property and private equity. The Pension Fund held £269.5 million of Level 3 investments as at 31 March 2025. Judgements are made by Investments Managers to value those investments whose prices are not publicly available. There is a risk that these are materially misstated given the complexity of the measurement and degree of estimation involved. |
| IAS 26 Disclosure - Actuarial Present Value of Promised Retirement Benefits | Inherent risk | No change in risk or focus | IAS 26 requires post-employment benefit plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including the key demographic and financial assumptions applied. For 2025/26, the estimate will reflect the results of the 2025 triennial valuation, updated where necessary, and incorporates factors such as mortality rates, expected pay progression, inflation measures and long-term investment yields. We consider there to be a risk relating to the estimation process, the completeness and accuracy of data used, and the appropriateness of the assumptions selected by the actuary. |

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2025/26 audit strategy overview: Audit risks and materiality

Materiality



We will revisit our materiality on publication of the draft pension fund financial statements.



02 Audit risks

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Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?

In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk.

- Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

Our response: Key areas of challenge and professional judgement

In order to address the risks outlined we will carry out a range of procedures including:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertaking procedures to identify significant unusual transactions.
- Considering whether management bias was present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks

Valuation of Complex Investments (Unquoted Investments)

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| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|---|
| <p>Misstatements that occur in relation to complex investments valued at Level 3 fair value hierarchy such as unquoted equities, property and pooled investment could affect the valuation of the Net Assets.</p> <p>Total of Level 3 investments held by the Fund at 31 March 2025 was £269.5 million (prior year £276.1 million).</p> | <p>The Fund's investments include unquoted pooled investment vehicles such as private debt, infrastructure and property investments.</p> <p>These may contain a number of assets where significant judgements are made by Investment Managers to value those investments.</p> <p>The material nature of this type of investment, means that errors in judgement could result in a material valuation error.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▪ Analyse a schedule of investments to ensure correct classification, presentation and disclosure of items in the Statement of Accounts and corresponding notes. ▪ Understand and evaluate the work of management's experts. ▪ Evaluate the ISAE 3402 report for Custodian and/or Fund Managers where applicable. ▪ Review the latest audited accounts for the relevant Fund Managers to ensure there are no matters arising that highlight weaknesses in the fund's valuation. ▪ Review the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used. ▪ Review investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 investments have been appropriately made in the Statement of Accounts. ▪ Perform triangulation work to agree amount per the Statement of Accounts to Fund Manager and to Custodian. ▪ Testing accounting entries have been correctly processed in the Statement of Accounts. ▪ Assessing topside adjustments and/or journal entries for evidence of management bias and evaluate for business rationale. ▪ We will review the year end investment balance in the draft Statement of Accounts and in year investment additions to determine whether there are any new individually complex investments that would pose a significant risk and if necessary, employ our internal valuation specialists to support our work in gaining assurance over these investments. |

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

IAS 26 Disclosure - Actuarial Present Value of Promised Retirement Benefits

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|---|
| <p>IAS 26 requires post-employment benefit plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including the key demographic and financial assumptions applied.</p> | <p>For 2025/26, the estimate will reflect the results of the new 2025 triennial valuation, updated where necessary, and incorporates factors such as mortality rates, expected pay progression, inflation measures and long-term investment yields.</p> <p>We consider there to be a risk relating to the estimation process, the completeness and accuracy of data used, and the appropriateness of the assumptions selected by the actuary.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Assess the work of the pension fund actuary including the assumptions they have used by relying on the work of the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors and considering any relevant reviews by the EY actuarial team. Evaluate the reasonableness of the Pension Fund actuary’s calculations by comparing them to the outputs of our own auditor’s specialist’s model. We will perform additional procedures on triennial valuation. These additional procedures will be performed on the information submitted to the management actuaries. We will also ensure that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary. |

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03

Audit materiality

Page 03

Materiality

Appendix B

Fund materiality

For planning purposes, materiality for 2025/26 has been set at £10.08 million. This represents 1% of the Fund's 2024/25 net assets. We will update our materiality calculation on receipt of the Pension Fund's Draft 2025/26 financial statements and it will then be reassessed throughout the audit process. It will be reassessed throughout the audit process. In an audit of a Pension Fund, we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from the pension liabilities. We have provided supplemental information about audit materiality in Appendix C.

Net Assets
£1.008 billion

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Planning materiality
£10.08m

Performance materiality
£7.56m

Audit differences
£0.5m

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.56 million which represents 75% of planning materiality. We have considered factors such as the number of errors in the prior year, the adequacy of the control environment, and any significant changes in 2025/26 when determining the percentage of performance materiality.

Audit difference threshold – We will report to you all uncorrected misstatements over £0.5 million, relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



04

Scope of our audit

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Audit process and strategy

Appendix B

Objectives of our audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Fund. Additionally, we aim to ensure that the Fund has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an audit report that covers:

Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the Revenue and Fund Account and Net Asset Statement for the Pension Fund for the period in question; including on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of the Council; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

whether other information published together with the audited financial statements is consistent with the financial statements.

Internal audit

In undertaking our 2025/26 audit, we will not be directly relying on the work of Internal Audit. We will, however, review the results of their work to assess if there are any issues raised in their reports that could have an impact on the financial statements.



05

Audit team

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Audit team

Audit team leadership

The engagement team is led by Hassan Rohimun, who has overall responsibility for the performance of the audit and for the auditor’s report issued on behalf of EY.

For the current year audit, Mark Russell is replaced by Ahmed Khalil as Audit Manager.

Our approach to the use of specialists

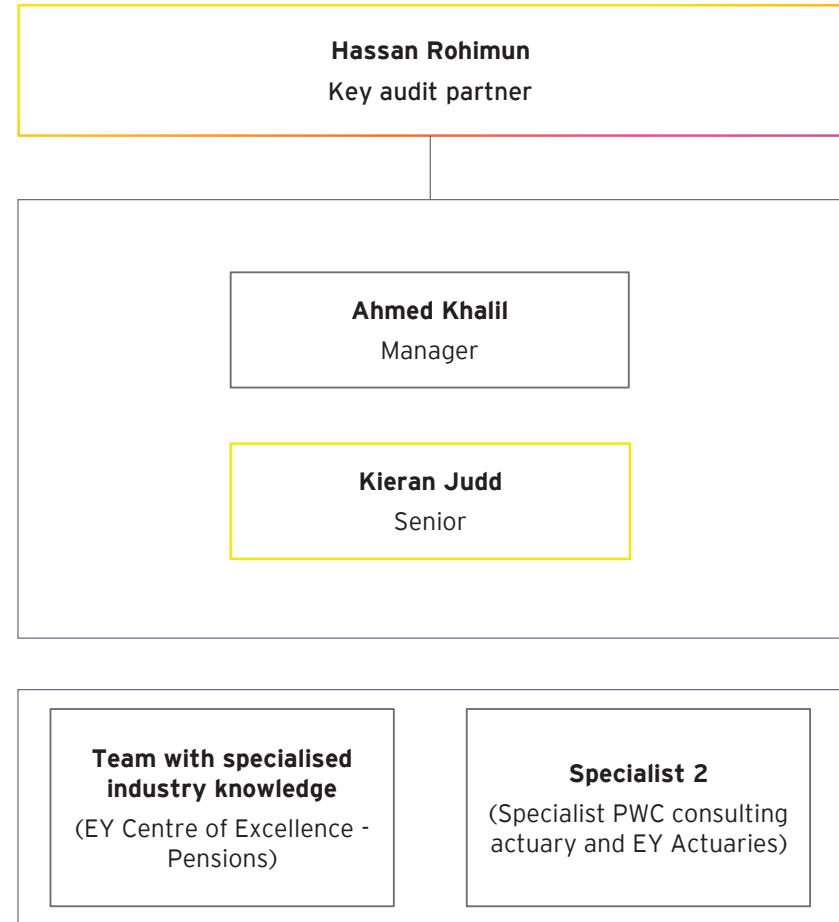
When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team or team with specialised industry knowledge. The areas where EY specialists are expected to provide input for the current year audit are:

| Area | Specialists |
|--|--|
| Investment Valuation | EY Centre of Excellence - Pensions Management Specialist - Hymans Robertson |
| Pension Fund Valuation and Disclosures | EY Pension Advisory Team PwC (Consulting Actuary to the NAO on behalf of audit providers) |

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund’s business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.





06

Audit timeline

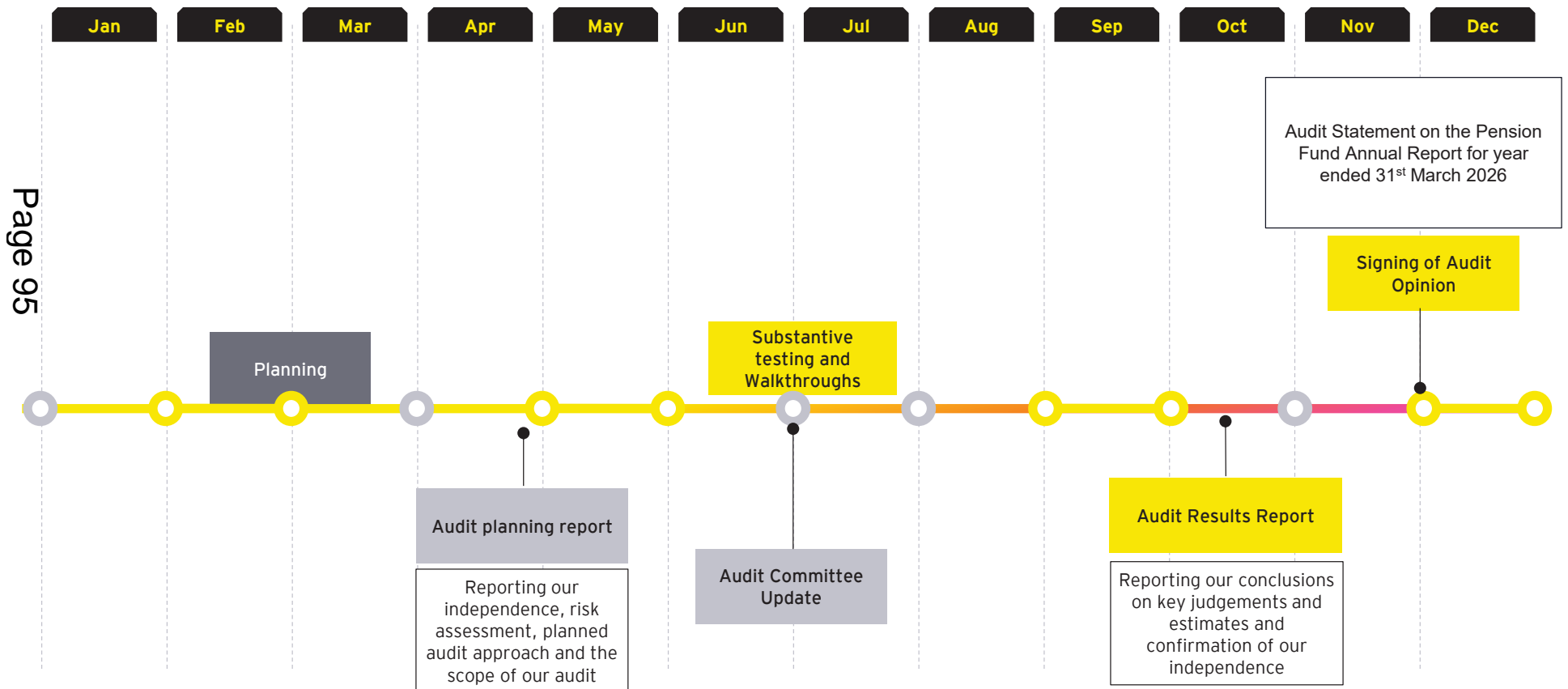
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Appendix B Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2025/26.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07 Appendices

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Appendix A - Independence and Fees

The FRC Ethical Standard 2024 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence
- The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence (for breaches of the FRC Ethical Standard include details of its significance); and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Appendix A - Independence and Fees continued

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2024 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is Nil as there are no non-audit services. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with FRC ES Section 4.

There are no other self interest threats at the date of this report.

Appendix A - Independence and Fees continued

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2025 and can be found here: [EY UK 2025 Transparency Report](#).

Appendix A – Independence and Fees continued

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statement opinion being unqualified;
- Appropriate quality of documentation is provided by the Fund;
 - An effective control environment; and
 - Compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Fund in advance.

| | 2025/26 | 2024/25 |
|---|------------------|------------------|
| | £ | £ |
| Scale Fee | 97,873 Note 2 | 96,974 Note 1 |
| Additional work required for specific additional procedures | TBC | TBC |
| Total fees | 97,873 | 96,974 |

All fees exclude VAT

1. Following the conclusion of our 2024/25 audit in February 2026, a scale fee variation for the use of EY internal valuation experts for IAS26 actuarial calculation was submitted to the PSAA for determination in March 2026.
2. 2025/26 will be the first year following the latest triennial actuarial valuation. As a result, we expect to be receiving additional requests from the auditor of scheduled body (London Borough of Havering) to undertake testing of the membership data submitted to the actuary for the purposes of the 2025 triennial valuation and we will be submitting a scale fee variation for PSAA determination for this additional work. The scale fee may also be impacted by a range of other factors which will result in additional work, which include but are not limited to:
 - Consideration of correspondence from the public and formal objections.
 - Non-compliance with law and regulation with an impact on the financial statements.
 - The need to exercise auditor statutory powers.
 - Prior period adjustments.
 - Modified financial statement opinions

Appendix B – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

| | | Our Reporting to you |
|-------------------------------------|--|--|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | <p>Communication of:</p> <ul style="list-style-type: none"> ▪ The planned scope and timing of the audit ▪ The planned use of internal audit ▪ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p> | Audit planning report - June 2026 - Audit Committee |
| Significant findings from the audit | <ul style="list-style-type: none"> ▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process | Audit results report - TBC - Audit Committee |

Appendix B – Required communications with the Audit Committee continued

| Required communications | What is reported? | Our Reporting to you |
|-------------------------|--|--|
| | | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements | Audit results report - TBC - Audit Committee |
| Misstatements | <ul style="list-style-type: none"> ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods | Audit results report - TBC - Audit Committee |
| Fraud | <ul style="list-style-type: none"> ▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, unless prohibited by law or regulation any identified or suspected fraud involving: <ul style="list-style-type: none"> ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others, when the identified or suspected fraud is other than clearly inconsequential. ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility | Audit results report - TBC - Audit Committee |

Appendix B – Required communications with the Audit Committee continued

| | | Our Reporting to you |
|-------------------------|--|--|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the entity’s related parties | Audit results report - TBC - Audit Committee |
| Independence | <p>Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity.</p> <p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, integrity, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2024:</p> <ul style="list-style-type: none"> ▪ Relationships (including the provision of non-audit services) that may bear on EY’s integrity, objectivity and independence; this is required to have regard of the relationships between EY, the entity, its directors and senior management, its affiliates and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. ▪ Related safeguards ▪ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees | <p>Audit planning report - June 2026 - Audit Committee</p> <p>Audit results report - TBC - Audit Committee</p> |

Appendix B – Required communications with the Audit Committee continued

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| | | Our Reporting to you |
|---------------------------------------|--|--|
| Required communications | What is reported? | When and where |
| | <ul style="list-style-type: none"> ▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▪ Details of any inconsistencies between the Ethical Standard and Group’s policy for the provision of non-audit services, and any apparent breach of that policy ▪ Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence ▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | <ul style="list-style-type: none"> ▪ Management’s refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report - TBC - Audit Committee |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit results report - TBC - Audit Committee |
| Internal controls | <ul style="list-style-type: none"> ▪ Significant deficiencies in internal controls identified during the audit | Audit results report - TBC - Audit Committee |

Appendix B – Required communications with the Audit Committee continued

| | | Our Reporting to you |
|--|---|--|
| Required communications | What is reported? | When and where |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report - TBC - Audit Committee |
| System of quality management | How the system of quality management (SQM) supports the consistent performance of a quality audit | Audit results report - TBC - Audit Committee |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report - TBC - Audit Committee |
| Auditors report | <ul style="list-style-type: none"> ▪ Key audit matters that we will include in our auditor’s report ▪ Any circumstances identified that affect the form and content of our auditor’s report | Audit results report - TBC - Audit Committee |

Appendix C – Additional audit information

Objective of our audit

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Other required procedures during the course of the audit

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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Concluding on the appropriateness of management's use of the going concern basis of accounting.

Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the audit committee reporting appropriately addresses matters communicated by us to the audit committee and reporting whether it is materially inconsistent with our understanding and the financial statements.

- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Fund's financial statements
- The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix B

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ED None

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AUDIT COMMITTEE

30 June 2026

| | |
|------------------------------------|--|
| Subject Heading: | Annual Treasury Management Report 2025/26 |
| ELT Lead: | Kathy Freeman Strategic Director of Resources and S151 Officer |
| Report Author and contact details: | Tony Piggott Treasury Manager 01708 434 368 Tony.piggott@havering.gov.uk |
| Policy context: | This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2025/26. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, ("the CIPFA TM code") and the CIPFA Prudential Code for Capital Finance in Local Authorities, ("the Prudential Code") |
| Financial summary: | The Treasury Strategy supports the Authority's Budget strategy. |

The subject matter of this report deals with the following Council Objectives

| | |
|---|---|
| People – Supporting our residents to stay safe and well | x |
| Place – A great place to live, work and enjoy | x |
| Resources – Enabling a resident-focused and resilient Council | x |

SUMMARY

The CIPFA TM Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end).

The Authority's Treasury Management Strategy Statement (TMSS) 2025/26 was approved by Full Council on 4th March 2025. This backward looking report covers the delivery of the TMSS for 2025/26.

The Authority borrowed and invested substantial sums of money and is potentially exposed to financial risk from loss of invested funds and the revenue impact from changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control.

The Council maintained a prudent treasury position during 2025/26, achieving higher than benchmark investment returns whilst managing borrowing costs below budget. However, rising long-term interest rates and an increasing reliance on short-term borrowing present potential future financing and affordability risks.

RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2025/26 as detailed in the report.

KEY HIGHLIGHTS

- Investment income from treasury investments for 2025/26 was £4.4m
- Interest payable as a result of debt for 2025/26 was £22.2m
- The Authority's long term debt is fixed at an average rate of 3.49%.
- During the period February 2026 through to March 2026 new 1-2 year PWLB loans were taken totalling £320m at an average rate of 4.07%.
- During the year treasury exceeded its Investment benchmark of SONIA @4.01% delivering a yield of 4.48%, (+0.47%)
- During 2025/26 this Authority's treasury activities remained within the treasury limits and prudential indicators set out in the TMSS.

REPORT DETAIL

1. Background

1.1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2025/26 the minimum reporting requirements were that the Authority should receive the following reports:

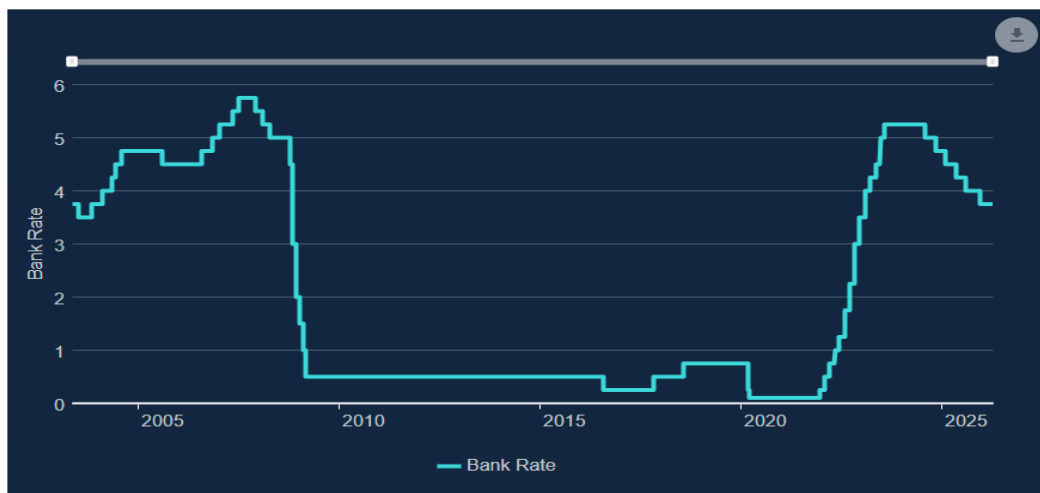
- An annual treasury strategy in advance of the year (Council 4 March 2025)
- A mid-year, treasury update report (Audit Committee meeting 24 November 2025)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

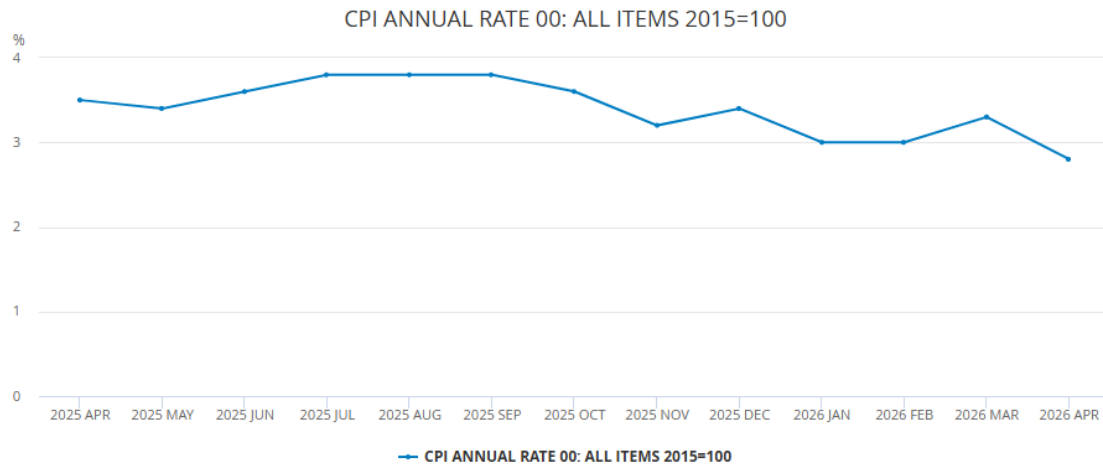
1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) continued to ease monetary policy, cutting the Bank Rate in stepped reductions of 0.25% from 4.50% in April 2025 to 3.75% by the end of the financial year, see chart below.

Bank Rate over time



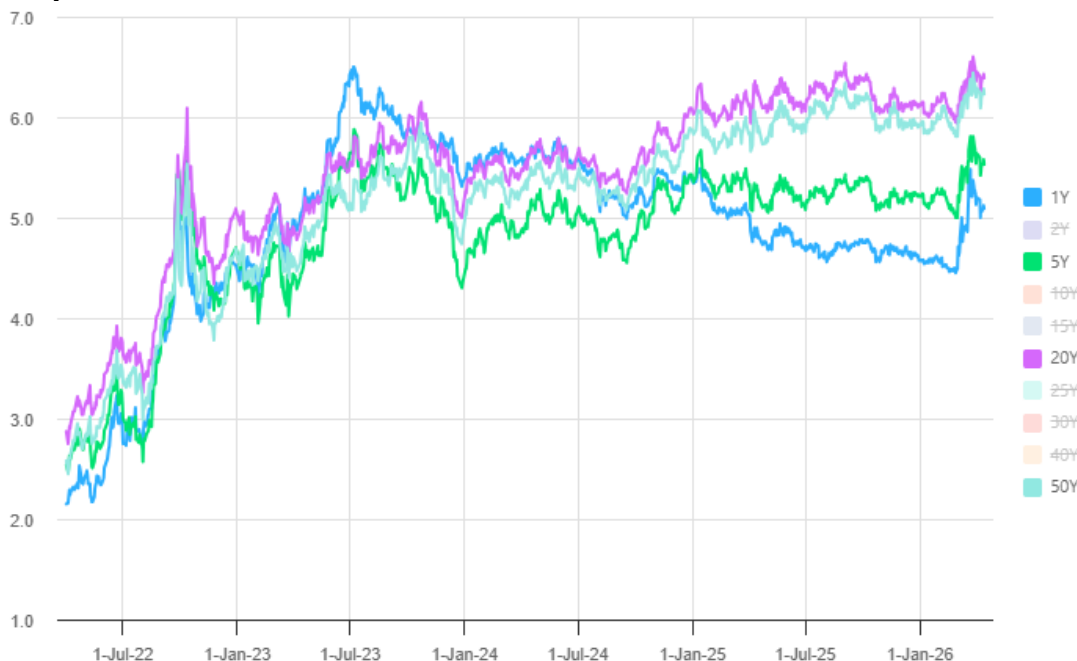
UK Inflation as measured by the CPI was range bound during the year starting at 3.5% and reaching a low of 3.0% in both January and February 2026, above the (BoE) target rate of 2%.



Due to the current middle east tensions and rising energy prices, inflation is set to increase in the near term widening the gap between the target and the published rate.

UK Gilt yields (which drive PWLB interest rates) gradually fell during the year until the outbreak of war in the Middle East causing them to spike higher in March. Base rate cut expectations changed from pricing in 3 cuts in 2026/27 to currently now pricing in 1 increase. Longer term rates are still elevated and unattractive compared to shorter maturities < 5 years, see chart below.

Graph 1: PWLB Standard Rate 2022/25



The above graph and economic position continue to support the borrowing strategy followed in 2025/26 and set out in detail within the 2025/26 Treasury Management Strategy Statement of keeping loan duration short and only borrowing when liquidity requires it.

Treasury Management Summary

1.3 The treasury management activity in year is shown in table 1 below:

Table 1: Treasury management summary as at 31 March 2026

| | 01.04.25 | | 31.03.26 | 2025-26 | 2025-26 | 2025-26 |
|----------------------------|-----------------|----------------|-----------------|---------------|-----------------|-----------------------|
| | Opening Balance | Movement | Closing Balance | Interest | Average Balance | Weighted Average Rate |
| | £m | £m | £m | £m | £m | % |
| LONG-TERM BORROWING | | | | | | |
| PWLB | 600.124 | 22.972 | 623.096 | 21.783 | 594.183 | 3.67% |
| LOBO | 7.000 | 0.000 | 7.000 | 0.252 | 7.000 | 3.60% |
| Short-term borrowing | 0.472 | 0.406 | 0.878 | 0.184 | 4.242 | 4.34% |
| Total borrowing | 607.596 | 23.378 | 630.974 | 22.219 | 605.425 | 3.67% |
| INVESTMENTS | | | | | | |
| Short-term investments | 117.000 | -62.000 | 55.000 | 4.442 | 99.111 | 4.48% |
| Total investments | 117.000 | -62.000 | 55.000 | 4.442 | 99.111 | 4.48% |
| Net Debt position | 490.596 | 85.378 | 575.974 | 17.777 | | |

1.4 The Net Debt position (gross borrowings less investments) has increased in year by £85m. £23m of this relates to an increase in actual debt taken out in year and £62m from a reduction in investments resulting in higher levels of internal borrowing.

2. Borrowing strategy

2.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2025/26 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its approved capital programme and how it has been financed. The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents

prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

- 2.2 An increase in the CFR does not necessarily result in a direct increase in actual borrowing as internal cash balances (generated as a result of reserves and the timing of revenue cash flows) help supplement borrowing and is referred to as internal borrowing. Actual external borrowing depends on the cash position and interest rate forecasts and is set out in the borrowing strategy within the Treasury Management Strategy Statement (TMSS) approved by full Council as part of the budget setting process.
- 2.3 Whilst actual external borrowing may be delayed depending on market conditions, the Authority's capital finance budget (within the MTFs) includes provision to fund the capital programme's full expected borrowing requirement from new long term fixed rate debt. This enables the treasury team in conjunction with the S151 officer, Lead Member and our treasury advisers to react appropriately to the changing market environment.

Table 2: CFR and its financing 2025/26

| | 01/04/25 Actual £m | 31/03/26 Budget £m | 31/03/26 Actual £m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| GF CFR | 286 | 450 | 331 |
| HRA CFR | 431 | 543 | 475 |
| Total CFR | 717 | 993 | 810 |
| Financed by: | | | |
| External Long Term Debt | 607 | 885 | 631 |
| External Short Term Debt | 0 | 0 | 0 |
| Internally Borrowed Cash Position | 110 | 108 | 179 |

- 2.4 The short-term strategy as set out in the TMSS involved using the Authority's cash balances to fund the majority of the 2025/26 borrowing requirement in the capital programme. In addition, 1-2 year borrowing for the HRA was entered into between February & March 2026 totalling £320m, at an aggregate rate of 4.07% to refinance in-year maturing debt of £297m.
- 2.5 Interest rates and other market data will continue to be monitored to ensure the increase in the internally borrowed position is prudent and interest rate risk associated with having an internally borrowed position is managed in accordance with the TMSS. The current approach of deferring long-term

borrowing increases interest rate volatility and will require reassessment during 2026/27.

- 2.6 The Authority's debt portfolio as at 31st March 2026 was £631m and is fixed at an average rate of 3.49% with an average duration of 11.9 years.
- 2.7 The debt maturity structure is shown in the table 3 below and in further detail in appendix A, section 1.1

Table 3: Debt Maturity structure

| Maturity | Amount £m | % of Total Debt |
|--------------------------------------|------------------|------------------------|
| Under 12 months | 166.6 | 26.41% |
| Above 12 months and within 24 months | 187.5 | 29.72% |
| Above 24 months and within 5 years | 51.5 | 8.17% |
| Above 5 years and within 10 years | 49.6 | 7.86% |
| 10 years and above | 175.7 | 27.84% |

- 2.8 As described above the Authority has balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2025/26 and a reduction in the amount of exceptional financial support needed for 25/26 has meant the Authority's cash balances have only reduced by £62m and Net Debt, (External Debt minus Investments) has increased by £85m. This strategy of deferring long term borrowing resulted in significant savings in the 2025/26 capital finance budget as detailed in table 4 below.

Table 4: Capital finance outturn 2025/26

| | £m |
|--|--------------|
| Interest Payable | |
| Budget | 25.9 |
| Outturn | 22.2 |
| (Underspend) / Overspend | (3.7) |
| Interest Receivable | |
| Budget | (4.5) |
| Outturn | (4.4) |
| (Underspend) / Overspend | 0.1 |
| Net interest (underspend) / overspend | (3.6) |

2.9 Debt Rescheduling

The possibility of debt rescheduling was regularly discussed with our treasury adviser. The current PWLB rules on redemption remain prohibitive and costly.

2.9.1 LOBO Loan

In addition to the PWLB debt, the Authority holds a £7m LOBO (Lender Option, Buyer Option) loan with Danske Bank who has the option to propose an increase in the interest rate at set dates, the Authority then has the option to either accept the new rate or to repay the loan at no additional cost. Danske Bank have indicated there is a very low probability they will alter the rate in the foreseeable future. Officers will continue to monitor and liaise with Danske Bank going forward.

3. Investment strategy

3.1 The Authority's cash investments fell during the year as proceeds from PWLB issuance (£320m) were received to refinance maturing debt of £293m and increase in the internal borrowing position as a result of 2025/26 capital spend. Investments fell from £117.0m to end the year at £55.0m, as shown in Table 5 below.

3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2025/26 less than 1 year so they could be used to fund the capital programme whilst maintaining a liquidity buffer of £40m as a contingency against any future credit crisis.

Table 5: Treasury investment activity 2025/26

| | 01.04.25 | | 31.03.26 | |
|------------------------------|-----------------|----------------|-----------------|-------------------------|
| | Opening Balance | Movement | Closing Balance | Closing Interest rate % |
| | £m | £m | £m | £m |
| Investments | | | | |
| Local Authorities | 80.000 | -25.000 | 55.000 | 4.68% |
| Debt Management Office (DMO) | 37.000 | -37.000 | 0.000 | 0.00% |
| Total Investments | 117.000 | -62.000 | 55.000 | 4.68% |

3.3 All treasury investments made during 2025/26 were in accordance with the investment strategy and because of the short-term nature of the investments all were with other local authorities (or similar) or with the Debt Management Office.

Appendix A details the authority's Investments broken down by counterparty, amount and interest rate.

4. Budgeted Income and Return

4.1 The authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below:

Table 6: Treasury investment performance 2025/26

| | Benchmark Sonia * | Actual Weighted Rate of Return achieved | Over / (Under) Performance against benchmark |
|----------------------------|----------------------|---|--|
| 2025/2026 | 4.01% | 4.48% | 0.47% |
| 2024/2025 (for comparison) | 4.82% | 5.26% | 0.44% |
| 2023/2024 (for comparison) | 4.64% | 5.04% | 0.40% |

*SONIA is the Sterling Overnight Index Average and is administered by the Bank of England

5. Regulatory Changes

5.1 There were no regulatory changes in 2025/26.

6. Compliance with Treasury and Prudential Limits

6.1 The Authority has fully complied with the CIPFA Treasury Management Code and Prudential Code during 2025/26. It has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in Appendix A of this report.

6.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. This is demonstrated in table 2 above where our actual external debt of £631m is below our Capital Financing Requirement (or underlying need to borrow for capital purposes) of £806m.

7. Treasury Management Advice

7.1 The Authority uses MUFG Corporate Markets (previously known as Link Asset Services) Treasury Solutions as its external treasury management advisor.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

IMPLICATIONS AND RISKS

Financial implications and risks:

Financial implications are contained throughout the body of the report, but it is worth stating that risk is inherent in all treasury activity. Treasury management exposes the Council to a number of financial risks. The most significant are liquidity risk, interest rate and refinancing risks (arising from the current strategy of internal and short-term borrowing) and credit risk.

Liquidity risk is managed through maintaining a minimum cash buffer of £40m, which has been sufficient throughout the year.

Interest rate and refinancing risk is managed through the Authority's Borrowing Strategy which sets out the various risks associated with undertaking various strategies.

Credit risk is addressed via the Investment Strategy which identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk. Credit risk remains low, with an average investment portfolio rating of AA and no defaults during the year.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

Legal implications and risks:

Part 3 of the Constitution outlines the Responsibility for Functions, to include the Terms of Reference for Audit Committee. The Committee has responsibility to consider and monitor the adequacy and effectiveness of the Council's risk management and internal control environment and to make recommendations to Full Council where necessary. The arrangements addressed in this report provide controls and risk management.

The Local Government Act 2003 grants powers to local authorities to borrow and invest and provides for some controls on this activity. In exercising its powers, a local authority must “have regard” to

- (a) such guidance as the Secretary of State may issue, and
- (b) to such other guidance as the Secretary of State may by regulations specify.

The Local Authorities (Capital Finance and Accounting) Regulations 2003 requires local authorities to undertake any borrowing activity with regard to: the CIPFA Prudential Code and Treasury activity generally with regard to the CIPFA Code of Practice for Treasury Management and Cross Sectoral Guidance Note. Within the Code there is a requirement to document Treasury Management Policies and Practice Notes dealing with the detail day-to-day processes within the treasury function. The guidance on Local Government Investments provides that a local authority should prepare an Investment Strategy.

This report outlines the treasury management activities in relation to managed investments and borrowing, associated monitoring and control in line with the Borrowing and Investment Strategy.

This report covers activity on treasury managed investments and borrowings and the associated monitoring and control.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report.

The report has no direct equalities implications.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have ‘due regard’ to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Health and Wellbeing implications and risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Compliance Report

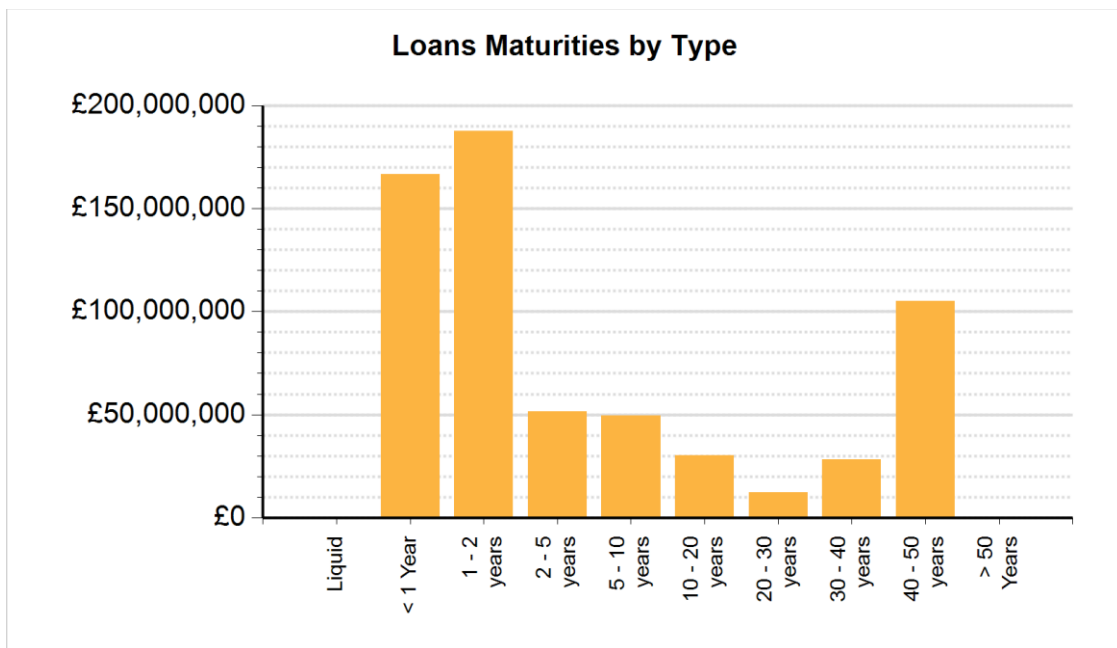
All treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the authority’s approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Maturity Structure of Borrowing

1.1 This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 1: Loan maturity structure

| | Upper Limit | Lower Limit | Actual |
|--------------------------------------|-------------|-------------|--------|
| Under 12 months | 50% | 0% | 26.41% |
| Above 12 months and within 24 months | 60% | 0% | 29.72% |
| Above 24 months and within 5 years | 80% | 0% | 8.17% |
| Above 5 years and within 10 years | 100% | 0% | 7.86% |
| 10 years and above | 100% | 0% | 27.84% |



| Total | | | |
|--------------|------------|-------|-------------|
| Amount | % of Total | Rate | Duration |
| | 0.00% | | |
| £166,624,800 | 26.41% | 3.84% | 0.90 years |
| £187,503,906 | 29.72% | 4.10% | 1.78 years |
| £51,532,612 | 8.17% | 3.29% | 3.92 years |
| £49,574,400 | 7.86% | 3.34% | 7.00 years |
| £30,178,105 | 4.78% | 3.50% | 16.01 years |
| £12,242,606 | 1.94% | 3.94% | 29.42 years |
| £28,317,693 | 4.49% | 5.13% | 33.16 years |
| £105,000,000 | 16.64% | 1.53% | 44.73 years |
| | 0.00% | | |
| £630,974,121 | 100.00% | 3.49% | 11.90 years |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The average duration of the debt portfolio is 11.9 years.

1.2 Investment portfolio position as at 31/3/26

| Class | Deal Ref | Start / Purchase Date | Maturity Date | Counterparty | Rate | Principal O/S (£) |
|----------------------|----------|-----------------------|---------------|---|----------------|----------------------|
| Deposit | 4731 | 02/02/26 | 05/05/26 | Flintshire County Council | 4.8000% | 2,000,000.00 |
| Deposit | 4732 | 02/03/26 | 02/06/26 | Flintshire County Council | 4.8000% | 3,000,000.00 |
| Deposit | 4746 | 25/02/26 | 26/05/26 | Bournemouth, Christchurch & Poole Council | 4.6000% | 5,000,000.00 |
| Deposit | 4771 | 20/03/26 | 18/12/26 | Moray Council | 4.6000% | 5,000,000.00 |
| Deposit | 4774 | 27/02/26 | 28/08/26 | Telford and Wrekin Borough Council | 4.5000% | 5,000,000.00 |
| Deposit | 4793 | 24/02/26 | 24/11/26 | Wrexham County Borough Council | 4.5500% | 5,000,000.00 |
| Deposit | 4796 | 19/02/26 | 18/02/27 | Basildon Borough Council | 4.5000% | 5,000,000.00 |
| Deposit | 4797 | 19/02/26 | 07/08/26 | Leeds City Council | 4.5000% | 5,000,000.00 |
| Deposit | 4799 | 19/02/26 | 19/11/26 | South Lanarkshire Council | 4.5000% | 5,000,000.00 |
| Deposit | 4808 | 23/02/26 | 23/11/26 | Blaenau Gwent County Borough Council | 4.6000% | 5,000,000.00 |
| Deposit | 4809 | 26/02/26 | 26/11/26 | Aberdeen City Council | 4.6000% | 5,000,000.00 |
| Deposit | 4821 | 27/03/26 | 09/04/26 | West Mercia Police and Crime Commissioner | 5.7500% | 5,000,000.00 |
| Deposit Total | | | | | 4.6818% | 55,000,000.00 |

1.2.1 All investments during 2025/26 are consistent with the approved “investment counterparty limits” outlined in the TMSS.

1.3 Principal Sums Invested for Periods Longer than 364 days

- 1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.
- 1.3.2 The limits set in the 2025/26 treasury management strategy in comparison to the 31st March 2026 position is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 2: Investments for periods longer than 364 days

| | 2025/26 Limit | 2025/26 Actual |
|---|--------------------------|---------------------------|
| Limit on principal invested beyond year end | £50m | £0m |

1.4 Security Treasury Indicator

- 1.4.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. The Credit rating agency Standard & Poor is used to determine credit ratings and deposits with local authorities and other similar organisations are deemed to be equivalent to deposits with the UK Government.

Table 3: Security Treasury Indicator

| | 2025/26 Target | 31/3/26 Actual |
|---------------------------------|---------------------------|---------------------------|
| Portfolio average credit rating | A+ | AA |

Standard & Poor long term ratings are used with AA being considered lower risk than A+

1.5 Gross Debt and the Capital Financing Requirement (CFR)

- 1.5.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence. The estimates below are based on those set out in the approved TMSS 2026/27.

Table 4: Gross debt and the CFR at 31st March 2026

| | 31/3/26 Actual £m | 31/03/27 Estimate £m | 31/03/28 Estimate £m | 31/03/29 Estimate £m |
|-------------------------------|-------------------------|----------------------------|----------------------------|----------------------------|
| Long-term External Debt | 631 | 861 | 1,112 | 1,354 |
| Short-term External Debt | 0 | 0 | 0 | 0 |
| Total Debt | 631 | 861 | 1,112 | 1,354 |
| Capital Financing Requirement | 810 | 1,060 | 1,288 | 1,498 |
| Internal Borrowing | 179 | 199 | 176 | 144 |

1.5.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

1.6 Operational Boundary for External Debt

1.6.1 The operational boundary is based on the authority's estimate of the most likely, but not worst case scenario for external debt.

Table 5: Operational Boundary

| Operational Boundary | 2025/26 Limit £m | 31/3/26 Actual £m | 31/6/26 Forecast £m |
|-----------------------------|------------------------|-------------------------|---------------------------|
| Borrowing | 900 | 631 | 631 |
| Other Long-Term Liabilities | 10 | 9 | 9 |
| Total Limit | 910 | 950 | 950 |

1.7 Authorised Limit for External Debt

1.7.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 6: Authorised limit for external debt

| Authorised Limit | 2025/26 Limit £m | 31/3/26 Actual £m | 31/6/26 Forecast £m |
|-----------------------------|------------------------|-------------------------|---------------------------|
| Borrowing | 950 | 631 | 631 |
| Other Long-Term Liabilities | 10 | 9 | 9 |
| Total Limit | 960 | 1,020 | 1,020 |

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). CPI inflation measure excludes housing costs.

CPI (Consumer Prices Index) this measure excludes housing costs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e., they default.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

DMO (Debt Management Office) a department in the treasury where deposits can be placed with the government.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

LOBO Loan (Lender Option, Buyer Option) loan, the lender who has the option to propose an increase in the interest rate at set dates, while the borrower has the option to either accept the new rate or to repay the loan at no additional cost.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Monetary Policy Committee (MPC) is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

Principal is the total amount being borrowed or lent.

PWLB Loan, (Public Works Loan Board),The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans

to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration

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AUDIT COMMITTEE 30 06 2026

Subject Heading:

Head of Assurance Annual Report
2025/26

ELT Lead:

Kathy Freeman, Strategic Director
Resources

Report Author and contact details:

Maria Denton, Head of Assurance
Tel: 01708 432610
Email: maria.denton@havering.gov.uk

Policy context:

To present a summary of the outcomes of
Internal Audit and Counter Fraud work
completed during 2025/26 and the Head
of Assurance's annual opinion.

Financial summary:

There are no financial implications or risks
arising directly from this report which is for
information only.

The subject matter of this report deals with the following Council Objectives

| | |
|---------------------------|-----|
| People making Havering | [X] |
| Places making Havering | [X] |
| Resources making Havering | [X] |

SUMMARY

This report brings together all aspects of audit, assurance and counter fraud work undertaken in the 2025/26 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2025/26.

Below is a summary of the key findings, outcomes and assurance provided within the Internal Audit Annual Report 2025/26:

- Reasonable assurance opinion issued, confirming a generally sound and improving control environment;
- Strong audit plan delivery, with several high-risk area reviews completed, and additional work added to plan for emerging risks;
- Improved position from 2024/25, following action on financial control and oversight weaknesses;
- Limited assurance findings are isolated, with no evidence of systemic control failure;
- Positive progress on recommendations, with most implemented or in progress and ongoing follow-up of overdue actions.

RECOMMENDATIONS

Members are asked to:

- a) Review and note the Assurance End of Year Report 2025/26 incorporating Head of Assurance Opinion and Counter Fraud Outturn; and
- b) Approve the draft Internal Audit Plan for 2026/27; and
- c) Provide any appropriate comments or recommendations.

REPORT DETAIL

Audit Committee, 30 June 2026

The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Global Internal Audit Standards (GIAS) and other guidance.

Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner/sponsor
- Third line – independent assurance.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

The reports included as appendices summarises the cumulative outcomes of audit and counter fraud work for 2025/26:

Head of Audit Opinion 2025/26 including Internal Audit Outturn report is provided in Appendix 1.

Counter Fraud 2025/26 Outturn report is provided in Appendix 2.

The draft Internal Audit Plan 2026/27 is provided in Appendix 3.

IMPLICATIONS AND RISKS

Financial implications and risks:

This report asks Members to consider the Assurance End of Year Report 2025/26 incorporating Head of Assurance Opinion and appendices.

The report makes reference to risks to the control environment which have resulted in limited assurance reports during the year but has an overall reasonable assurance opinion from the Head of Assurance. The report also identifies planned actions due to be undertaken in order to address current weaknesses; this activity will be funded from existing budgets.

There are no financial implications or risks arising directly from the consideration of this report which is for information only.

Legal implications and risks:

Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to conduct a review of the effectiveness of the system of internal control which must be considered by the relevant committee or by full Council. This report seeks to comply with that statutory obligation and there are no apparent risks in considering the end of year report.

Human Resources implications and risks:

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

Climate Change implications and risks:

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register, added into the Internal Audit Plan and incorporated into the scope of audits where relevant.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage

and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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Head of Assurance Opinion 2025/26

Appendix 1

In accordance with the Global Internal Audit Standards (GIAS) the Head of Internal Audit (Head of Audit and Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed by Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that is focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The audit plan is fluid and amended during the year to reflect changes within the Council's risk profile.

The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.

Outlined below are the definitions of the assurance levels provided by Internal Audit:

Key to Assurance Levels

- **Reasonable Assurance** - The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Limited Assurance** - There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

Last year's (2024/25) annual opinion concluded that, while there was generally a sound system of internal control across the Council, only limited assurance could be provided. This reflected instances of suspected fraudulent activity identified in the final quarter of the year, alongside a separate, significant control failure within the Temporary Accommodation service.

These issues highlighted weaknesses in budget management and the effectiveness of financial oversight across parts of the Council. In particular, they pointed to inconsistencies in the application of financial controls and a lack of robust management scrutiny of expenditure. As the incidents occurred across separate service areas, this raised broader concerns regarding the consistency of budget monitoring arrangements and increased the risk that unnecessary or unauthorised expenditure could occur.

Head of Assurance Opinion 2025/26 (continued)

Appendix 1

A Significant Governance Issue was raised in the 2024/25 Annual Governance Statement to address the budget management and management oversight issues, to ensure these areas were addressed and monitored throughout the year. An update on the progress of this is provided below:

A number of control failures have been identified towards the end of 2024/25 across three service areas. Reviews undertaken of these incidences have highlighted a combination of inconsistent application of the financial framework and poor management oversight in a limited number of areas. These issues have led to financial inefficiencies, potentially resulting in a misallocation of resources, which may have impacted on service delivery within the areas affected, ultimately resulting in financial loss to the Council. In all incidences, both the first (service delivery and day-to-day management of risks) and second (support, advisory and monitoring responsibilities) line of defence were ineffective.

Actions taken during 2025/26

- Follow up reports and progress provided to Audit Committee in June 2025 and in early 2026
- Additional reviews added to the Internal Audit Plan 2025/26 and further for consideration in 2026/27
- Finance Restructure launched

This Significant Governance Issue has been carried forward into 2026/27 to ensure the focus on improvements and ELT oversight and review remains in place.

It should be noted that considerable work has been undertaken by Internal Audit in these areas, which has meant priorities in the Annual Plan presented to the Audit Committee on 25th April 2025 have changed throughout the year. The previous Audit Committee has been kept updated with all these changes through the course of the year. The internal audit programme of work for 2025/26 identified the following areas where only limited assurance could be provided on the control environment (excluding Budget Management and Temporary Accommodation - Additional Overspend as these relate to issues that occurred in, and were identified towards the end of 2024/25):

- Community Leasing
- Garage Allocations
- Procurement Processes Follow Up
- Tenant Management Organisations

As these issues were identified in specific and contained areas of the Council's operations, they do not give rise to thematic concerns about the overall control environment in place and do not significantly affect the overall opinion provided in this report. Management actions have been agreed to address the high risk findings, and many have already been implemented, with progress monitored by the Audit Committee. Therefore, based on the work undertaken and finalised reports at the end of the 2025/26 financial year, combined with the continuing work undertaken by the Council to address the control issues identified in the 2024/25 annual report, **reasonable assurance** could be provided that there is generally a sound system of internal control across the Council.

Other Matters and Arrangements

Appendix 1

Risk Management Arrangements

The strategic risks to the achievement of the Authority's objectives are captured within a strategic risk register which is overseen by ELT and progress reported to the Audit Committee. Work continued during 2025/26 to ensure the risk register reflects the risks facing the Council and will remain ongoing during 2026/27 to support the general risk management processes, particularly at Directorate level.

The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council's systems and procedures, and will be approved by the Audit Committee biannually.

Governance Arrangements

The Annual Governance Statement is regularly reviewed and updated by ELT. The work of Internal Audit informs the issues brought to the leadership team and identified in the Annual Governance Statement (AGS). Governance arrangements are routinely considered as part of all internal audit reviews.

Audit Committee

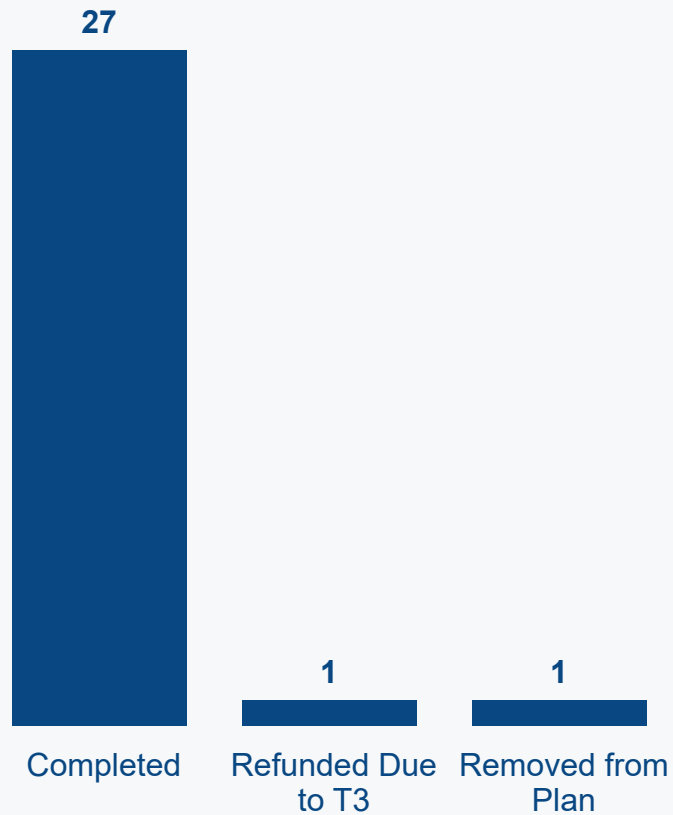
The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

Audit Plan Status - Systems & Schools

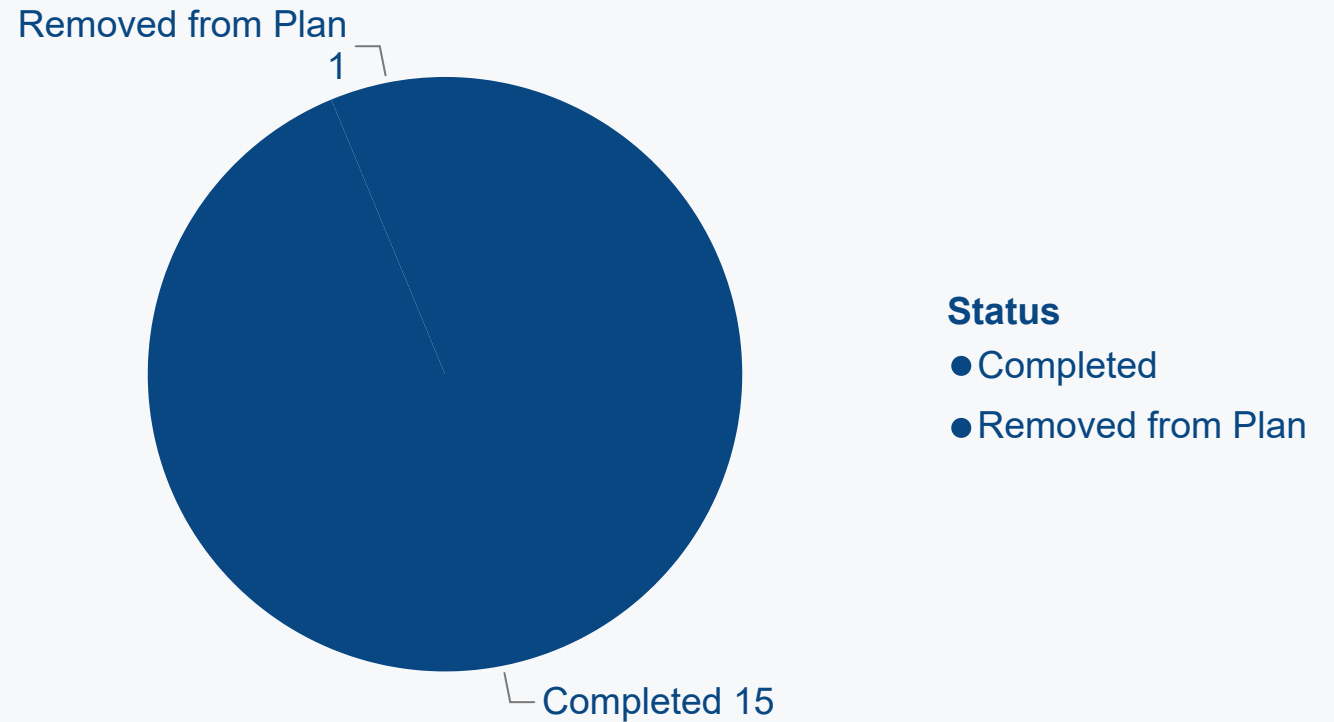
Appendix 1

This page provides an overview of audit progress across the full Internal Audit Plan, including any in-year additions and audits commissioned through the Council's traded services. The bar chart shows the current status of all audits, offering a comprehensive view of overall activity. Alongside this, the pie chart presents the status of the original core audit plan as a percentage, excluding in-year additions and commercial audits to give a clear and accurate measure of delivery against the initial planned programme.

Number of Audits by Status



Core Audit Plan Status (%)

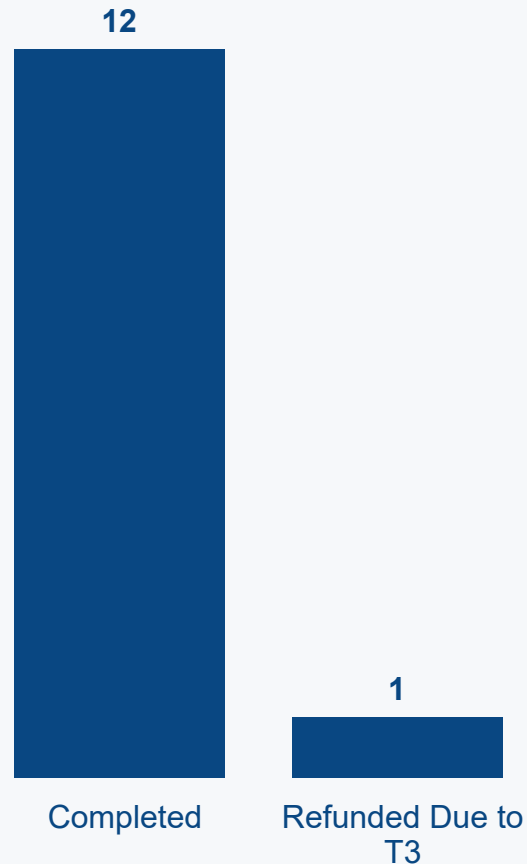


Responsive & Commissioned Audits

Appendix 1

This page presents additional audits incorporated into the annual Internal Audit Plan outside of the original schedule. These audits arise either in response to emerging risks identified during the year or through the Council's traded services function, where audit support is commissioned. It provides visibility over responsive and commissioned audit activity, ensuring transparency and flexibility in addressing evolving assurance needs.

Number of Audits by Status



| Title | Status |
|--|--------------------|
| Community Leasing | Completed |
| Corbets Tey Primary (HC) | Completed |
| Emerson Park Academy (HC) | Completed |
| Engayne (HC) | Completed |
| Garage Allocations | Completed |
| Hilldene Primary (HC) | Completed |
| James Oglethorpe (HC) | Completed |
| La Salette (HC) | Completed |
| Shaw Academy (HC) | Completed |
| St Patricks (HC) | Completed |
| Temporary Accommodation (Additional Overspend) | Completed |
| Temporary Accommodation (Additional Overspend) - Follow Up | Completed |
| Clockhouse (HC) | Refunded Due to T3 |

Adjustments to Audit Plan (Removed or Deferred Audits)

Appendix 1

The audits listed in the table have been removed from the current year's Internal Audit Plan. This may be due to a reduction in the level of risk, changes in circumstances that mean the audit is no longer required, or a decision to defer the review to a future year. These adjustments ensure that audit resources remain focused on the areas of highest priority and relevance.

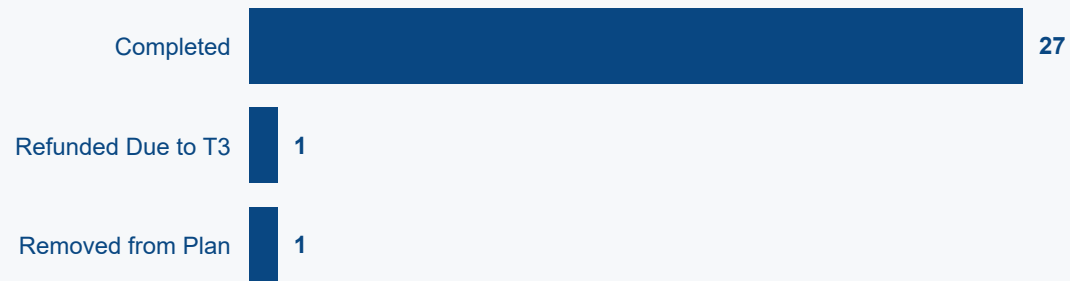
| Title | Status | Reason / Comments |
|-------------------|--------------------|---|
| Clockhouse (HC) | Refunded Due to T3 | Not Applicable |
| Health and Safety | Removed from Plan | This audit has been removed from the 25/26 Internal Audit Plan as the Health & Safety Team are currently undertaking their own audit. |

Audit Plan Outturn Report

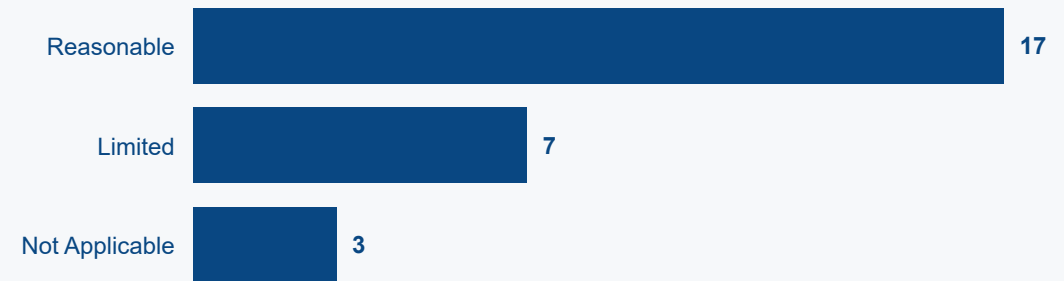
Appendix 1

An overview of audit outcomes and performance across the Internal Audit Plan including in-year additions and commercial audits . It includes visual summaries of the status of all audits and the levels of assurance provided for completed reviews. In addition, it highlights the priority of recommendations raised and tracks their implementation status, offering a clear view of both audit findings and management progress in addressing identified risks.

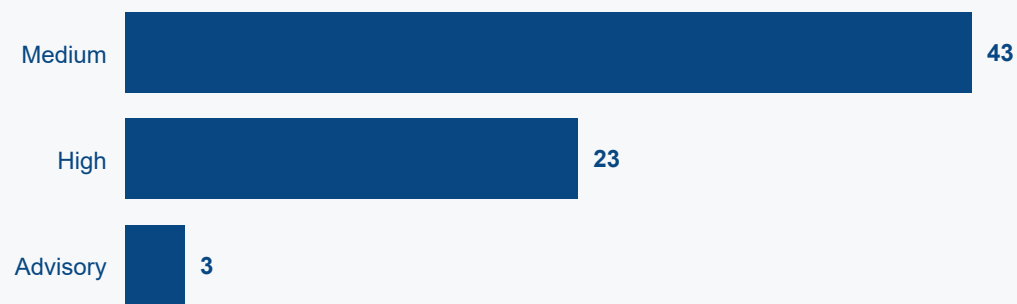
Audits by Status



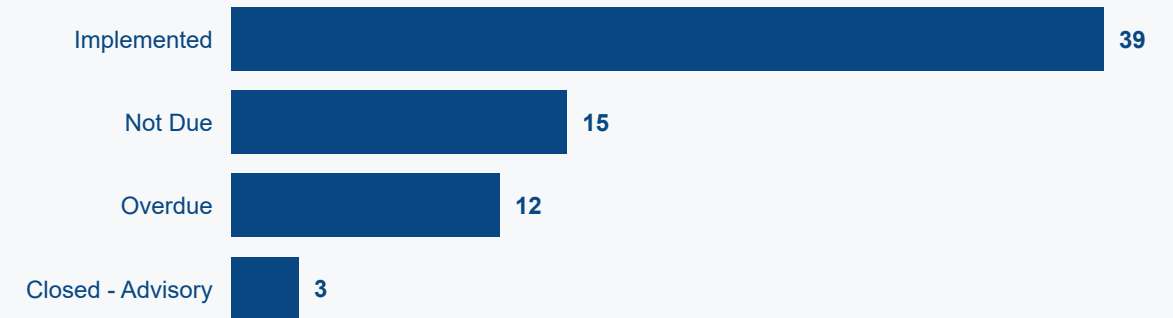
Audits by Assurance



Recommendations by Priority



Recommendations by Status

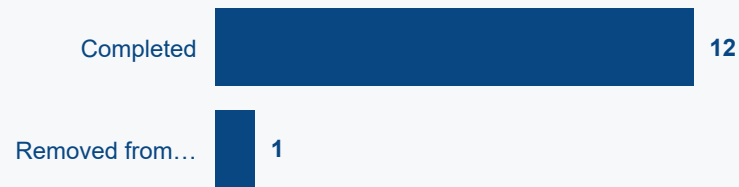


Audit Plan Monitoring - Systems

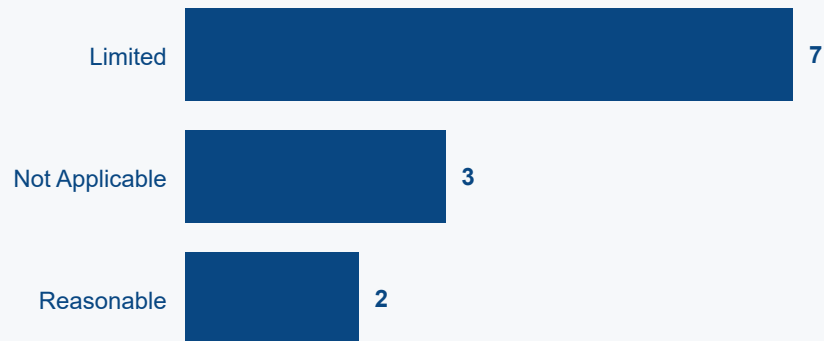
Appendix 1

Overview of systems audit activity across the plan, showing the current status of all audits alongside the assurance levels achieved for those completed. It offers a clear snapshot of progress and the level of confidence gained from completed reviews.

Audits by Status



Audits by Assurance



| Title | Status | Assurance |
|--|-------------------|----------------|
| Budget Management | Completed | Limited |
| Community Leasing | Completed | Limited |
| Court of Protection: Deputyship and Appointeeships Follow Up | Completed | Reasonable |
| Early Years - End of Year Output Report | Completed | Not Applicable |
| Garage Allocations | Completed | Limited |
| Marketplace Management | Completed | Not Applicable |
| Mayors Charity Fund | Completed | Not Applicable |
| Procurement Processes Follow Up | Completed | Limited |
| Temporary Accommodation (Additional Overspend) | Completed | Limited |
| Temporary Accommodation (Additional Overspend) - Follow Up | Completed | Limited |
| Tenant Management Organisations Follow Up (Beta and Delta) | Completed | Reasonable |
| Tenant Management Organisations Follow Up (Petra) | Completed | Limited |
| Health and Safety | Removed from Plan | Not Applicable |

Audit Plan Monitoring - Schools

Appendix 1

Overview of schools audit activity across the plan, showing the current status of all audits alongside the assurance levels achieved for those completed. It offers a clear snapshot of progress and the level of confidence gained from completed reviews.

Audits by Status



Audits by Assurance



| Title | Status | Assurance |
|------------------------------------|--------------------|----------------|
| Corbets Tey Primary (HC) | Completed | Reasonable |
| Emerson Park Academy (HC) | Completed | Reasonable |
| Engayne (HC) | Completed | Reasonable |
| Hilldene Primary (HC) | Completed | Reasonable |
| James Oglethorpe (HC) | Completed | Reasonable |
| La Salette (HC) | Completed | Reasonable |
| La Salette (TR) | Completed | Reasonable |
| Nelmes Primary (TR) | Completed | Reasonable |
| Parsonage Farm (TR) | Completed | Reasonable |
| Scotts Primary (TR) | Completed | Reasonable |
| Shaw Academy (HC) | Completed | Reasonable |
| Squirrels Heath Infant School (TR) | Completed | Reasonable |
| St Patricks (HC) | Completed | Reasonable |
| St Peters Catholic Primary (TR) | Completed | Reasonable |
| St Ursulas Primary (TR) | Completed | Reasonable |
| Clockhouse (HC) | Refunded Due to T3 | Not Applicable |

Recommendations – Implementation Status

Appendix 1

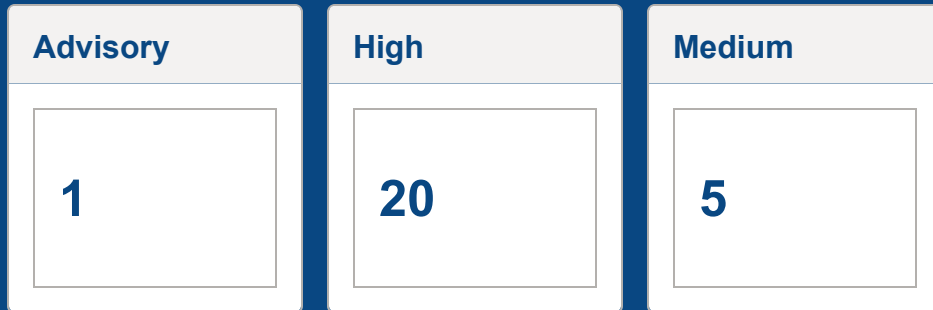
Internal Audit operates a structured follow-up process to ensure agreed actions are implemented in a timely manner, with auditors responsible for tracking progress against recommendations and aligning follow-up activity to agreed deadlines. Where limited assurance has been provided, formal follow-up reviews are undertaken to confirm that actions have been effectively addressed, enabling robust oversight of how key risks are being managed.

Below is an overview of high and medium priority recommendations arising from completed audits, alongside their current implementation status, with data presented separately for systems audits and school audits to support clearer insight and monitoring.

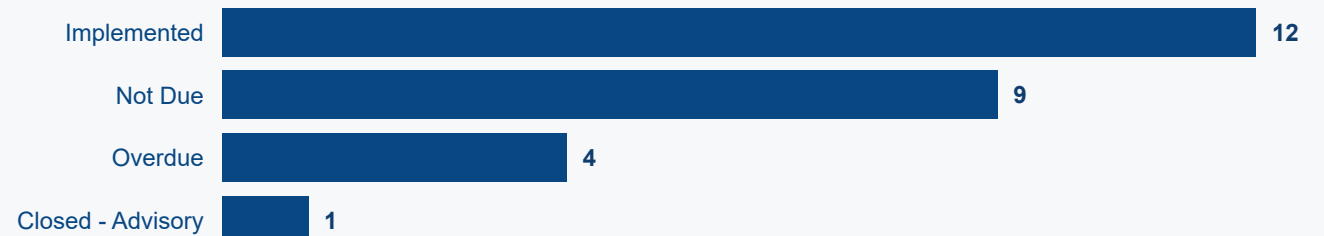
All recommendations presently recorded as overdue are scheduled for follow-up during upcoming audit engagements.

Page 144

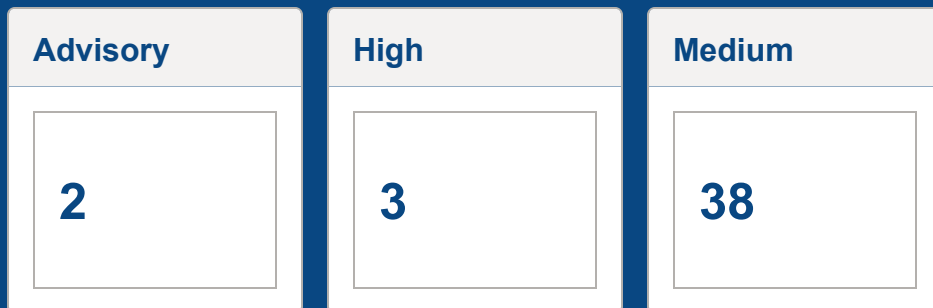
Systems Recommendations Raised in 2025/26 by Priority



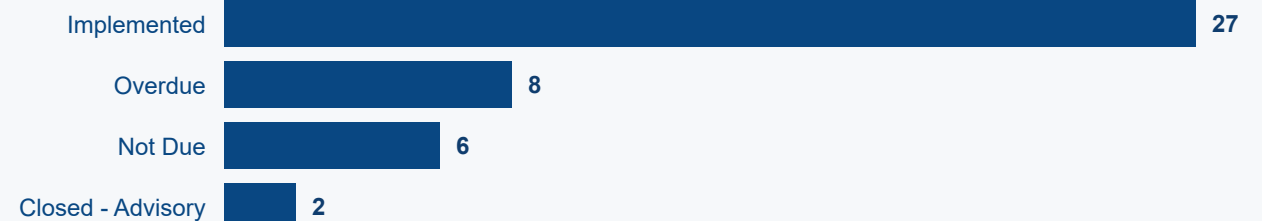
Systems Recommendations by Status



Schools Recommendations Raised in 2025/26 by Priority



Schools Recommendations by Status



Systems Recommendations Details – Priority, Status and Due Dates

Appendix 1

This table provides detailed information on all recommendations raised through completed audits, including their priority, current status, and agreed due dates, supporting effective monitoring of progress and timely implementation.

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|-----------------------|---|--------------------------------|------------------------------|-----------------|
| Budget Management | Budget management is supported by adequate time for planning, monitoring, and review, using reliable and accurate information, and regular comparisons of actual results against forecasts. | High | Not Due | 01 July 2026 |
| Budget Management | Roles and responsibilities between the Council's Finance Team and services are clearly defined within the self-service financial model, ensuring staff have a shared understanding of their individual and collective accountability for financial oversight. | High | Not Due | 01 July 2026 |
| Budget Management | Strengthened internal controls through clearly defined roles and responsibilities, enabling staff to understand their individual and collective duties and accountability, thereby enhancing oversight and improving fraud prevention measures to reduce the risk of recurrence. | High | Overdue | 01 April 2026 |
| Community Leasing | The Council should formally decide the immediate and long-term future of the Bretons Estate to determine whether in the immediate term,, it should allocate investment into repairing and if not, to serve notice to the those occupying the site. If notice is served on the site, determine if alternative sites should be identified for the Community Association, subject to a full repair and insure lease and identify a specific site for the nursery and put in place a direct lease arrangement, In the longer term, consideration on developing the site , or dispose of the land and buildings. | High | Not Due | 26 October 2026 |
| Early Years Provision | It is advised that the Council use the findings of this audit to provide clearer, consolidated guidance and strengthen communication and training to address inconsistent provider understanding, while using its existing powers under the Funding Agreement to ensure compliance with requirements around attendance, record keeping, invoicing, and funding processes. | Advisory | Closed - Advisory | |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|--------------------|---|--------------------------------|------------------------------|-----------------|
| Garage Allocations | Garage allocations follow documented procedures and are consistently recorded within approved systems. | High | Implemented | |
| Garage Allocations | Garage asset and tenant records are reconciled and maintained to support transparency, service continuity and data integrity. | High | Implemented | |
| Garage Allocations | Income processes ensure timely rent collection, accurate reporting, and alignment with published policies. | Medium | Implemented | |
| Garage Allocations | Management oversight and regular checks ensure compliance, data accuracy, and income recovery. | High | Implemented | |
| Garage Allocations | Robust handover and contingency arrangements are in place to ensure service continuity during staff absences. | Medium | Implemented | |
| Garage Allocations | Tenants have clear visibility of the garage licence terms and conditions prior to confirming acceptance. | Medium | Implemented | |
| Garage Allocations | Waiting lists are accurate, auditable, and managed through clear processes for updates and transfers. | Medium | Implemented | |
| Garage Allocations | Website content and internal practices are aligned to reflect current procedures and improve customer understanding. | Medium | Overdue | 01 March 2026 |

Systems Recommendations Details – Priority, Status and Due Dates

Appendix 1

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|---|---|-------------------------|-----------------------|-----------------|
| Temporary Accomodation (Additional Overspend) | Budget management is supported by adequate time for planning, monitoring, and review, using reliable and accurate information, and regular comparisons of actual results against forecasts. | High | Not Due | 01 July 2026 |
| Temporary Accomodation (Additional Overspend) | Clarification between the role of the service and the Finance team in the self-service model. | High | Not Due | 01 July 2026 |
| Temporary Accomodation (Additional Overspend) | Defined roles and responsibilities | High | Implemented | 01 January 2026 |
| Temporary Accomodation (Additional Overspend) | Meaningful management information based on reliable data | High | Not Due | 01 June 2026 |
| Temporary Accomodation (Additional Overspend) | Processes are supported by documented procedures | High | Not Due | 01 June 2026 |
| Temporary Accomodation (Additional Overspend) | Processes are supported by documented procedures. | High | Not Due | 01 June 2026 |
| Temporary Accomodation (Additional Overspend) | Processes are supported by documented procedures. | High | Not Due | 01 July 2026 |
| Temporary Accomodation (Additional Overspend) | Retention of reliable and up to date data. | High | Overdue | 01 April 2026 |
| Temporary Accomodation (Additional Overspend) | Staff understand what is expected of them in regards to budgeting and forecasting. | High | Implemented | 01 August 2025 |
| Temporary Accomodation (Additional Overspend) | Staff understand what is expected of them in regards to suppliers, contracts and rates. | High | Implemented | 01 August 2025 |
| Temporary Accomodation (Additional Overspend) | Staff understand what is expected of them regarding data management and Data protection. | High | Implemented | 01 January 2026 |
| Temporary Accomodation (Additional Overspend) | Use of a Housing Management System to capture person and property data | High | Overdue | 01 April 2026 |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|---|---|--------------------------------|------------------------------|-----------------|
| Tenant Management Organisations Follow Up | Service to produce and implement an action plan to bring Petra back in-house, ensuring the original risks highlighted below are adequately addressed. | High | Implemented | 01 April 2026 |

Schools Recommendations Details – Priority, Status and Due Dates

Appendix 1

This table provides detailed information on all recommendations raised through completed audits, including their priority, current status, and agreed due dates, supporting effective monitoring of progress and timely implementation.

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|------------------|--|-------------------------|-----------------------|-----------------|
| Corbets Tey HC | In addition to verifying bank details, all supplier information on invoices, including addresses and contact details, are cross-checked against purchase orders prior to payment. This will strengthen the audit trail and ensure full compliance with the Finance Policy. | Medium | Implemented | 01 October 2025 |
| Corbets Tey HC | The Finance Policy should be updated to reflect the latest contract and tendering expenditure limits, provided by Internal Audit. | Medium | Implemented | 01 October 2025 |
| Corbets Tey HC | The transaction limit on the Site Manager's charge card should be reviewed and adjusted to align with both the Finance Policy and the limit approved by the governing body, with any future changes to card limits formally documented and approved in accordance with policy. | Medium | Implemented | 01 October 2025 |
| Corbets Tey HC | To ensure pupils are not exposed to a prohibited item during food preparation activities, clear procedures should be established and consistently followed for checking all ingredients prior to the activity taking place. This should include a verification process to ensure that pupils with food allergies are not exposed to restricted items, thereby strengthening safeguarding measures and reducing the risk of future incidents. | Medium | Implemented | 01 October 2025 |
| Corbets Tey HC | To strengthen the school's approach to managing allergy data, and to ensure information is recorded accurately the school should introduce a secondary check where another staff member reviews the entered allergy data against the original form. Parents should be requested to review the allergy information they originally provided and to confirm or update this information annually, even if there are no changes. Members of staff should follow up with parents when forms are not returned to ensure accurate and up to date information is held by the school. | Medium | Implemented | 01 January 2026 |
| Hilldene Primary | Once the new MIS is fully implemented, the school should progress the introduction of BACS payments. This will enhance financial controls, provide a clearer audit trail, and improve the efficiency and security of the payment process. | Advisory | Closed - Advisory | |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|--------------------|--|-------------------------|-----------------------|-------------------|
| La Salette Primary | The school should implement a formal and documented process to ensure all staff using their own vehicles for school business are legally entitled to do so. This should include: Business-use car insurance, Valid driving licence, MOT certificate (if applicable), Vehicle tax status. A central register of staff approved to use personal vehicles for business purposes should also be maintained, ensuring checks are completed before any school-related travel is undertaken and providing staff with clear guidance on required documentation and renewal expectations. Where a member of staff refuses to provide the required documentation, the school should make them aware that they are not authorised to use their personal vehicle for school business, and request that the staff member sign a declaration confirming they understand and accept this restriction. | Medium | Not Due | 01 September 2026 |
| La Salette Primary | To strengthen internal control over payroll accuracy and reduce the financial and fraud risk, all electronic timecards should be subject to formal authorisation by the appropriate member of staff prior to submission to Payroll. | Medium | Implemented | 01 April 2026 |
| Nelmes Primary | In addition, Pecuniary Interest forms for all other staff should be reviewed periodically (e.g., every three years) to ensure declarations remain up to date and any emerging risks are promptly identified. | Medium | Not Due | 01 September 2026 |
| Nelmes Primary | The Headteacher’s charge card should be securely held and used solely by the Headteacher, in accordance with the Financial Regulations. The School should review whether there is an operational requirement for the School Business Manager to be issued with a separate charge card to facilitate the necessary purchases. | Medium | Implemented | 01 February 2026 |
| Nelmes Primary | The organisation should strengthen compliance with procurement and payment controls by ensuring that purchase orders are raised before goods or services are ordered. In addition, processes for approving and paying invoices should be reviewed to ensure that payments are consistently made within the 30-day target. | Medium | Overdue | 01 May 2026 |
| Nelmes Primary | The School should ensure that its inventory includes all items within the School, supported where appropriate by photographs of each room showing furnishings and fixed items, which may be used in place of some item-by-item listings. | Medium | Not Due | 01 September 2026 |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|------------------------|---|--------------------------------|------------------------------|-----------------|
| Nelmes Primary | The school should ensure that the Lettings Policy Health and Safety Checklist is completed and retained at appropriate intervals, such as annually or when significant site changes occur. | Medium | Not Due | 01 June 2026 |
| Nelmes Primary | The school should ensure that the transaction log is signed only by an authorised cheque signatory, in line with the Financial Regulations and Scheme of Delegation. If it is operationally necessary for the School Business Manager to take on this responsibility, the charge card section of the Scheme of Delegation should be formally updated and approved by the governing board to reflect this change. | Medium | Not Due | 01 June 2026 |
| Nelmes Primary | The School should implement a formal process to ensure that IR35/off-payroll working assessments are completed before any individual is engaged to provide services in their own name. This should include: Using HMRC’s Check Employment Status for Tax (CEST) tool or an equivalent, documented assessment method to determine whether the individual should be treated as an employee for tax purposes or as an off-payroll worker. Retaining evidence of each assessment and the resulting status determination as part of the engagement file. | Medium | Not Due | 01 July 2026 |
| Nelmes Primary | To ensure the School can identify and manage any potential conflicts of interest, Pecuniary Interest forms should be completed on an annual basis by all staff involved in financial decision making or those with access to the School’s finance systems. | Medium | Overdue | 01 May 2026 |
| Parsonage Farm Primary | Action should be taken to address and reduce the raising of orders retrospectively. Staff and Governors should be made suitably aware of the role they play in the budget monitoring process and therefore should ensure that any verbal approval to purchase goods / services are notified to support staff, in order for an order to be raised. | Medium | Overdue | 01 April 2026 |
| Parsonage Farm Primary | The make / model and serial number of the item should be recorded to ensure identification of items loaned. | Medium | Overdue | 01 April 2026 |
| Parsonage Farm Primary | To ensure the school is fully compliant with the DfE guidance the website should be regularly updated. | Advisory | Closed - Advisory | |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|----------------|--|-------------------------|-----------------------|------------------|
| Scotts Primary | The school should ensure that all lettings agreements are formally signed by the hirer before access to the premises is granted. Specifically:Require hirers to provide a verified handwritten or authenticated digital signature, in line with the school’s lettings policy;Establish a standard process for checking that agreements are fully completed and signed prior to confirming bookings; andRetain copies of signed agreements in a central, secure location for audit and compliance purposes.The school should also clarify within its lettings policy whether electronic signatures are acceptable, and if so, specify the required method of verification (e.g., through an approved e-signature platform). | Medium | Overdue | 01 March 2026 |
| Scotts Primary | The School should implement a formal process to ensure that IR35/off-payroll working assessments are completed before any individual is engaged to provide services in their own name. This should include:Using HMRC’s Check Employment Status for Tax (CEST) tool or an equivalent, documented assessment method to determine whether the individual should be treated as an employee for tax purposes or as an off-payroll worker; andRetaining evidence of each assessment and the resulting status determination as part of the engagement file. | Medium | Implemented | 01 February 2026 |
| Scotts Primary | The school should update the Emergency Plan to ensure it includes all relevant internal and external contact information required during an emergency. At a minimum, the plan should contain:Names, roles, and direct contact numbers for internal emergency leads;Contact information for external agencies, including local authority emergency teams, emergency services, and key suppliers; andClear escalation routes and out-of-hours contacts where applicable. | Medium | Overdue | 01 March 2026 |
| Scotts Primary | To ensure the School can identify and manage any potential conflicts of interest, Pecuniary Interest forms should be completed on an annual basis by all staff involved in financial decision making or those with access to the School’s finance systems.In addition, Pecuniary Interest forms for all other staff should be reviewed periodically (e.g., every three years) to ensure declarations remain up to date and any emerging risks are promptly identified. | Medium | Implemented | 01 February 2026 |

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|------------------------------------|--|-------------------------|-----------------------|------------------|
| Squirrels Heath Infant School (TR) | <p>It is recommended that the Head Teacher and Senior Leadership Team conduct a review of the Internal Audit findings relating to the former Squirrels Heath Infant School.</p> <p>This review should assess whether the existing controls and governance arrangements, originally established within the former Squirrels Heath Junior School, are sufficient to mitigate the weaknesses inherited through the amalgamation. This will help ensure that any residual risks are appropriately addressed.</p> | High | Implemented | 01 December 2025 |
| Squirrels Heath Infant School (TR) | <p>It is recommended that the Head Teacher produce a comprehensive formal action plan to document all outstanding inherited issues. The plan should include any residual action necessary to address the audit findings, any additional issues identified during the amalgamation that fall outside the scope of Internal Audit.</p> <p>The action plan should be shared with the Local Authority to enable active support for the Head Teacher in resolving the identified issues. This includes providing designated contacts within each relevant service area, along with clearly defined actions and timescales, to ensure a coordinated and timely approach.</p> <p>This coordinated approach will ensure that the Head Teacher is not unfairly burdened with resolving legacy issues alone and that the school is supported in establishing a stable and compliant operational environment.</p> | High | Implemented | 01 December 2025 |
| Squirrels Heath Infant School (TR) | <p>The Council should reflect on these events to identify key lessons and implement appropriate measures to reduce the likelihood of recurrence.</p> | High | Overdue | 01 March 2026 |
| St Peters Catholic Primary | <p>Governor Declarations of interest should be reviewed and updated on the school website to ensure all information is accurate, and in accordance with the requirements of the DfE</p> | Medium | Implemented | 01 October 2025 |
| St Peters Catholic Primary | <p>Petty cash vouchers should be signed by the claimant to evidence receipt of funds.</p> | Medium | Implemented | 01 October 2025 |

Schools Recommendations Details – Priority, Status and Due Dates

Appendix 1

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|----------------------------|---|-------------------------|-----------------------|-----------------|
| St Peters Catholic Primary | The school should maintain comprehensive records and retain appropriate documentation, detailing the costs incurred in relation to each let. These costs should be periodically reviewed and reimbursed to the delegated budget account to ensure transparency. The Lettings Policy should also be updated to reflect these arrangements. | Medium | Implemented | 01 October 2025 |
| St Peters Catholic Primary | To ensure best practice, the Chair of the Leadership & Management Committee should not take committee meeting minutes. This will ensure there is no distraction from their leadership role, or potentially compromise the quality or impartiality of the record. | Medium | Implemented | 01 January 2026 |
| St Peters Catholic Primary | To ensure lets are administered in line with the Lettings Policy, the following should be in place before the let commences;Public Liability insurance is in place for a minimum of £5m;Health & Safety checklists to be fully completed and retained on file. | Medium | Overdue | 01 January 2026 |
| St Peters Catholic Primary | To ensure that there are sufficient audit trails in place to demonstrate compliance with procurement requirements and the scheme of delegation; the following should be observed; Orders are raised on the finance system before the invoice is received; and Invoices are paid within the 30 days payment period to avoid the possibility of incurring late payment charges. | Medium | Implemented | 01 October 2025 |
| St Ursulas Primary | The Finance Policy should be reviewed and updated to reflect current UK procurement legislation and thresholds. The updated policy should be communicated to all relevant staff to ensure that procurement activity is conducted in line with the correct thresholds and in compliance with prevailing regulations. | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | The school should complete the required Health & Safety checklists immediately for both current lets and ensure that all future lettings follow a standardised process, including mandatory completion and sign off of Health & Safety checklists. | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | The school should ensure that records of staff with finance system access are accurate, consistent, and regularly reviewed. The Finance Policy should be reconciled with the current user access list in the finance system to ensure both reflect the correct authorised staff. | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | The school should implement a formal process to ensure that VAT is identified, recorded, and reclaimed where applicable for all staff purchases reimbursed through petty cash or cheque. | Medium | Implemented | 30 April 2026 |

Schools Recommendations Details – Priority, Status and Due Dates

Appendix 1

| Audit Title | Recommendation | Recommendation Priority | Recommendation Status | Due Date |
|------------------------------|--|-------------------------|-----------------------|---------------|
| St Ursulas Primary | The school should implement a formal process to ensure that VAT is identified, recorded, and reclaimed where applicable for all staff purchases reimbursed through petty cash or cheque. | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | The school should strengthen its financial reconciliation and sign-off procedures for the residential trips and activities, by ensuring the individual completing the reconciliation signs the profit & loss summary, and it is appropriately authorised. | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | To strengthen financial control and improve audit transparency the school should ensure that all purchase orders are raised and approved prior to goods or services being ordered or delivered, and payments are made within the 30 day required timeframe | Medium | Implemented | 30 April 2026 |
| St Ursulas Primary | To strengthen the procurement process, the school should ensure that all orders are formally authorised before goods or services are committed. | Medium | Implemented | 30 April 2026 |
| The James Oglethorpe Primary | An independent officer, such as the Office Manager should review and sign off the School Business Manager's payroll each month to provide a clear audit trail, ensure segregation of duties, and strengthen internal controls over payroll processing. | Medium | Implemented | 01 April 2026 |
| The James Oglethorpe Primary | Management should implement and communicate a clear timetable for processing journals, ensuring all transactions are posted within the relevant accounting period. Regular monitoring should be introduced to confirm journals are completed promptly, in line with financial regulations and best practice. | Medium | Implemented | 01 April 2026 |
| The James Oglethorpe Primary | The school should ensure that the Register of Governors' Pecuniary Interests is updated and published on the website in line with DfE statutory guidance. A process should be implemented to review and update this information at least annually and whenever changes occur. | Medium | Implemented | 01 April 2026 |
| The James Oglethorpe Primary | The Transaction Log should be updated or replaced with a system that supports mandatory second signatory approval in accordance with the Financial Regulations 2016. Management should also implement routine monitoring to ensure dual authorisation is consistently applied for all relevant transactions. | Medium | Implemented | 01 April 2026 |

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Counter Fraud

Appendix 2

Local authorities in the UK are legally required to prevent, detect, and investigate fraud under Section 151 of the Local Government Act 1972, which mandates the proper administration of financial affairs. The work of the Counter Fraud team, in identifying key risk areas and poor controls, works alongside our colleagues in the wider Assurance Service to ensure that Havering Council maintains robust systems and processes to protect the Council, its assets, residents and staff, from those that may seek to cause harm, loss or damage, be it financial, reputational or physical. The team provides both reactive and proactive, professional investigative services to identify and address fraud, whilst adapting to an ever-changing risk environment.

The team provides advice, conducts reviews and carries out criminal investigations across a range of areas, including Housing Fraud, Corporate Fraud, Right to Buy Applications, Mutual Exchanges and Successions. The team also handle Data Protection requests, Freedom Of Information requests and manage the National Fraud Initiative exercise.

Referral and preliminary Enquiry stage cases

Number of Cases Open (as at 31st March 2026) including carry over
37

Number of Cases Received between 1st April 2025 and 31st March 2026
64

Number of Cases Closed between 1st April 2025 and 31st March 2026
50

Formal Investigations

Number of Cases Open (as at 31st March 2026) including carry over
90

Number of Cases Opened between 1st April 2025 and 31st March 2026
52

Number of Cases Closed between 1st April 2025 and 31st March 2026
56

Between 1 April 2025 and 31 March 2026, intervention and investigation by the Counter Fraud team resulted in 11 properties being recovered, delivering a notional saving of £861,300. In addition, one Right to Buy application was prevented, achieving a notional saving of £38,000.

Counter Fraud continued - National Fraud Initiative (NFI)

Appendix 2

The National Fraud Initiative (NFI) is a large-scale, biennial data matching exercise led by the Cabinet Office, designed to prevent, detect and recover losses from fraud, error and overpayments across the public sector. It compares datasets from around 1,300 participating organisations, including local authorities, government departments and the NHS. The NFI operates under statutory powers set out in the Local Audit and Accountability Act 2014, ensuring compliance with data protection requirements.

The 2024/25 NFI exercise identified an initial 6800 matches for Havering Council across a number of data sets. These consist of potential mis match, error or fraud. The responsibility for the review and investigation of these anomalies sits predominantly with the relevant service areas. Match reports of a highly sensitive nature or where Fraud is detected are investigated by the Counter Fraud team.

NFI matches compare key datasets (e.g. Blue Badge holders, Council Tax discounts, payroll and pensions) to identify specific risk scenarios such as deceased badge holders, incorrect council tax discounts, or duplicate employment records. These are targeted fraud/error alerts that must be investigated to confirm whether there is genuine loss or control weakness.

London Borough of Havering - Counter Fraud E Learning 2025/2026

To raise awareness and to foster a culture where fraud and corruption can find no foothold, the Counter Fraud team have designed Fraud Awareness and Anti Bribery e-learning training courses, mandatory for staff across the council. It provides vital insight into the key areas that the council may be susceptible to fraud and corruption and who to report concerns to. There are two corporate, mandatory, e-learning course currently available:

- **For all employees** - Understanding Fraud: Identify and Prevent Workplace Fraud
- **For all line managers** - Anti Bribery - The Basics and Fraud: Failure to Prevent

Information is regularly reported on the completion of mandatory training and this is monitored and addressed within the relevant areas.

| Audit Area | Proposed Scope/Audit Work | Proposed Timing |
|--|---|-----------------|
| Core Assurances & Cross Cutting | | |
| Governance | | |
| General Governance Work | To include co-ordination of Annual Governance Statement and production of Audit Committee / ELT reports. | Ongoing |
| Assurance Work | | |
| General Assurance Work | Advice and Consultancy, Audit Plan Management including developing the use of data analytics. Follow up of recommendations and Counter Fraud Support. | Ongoing |
| Grant reviews | Grants arising during the year that require audit review / sign off. | As need arises |
| Compliance & Risk Work | | |
| Joint Counter-Fraud & Investigations | Internal Audit and Counter-Fraud & Investigations collaboration. | Ongoing |
| CIPFA FM Code | To provide assurance on the progress of the CIPFA Financial Management Review | Q1 |
| Contingency allowance and provision for assurance work on emerging risk | | As need arises |
| Resources | | |
| Key financial audits: | Ongoing compliance work for key financial areas as a risk- based rolling programme of work. | TBC |
| Budgetary Control | At directorate level, incorporating budget management and forecasting and to include manual and off-system workarounds. | TBC |
| Housing Benefits | Review of process to include focus on eligibility compliance. | TBC |
| Council Tax (Empty Property Charges) | To review process and administration of exemptions. | Q1 |
| Budget Management Follow Up | Follow Up Review of 25/26 audit to include emerging risk of large write offs. | Q2 |
| Contracts | Sample based Value for Money review | TBC |
| Complaints | Review post implementation of new system. | Q1-2 |
| Financial Assessments and Benefits | Process mapping and control framework | Q1-2 |
| People | | |
| Education | School audit programme (incorporating early years reviews and school health checks) | Ongoing |
| Starting Well | Outcomes from Ofsted report. Assurance taken from progress of recommendations. | TBC |
| High-Cost Placements (Learning Disabilities and Supported Living Placements / Payments) | Review of the processes including decision making and authorisation of placements / payment including the commissioning process in terms of procuring and cost of placements. | TBC |
| SEND - High Needs Blocks and EHCP Process | To review the process around Special Educational Needs and Disabilities as it relates to the High Needs Blocks and Education Health and Care Plan process. | TBC |
| Housing Allocations | Review of the Housing Allocations process and compliance | TBC |
| Temporary Accommodation Follow Up | Second follow up review of recommendation implementation post Finance review. | Q2 |
| Place | | |

| | | |
|---|--|------------|
| Private Sector Leasing (PSL) | Management request to provide assurance on control environment | TBC |
| Asset Management – Corporate Landlord | Responsibilities and management of the corporate buildings portfolio (condition surveys, compliance and works) | TBC |
| Highways | Risks arising from increasing insurance claims. | Q1-2 |
| Tree Maintenance | Increased risk based on recent insurance claim arising from a case where recommended work was not carried out. | TBC |
| Alternative Delivery Models (Governance) | Governance arrangements including Mercury Land Holdings and Queens Letting Management | TBC |
| Tenant Management Organisations (TMOs) – Petra Follow Up | Follow Up Review | Q1 |
| Housing Repairs | To evaluate whether the Housing Repairs Contract delivers timely, quality repairs and to identify operational and financial impacts from delays or defective work. | TBC |
| Social Housing Regulation Act 2023 | To review compliance with the Social Housing Regulation Act 2023 and Awaab’s Law by assessing how promptly and effectively serious hazards are addressed. | TBC |
| Voids | To include both PSL and General Stock. | TBC |
| Total Audit Plan (Days) | | 650 |



AUDIT COMMITTEE 30 06 2026

Subject Heading:

Draft Annual Governance Statement
2025/26

ELT Lead:

Kathy Freeman, Strategic Director
Resources

Report Author and contact details:

Maria Denton
Head of Assurance.
Tel: 01708 432610
E-mail: maria.denton@havering.gov.uk

Policy context:

This report presents the 2025/26 Draft
Annual Governance Statement to note
and for comment.

Financial summary:

There are no financial implications arising
directly from noting and commenting on
the Annual Governance Statement.
However implementation of the planned
actions set out in the AGS may have
financial implications. The expectation is
that these will be contained within existing
resources or raised through the
appropriate channels where this is not
possible.

The subject matter of this report deals with the following Council Objectives

| | |
|---------------------------|-----|
| People making Havering | [X] |
| Places making Havering | [X] |
| Resources making Havering | [X] |

SUMMARY

This report provides the background for the requirement to produce an Annual Governance Statement (AGS).

The report will update the Committee on progress against the significant governance issues monitored during 2025/26, the status of these issues and any new issues arising for monitoring during 2026/27.

RECOMMENDATIONS

To note the contents of and comment on the 2025/26 Annual Governance Statement, attached as Appendix 1.

REPORT DETAIL

1. The Accounts and Audit Regulations (England) 2015 require the Council to conduct at least annually a review of the effectiveness of its system of internal control and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control.
2. The Annual Governance Statement (AGS) is prepared in accordance with the requirements of 'Delivering Good Governance in Local Government: Framework' (CIPFA/SOLACE, 2016).
3. The Council must review its systems of internal control and governance annually and assure itself that its internal control environment is effective. The assurance framework sets out the sources of assurance that are relied upon on to enable preparation of the Annual Governance Statement. These include the work of the internal auditors and of directors and managers within the Council who have responsibility for the development and maintenance of the internal control environment, and the comments made by the external auditors and other review agencies and inspectorates. The Head of Assurance opinion, set out in the internal audit annual report, forms a key element of the review, as does the Council's work on risk and performance management.

Head of Assurance Opinion – Year-on-Year Position

The Head of Audit Opinion for 2024/25 concluded that, while a generally a sound system of internal control was in place, only Limited Assurance could be provided. This reflected significant issues identified late in the year,

including suspected fraudulent activity in areas of the Council, together with a separate, significant control failure within the Temporary Accommodation Service, highlighting weaknesses in budget management, inconsistent application of financial controls, and insufficient management oversight across some service areas. In contrast, based on audit work undertaken during 2025/26, the Head of Assurance is able to provide Reasonable Assurance that the Council maintains a generally sound system of internal control. While some areas of limited assurance remain (including Community Leasing, Garage Allocations, Procurement Processes, and Tenant Management Organisations), these are isolated to specific service areas and do not indicate systemic control weaknesses. Management actions have been agreed, and in many cases already implemented, to address identified risks, with progress subject to Audit Committee oversight. Overall, this represents an improved assurance position compared to the previous year, with no significant thematic concerns emerging during 2025/26 that impact the Council's overall control environment.

4. The AGS covers all significant corporate systems, process and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:
 - the Council's policies are implemented in practice;
 - high quality services are delivered efficiently and effectively;
 - the Council's values and ethical standards are met;
 - laws and regulations are complied with;
 - required processes are adhered to;
 - financial statements and other published performance information are accurate and reliable;
 - human, financial, environmental and other resources are managed efficiently and effectively.

5. The AGS is required to disclose any issues that the Council consider to be significant governance issues. The four significant governance issues identified in the 2025/26 Annual Governance Statement are:
 - Delivery of a balanced budget 2026/27
 - Procurement: Continuing to strengthen the governance arrangements for procuring goods and services may be compounded by resourcing issues, effective link in with commissioning, and changes to the scheme of delegation and new regulations during 2024.
 - Inadequate judgement outcome of Starting Well's Social Care Department following Ofsted's Inspection of Local Authority Children's Services (ILACS) in December 2023.
 - A number of control failures were identified towards the end of 2024/25 across three service areas. Reviews undertaken of these incidences have highlighted a combination of inconsistent application of the financial framework and poor management oversight in a limited number of areas. These issues led to financial inefficiencies, potentially resulting

in a misallocation of resources, which may have impacted on service delivery within the areas affected, ultimately resulting in financial loss to the Council. In all incidences, both the first (service delivery and day-to-day management of risks) and second (support, advisory and monitoring responsibilities) line of defence were ineffective.

6. Approval of the Annual Governance Statement should be at a corporate level and should be confirmed by the most senior officer (CE) and member (Leader) signing the statement on behalf of the Council. The Audit Committee is required as part of its role to consider any corporate governance related issues that need to be referred to the Governance Committee for review.
7. The Annual Governance Statement is subject to audit alongside the Statement of Accounts. The auditors do not give an opinion on the statement as such, but consider whether it reflects their understanding of the Council's governance arrangements obtained through all aspects of their work. They also form a view as to whether the statement adequately discloses any significant governance issues.

The Draft AGS for 2025/26 is attached as appendix 1.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from commenting on/agreeing the Annual Governance Statement. However, implementation of the planned actions set out in the AGS may have financial implications. The expectation is that these will be contained within existing resources. Where this is not the case issues will be raised through the appropriate channels.

Failure to produce a robust AGS could result in adverse comments from the Council's External Auditors.

Legal implications and risks:

The Authority is statutorily obliged to conduct a review into the effectiveness of its systems of internal control prepared in accordance with proper practices and to prepare an Annual Governance Statement, which must be approved by the relevant committee (Regulation 6 Accounts and Audit Regulations 2015). Approval of the Annual Governance Statement (subject to any comments on the draft) complies with that requirement.

Climate Change implications and risks:

None arising directly from this report. Risks around this are reflected in the Strategic Risk Register and incorporated into the scope of audits where relevant.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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Havering Annual Governance Statement 2025/26

ANNUAL GOVERNANCE STATEMENT 2025/26

This statement, from the Leader and Chief Executive, provides reasonable assurance to all stakeholders, that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

The Annual Governance Statement is co-ordinated within the Assurance Service and the production and progress of the statement is monitored by the Executive Leadership Team (ELT).

Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 Edition. This statement outlines how the London Borough of Havering has complied with these principles and meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, requiring all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework, available on the Havering website and provided in the link below, has been in place at the London Borough of Havering for the year ended 31 March 2025 and up to the date of approval of the statement of accounts. This framework is due for review, and this will take place in 2026. www.havering.gov.uk/code_of_governance

Review of governance effectiveness

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

Constitution

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are recommended by the Governance Committee for decision by Full Council.

A cross-party constitutional working group (including officers) is currently up and running and is systematically reviewing various sections of the constitution to ensure it is fit for purpose. Amendments to the scheme of delegations and main constitutional articles were presented to governance committee in February 2025 and thereafter approved by Full Council in March 2025.

The Constitution Working Party reviews the Constitution and includes representation from each political group in its membership. The lead officer for the working party is the Council's monitoring officer.

In line with the Governance Committee recommendations, revisions to the Constitution were approved by Council in March 2026 as outlined within the Council agenda paper linked below.

[Agenda item - RECOMMENDATIONS AND REPORTS | London Borough of Havering](#)

- i. Changes to the Contract Procedure rules to conform with the requirements of the Procurement Act 2025 and include:
 - a. removal of unnecessary restrictions on how contracts are procured, while still meeting key requirements like transparency, proper governance, and maximising public value;
 - b. alignment with the latest rules and opportunities introduced by recent legislation;
 - c. elimination of rules based on outdated laws;
 - d. language that's easier to understand;
 - e. provision of clear steps for officers to follow when procuring different types of contracts;
 - f. clarification of governance and authorisation requirements.

The Access to Information Procedure Rules had been reordered for clarity

- iii. Revisions to the arrangements for dealing with allegations that a member has failed to comply with the Members' code of conduct, to include a new viability stage into the Member Complaints procedure.
- iv. An outdated management structure chart has been removed and reference to Part 7 or the structure chart itself was removed from the main body of the Constitution; together with out-of-date reference to management groups.
- v. The Policy and Strategy Development Framework and Guidance was updated.

Executive Leadership (ELT and ELG)

ELT is Executive Leadership Team and members are the CE, Strategic Directors & Directors.

ELG is Executive Leadership Group, and members are ELT and Assistant Directors / Business Partners.

During 2025/26 ELT meetings generally took place weekly, running on a rolling basis by theme (People, Place, Resources & Performance). The Themed Board for each theme then follows two weeks after the ELT meeting. ELG meetings happened every 6 weeks.

Governance Committee

The Council's Governance Committee, attended by the Leader of the Council and most other Group Leaders, is charged with overseeing the organisation's governance arrangements including the review of the Constitution and the Code of Conduct for Members. The Governance Committee oversees the Council's complaints process.

Audit Committee

The Audit Committee is responsible for monitoring the adequacy and effectiveness of internal audit, the risk management environment, fraud and corruption arrangements and the provision of the external audit service. They receive regular reports in line with this remit and agree the annual audit plan, draft Annual Governance Statement and revisions to related policies. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required. Approval of the annual Statement of Accounts also falls under the remit of the Audit Committee.

Overview and Scrutiny

The statutory Overview and Scrutiny function reviews and challenges decisions made by the Executive and other bodies e.g. National Health Service organisations and the Police to assist in the development of policy.

An overarching Board undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued.

The Scrutiny functions advisor is the Insight, Policy and Strategy post-holder who attends and supports the meetings along with a democratic officer.

The Overview and Scrutiny Board and its sub-committees have the opportunity to consider a wide range of decisions and information in line with their individual Terms of Reference, including but not limited to performance information within their area of responsibility. Key areas of focus that inform the work programme is the Council's Statutory Forward Plan and given the Council's additional financial support the Ministerially required Improvement and Transformation Plan, agreed by full Council and scrutinised by the Scrutiny Board prior to its submission. This is in line with the requirements of a well-run Council.

The Scrutiny Board requested training for all Scrutiny Members, Cabinet Members, Executive Leadership Team and the Executive Leadership Group. These were commissioned and delivered by an independent trainer in October 2025. As part of this, comments and views were sought to inform the future Protocol that will help future working relationships.

The training was seen as an enabler of effective scrutiny by raising awareness and providing opportunity to explore how scrutiny works and role requirements. This is an unusual initiative amongst Local Authorities and should be considered a very positive indicator of the Board's work and profile.

The training sessions provided a valuable opportunity to identify actions to strengthen the effectiveness of scrutiny.

At the end of each year, the last meeting of the Board undertakes a review of the scrutiny work it has undertaken, against the Centre for Governance and Scrutiny Annual Report and identifies recommendations to further strengthen the effectiveness of Scrutiny.

At the May 2025 cabinet meeting the Chairs of Scrutiny attended and presented the following improvement recommendations arising from the 2024/2025 Annual Review:

1. The relevant Cabinet Member should be required to attend each meeting of the Board or Sub-Committees where there is an item relevant to their portfolios. .
2. All Cabinet responses to scrutiny recommendations or comments should be included as an agenda item at the next scrutiny meeting. .
3. Comments and recommendations to Cabinet should be presented at the Cabinet meeting by the Chairman and Vice-Chair of the Board or relevant Sub-Committee. .
4. Cabinet responses to scrutiny comments on called-in decisions should be circulated to all members of the Overview and Scrutiny Board as well as other Members supporting the call-in. .
5. Cabinet supports the Board's request for scrutiny reports to be received two weeks ahead of publication as this will facilitate earlier pre-meets and general consideration of the material. .
6. That Cabinet commends the Overview and Scrutiny Board reviewing the work it undertook over the past year, and its ongoing efforts to make the scrutiny process as effective as possible for residents.
7. That a protocol be developed for working practices between Cabinet and the Overview and Scrutiny Board including, but not limited to, the issues outlined in the recommendations above.

This exercise was repeated at the 18th of March 2026 Overview and scrutiny Board meeting and the recommendations from that will go to a future Cabinet Meeting post the local elections.

A draft working Protocol will go to the future Cabinet and Scrutiny Members for comment and agreement. Essentially this will set out the working relationship expectations between them from the beginning of the four-year term.

Local Pension Board

The role of the Local Pension Board is to assist Havering as the Administering Authority to ensure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

This established Board holds quarterly meetings and an annual general meeting. During 2025/26 the Board met on 8 April 2025, 15 July 2025, 14 October 2025 and 16 December 2025. An Annual General Meeting is yet to be arranged.

During 2025/26 the Board continued its oversight of the administration and governance of the Fund, including reviewing Key Performance Indicators, monitoring the Fund's risk register, and receiving updates on projects such as McCloud and annual benefit statements. Board members also undertook relevant training as part of their ongoing development.

The Pension Fund's Governance Compliance statement also incorporates the Local Pension Board, which is reviewed annually and reports the extent of compliance against a set of principles, this was presented to the Pensions Committee on the 11th of November 2025.

Internal Audit (Assurance Services)

Internal Audit is an independent assurance function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risk. In doing so Internal Audit supports the Chief Finance Officer in their statutory role as Section 151 Officer. Annually the Head of Audit and Assurance Opinion and annual report provide assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

Head of Assurance Opinion 2025/26

In accordance with the Global Internal Audit Standards (GIAS) the Head of Internal Audit (Head of Audit and Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed by Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that is focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The audit plan is fluid and amended during the year to reflect changes within the Council's risk profile.

The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.

Outlined below are the definitions of the assurance levels provided by Internal Audit:

Key to Assurance Levels

- **Reasonable Assurance** - The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Limited Assurance** - There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

Last year's (2024/25) annual opinion concluded that, while there was generally a sound system of internal control across the Council, only limited assurance could be provided. This reflected instances of suspected fraudulent activity identified in two areas of the Council in the final quarter of the year, alongside a separate, significant control failure within the Temporary Accommodation service. These issues highlighted weaknesses in budget management and the effectiveness of financial oversight across parts of the Council. In particular, they pointed to inconsistencies in the application of financial controls and a lack of robust management scrutiny of expenditure. As the incidents occurred across separate service areas, this raised broader concerns regarding the consistency of budget monitoring arrangements and increased the risk that unnecessary or unauthorised expenditure could occur.

A Significant Governance Issue was also raised in the 2024/25 Annual Governance Statement to address the budget management and management oversight issues, to further ensure these areas were monitored and actioned throughout the year, with the oversight of ELT.

It should be noted that considerable work has been undertaken by Internal Audit in these areas, which has meant priorities in the Annual Plan presented to the Audit Committee on 25th April 2025 have changed throughout the year. The previous Audit Committee has been kept updated with all these changes through the course of the year.

The internal audit programme of work for 2025/26 identified the following areas where only limited assurance could be provided on the control environment (excluding Budget Management and Temporary Accommodation – Additional Overspend, as these relate to issues identified towards the end of 2024/25) :

- Community Leasing
- Garage Allocations
- Procurement Processes Follow Up
- Tenant Management Organisations

As these issues were identified in specific and contained areas of the Council's operations, they do not give rise to thematic concerns about the overall control environment in place and do not significantly affect the overall opinion provided in this report. Management actions have been agreed, and in many cases already implemented, to address the high-risk findings, with progress monitored by the Audit Committee. Therefore, based on the work undertaken and finalised reports at the end of the 2025/26 financial year, **reasonable assurance** could be provided that there is generally a sound system of internal control across the Council.

Risk Management

The strategic risks to the achievement of the Authority's objectives are captured within a strategic risk register which is overseen by ELT and progress reported to the Audit Committee. Work has continued during 2025/26 to review risk registers and to ensure that the strategic risk register continues to reflect the risks facing the Council.

The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council's systems and procedures and will be approved by the Audit Committee.

External Inspectors

The Council is subject to review and appraisal by several external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently Ernst and Young (EY), is reported to the Audit Committee.

The council is required to publish its draft statement of Accounts for 2025/26 by 30 June 2026. The audit opinion for the 2024/25 accounts was received on 25 February 2026. The Council and Group financial statements for 2024/25 received a disclaimed opinion; this was as a direct result of the Government's statutory backstop dates for local audit. No governance issues have been raised.

Information Governance and Data Protection

The Council is required to comply with the UK General Data Protection Regulation (UK GDPR), the Data Protection Act 2018, and the Freedom of Information Act 2000.

During the financial year 2025/26, all personal data breaches that met the statutory reporting threshold were notified to the Information Commissioner's Office (ICO) in a timely manner. No enforcement action or financial penalties were imposed in relation to weak controls.

Between 1 April 2025 and 31 January 2026:

- 118 personal data breaches were reported to the Council; and
- 2 breaches were reported to the ICO.

In all cases reported to the ICO, no further regulatory action is being taken, although recommendations were provided to support continuous improvement.

While a number of data breaches did occur, staff followed established reporting and escalation procedures, enabling appropriate remedial action to be taken and controls to be implemented promptly to mitigate any actual or potential impact.

The Council continues to strengthen and refine its information governance framework. Lessons learned from incidents and near misses are used to improve processes, controls and staff guidance, ensuring the protection of Individual Information Rights (IIR) and the lawful, fair and transparent processing of personal data. Ongoing improvements are also being made to processes for handling Freedom of Information Act requests to support compliance and timely disclosure.

Staff awareness of data protection, information governance and cyber security responsibilities has continued to be a focus during the year through mandatory learning and development materials. An average of 75% of staff have completed all required modules. The Council's target completion rate is 95%, with a 5% tolerance to reflect changes in workforce numbers. Compliance with mandatory training is monitored through the Information Governance Board, and a renewed emphasis on completion will be reinforced through the next Performance Development Review (PDR) cycle.

Complaints

Following the complaints service restructure implemented in December 2023, and as reported in the Annual Governance Statement for 2024/25, and further modifications to the team structure were made during summer 2024. These changes resulted in the Authority entering the 2025/26 financial year operating under an interim, modified structure.

During 2025/26, this interim structure has delivered notable improvements in complaints handling performance across Corporate and Housing Services, including improved response times, consistency, and quality of responses provided to residents. In addition, a new process and case-tracking system has been introduced to manage Members' enquiries, resulting in improved oversight and an increase in timely and effective responses to Councillors.

A detailed review of Housing Revenue Account Services complaints handling has also been undertaken during the year, in preparation for further service improvements planned for 2026/27. Alongside this, the Authority has recognised that further improvement is required within Social Care complaints handling. A dedicated improvement project was therefore initiated during 2025/26 and will continue into 2026/27, with the objective of aligning the quality, consistency and timeliness of Social Care complaints handling with that achieved within Corporate and Housing Services.

Key Areas of Improvement and Planned Development

1. Team Structure

The interim team structure has remained in place throughout 2025/26 and has provided valuable insight into capacity requirements and the need for specialist knowledge within service areas. Targeted training has been delivered, including training on Ombudsman complaint handling codes and service-specific knowledge. This programme of training will continue into the 2026/27 financial year.

2. Policy Framework

In response to the interim team structure and the introduction of the Local Government and Social Care Ombudsman (LGSCO) Complaint Handling Code, alongside updates to the Housing Ombudsman Complaint Handling Code and requirements of the Regulator of Social Housing, the complaints policy originally approved in December 2023 was reviewed. An updated Complaints Policy was implemented in October 2025 to ensure continued compliance with regulatory and statutory requirements.

3. Performance Reporting

Monthly complaints performance reports are provided to the Executive Leadership Team, with additional service-level reports produced as required. During 2025, Power BI was introduced as the Authority's preferred reporting platform to improve access to complaints data for services and senior management. Data quality and system issues delayed full

implementation; these matters will be addressed during 2026 to ensure reliable, accessible data that can be used to support internal monitoring and published reporting.

4. **Service Improvements**
While the interim structure has delivered significant improvements, further process refinements remain necessary. During 2025/26, the service has focused on improving the timeliness and quality of responses to residents and embedding opportunities to capture and communicate learning from complaints. Further enhancement of these arrangements is planned for 2026/27.
5. **Social Care Complaints**
Social Care complaints handling has been identified as a key area requiring improvement. A focused review is underway to streamline processes while maintaining compliance with statutory guidance. This work commenced in 2025/26 and will continue into 2026/27.
6. **Learning from Complaints**
Arrangements for capturing and applying learning from complaints are being strengthened. A new Complaints Board has been established in December 2025, bringing together the Complaints Team and senior officers from service areas. The Board is developing a more collaborative approach to quality assurance, learning, and the delivery of service improvements for residents.
7. **Tenant Satisfaction Measures**
The Authority has continued to review its approach to Tenant Satisfaction Measures in line with Regulator of Social Housing requirements. Due to competing priorities, the introduction of customer satisfaction surveys has not yet been completed; this work is scheduled for implementation during 2026/27 and will be aligned with wider learning from complaints activity.

Overall, the service dedicated the first two quarters of 2025/26 to rebalancing capacity, improving response quality, and stabilising performance following the restructure. The second half of the year shifted focus towards improvement projects, alignment with legislative and regulatory requirements, and the introduction of new ways of working to provide a more consistent and effective complaints service.

Ombudsman

All Council services, with the exception of Housing (excluding Housing Demand), fall within the jurisdiction of the Local Government and Social Care Ombudsman (LGSCO). All Housing Revenue Account services fall within the remit of the Housing Ombudsman (HO).

During the 2025/26 financial year, our records show a total of 68 Ombudsman decisions were issued by the LGSCO and the HO.

- **Adult Social Care Services**
Four cases were determined by the LGSCO. All cases were closed following initial enquiries or were deemed premature or not upheld following investigation.
- **Children's Social Care Services (including Education and SEND)**
Eight cases were determined by the LGSCO. Four cases were closed following initial enquiries or were deemed premature or not upheld. Four cases were upheld, with the LGSCO identifying service failure.
- **Other Council Services** (including Parking, Homelessness and the Housing Register)
Fifty-two cases were determined by the LGSCO. Of these, fifty cases were closed following initial enquiries or were deemed premature or not upheld. Two cases were upheld due to identified service failure.
- **Housing Ombudsman Cases** (including Repairs, Resident Services and Planned Maintenance)

Three cases were determined by the Housing Ombudsman. All three cases were closed following initial enquiries or were deemed premature or not upheld.

The Authority continues to monitor Ombudsman findings closely and ensure that learning is captured and used to inform service and governance improvements.

Modern Slavery

Councils have a statutory key role to play in tackling modern slavery including the duty to notify the Home Office of any individual encountered who we believe is a suspected victim of modern slavery or human trafficking. Part of the commitment to the modern slavery Act 2015 requires an annual transparency statement is to be written by every company with an annual turnover of £36m or more- which includes us. The statement should set out what it has done to ensure that slavery and human trafficking is not taking place in the Council or its supply chain. In summary the Councils role can be separated into four distinct areas:

1. identification and referral of victims
2. supporting victims – this can be through safeguarding children and adults with care and support needs and through housing/ homelessness services
3. community safety services and disruption activities
4. ensuring that the supply chains councils procure from are free from modern slavery

The 2025/26 annual statement was published in July 2025 following approval at Governance board. The statement outlines the risks identified in relation to modern slavery and planned steps to ensure the importance of Modern Slavery is being considered more widely across the whole organisation. This was our third annual transparency statement and work is already underway reviewing and updating this for 2026/27, which will be published in line with legal requirements of within 6 months of our financial year-end.

Progress of significant governance issues raised in the 2024/25 AGS

The issues identified in the 2024/25 Annual Governance Statement have been monitored by management and the Executive Leadership Team (ELT) throughout the year with review periodically to challenge actions and progress. Whilst progress has been made during 2025/26 in each of the areas identified in the 2024/25 AGS, and the decision made to close two issues, all other issues were considered to have remained significant enough to be carried forward into the action plan for 2026/27.

The issues closed as at the end of 2025/26 and actions taken to address these are included below:

1. Delivery of a balanced budget 2025/26: The Council was only able to set a balanced budget for 25/26 with exceptional financial support, through the form of a capitalisation direction. MHCLG approved a capitalisation direction of a maximum of £88m, which was on a worst-case basis. On a mid-case basis, the Council will need to spend an additional £70.2m in addition to the net budget requirement of £205m. This represents borrowing of c35% on our annual revenue expenditure. The position includes over £10m of savings agreed for 25/26. Heads of service, assistant directors and directors will be asked to sign off a budget assurance statement, confirming they will do everything in their control to manage their budgets within the existing financial envelope allocated to them. It has been made that budgets will be allocated within the mid-case scenario, so not to increase the Council's structural budget deficit. Managers will also be asked to develop their commissioning/procurement pipeline on the Corporate Contracts register, seeking better value in re-procurement exercises.

The Council's unit costs have increased compared to where we were in previous years to bring our costs more in line with other boroughs, however, compared to the national average, Havering's unit costs are still lower.

More work is needed to embed the financial management culture throughout the Council. Managers will be asked to continually deep dive into overspending areas and Finance recovery boards will continue to hold directors to account on delivery of savings, actions and actions being taken to reduce their expenditure and increase income.

Actions taken during 2025/26

- Continue to lobby the Government and proactively contribute to the forthcoming Local Government Finance reforms
- Recruitment panels in place to control all new staff placements
- Continuation of recovery boards to closely monitor and control all council spend
- Star Chamber process to systematically review all services to identify efficiencies and savings moving forward
- Robust procurement to maximise benefit of new and existing contracts
- Delivery of the Capital programme to create longer term Housing solutions to mitigate the Councils temporary accommodation pressures
- Joint work with Health to achieve common aims and priorities whilst ensuring a fair distribution of funding
- Robust baselining of all budgets including metrics
- Accurate monitoring of the cost drivers linked to financial pressures to fully understand emerging budget pressures
- Action plans set up where necessary to ensure delivery of the savings included in the 25/26 budget
- Robust planning approach to future years testing all MTFs assumptions and enabling timely service options to generate savings and efficiencies
- Monthly reporting of the revenue budget position to Councillors
- Quarterly monitoring reports to cabinet on capital and revenue
- Debt Board to operate to review debt collection methods and processes

- Review of all reserves and balances to both test adequacy but also to allow any surplus funds to be released to support the overall revenue position
- Budget sign offs of 2025/26 budgets by managers to ensure full ownership of both monitoring and savings delivery
- Savings delivery to be reviewed through the year and reported to Overview and Scrutiny

Status as of 31st March 2026 – Issue Closed

Actions listed above all carried out through 2025/26. As a result, the outturn position was a £37.7m overspend which will be funded by a capitalisation direction. This is an improvement of £32.5m on the original mid case budget and reflects all the various spending controls which were put in place

Lead Officer: Strategic Director, Resources

2. Council's ability to successfully end the existing onsource IT shared service with LBN by 31st December 2025. This includes both the required technical disaggregation and return of staff.

Actions taken during 2025/26

- Continued delivery of Havering technology roadmap – progress monitored via continued Havering specific and joint split programme governance
- People change activities for staff returning to the borough
- All staff and IT Services have been returned to Havering
- Digital Service created and staffed
- Outstanding tasks are being handled as part of BAU activities
- Havering now has a fully Sovereign IT and Digital Service

Status as of 31st March 2026 – Sufficient actions have been taken to close this issue.

Lead Officer: Strategic Director, Resources

Significant governance issues identified during 2025/26 (to be addressed in 2026/27)

| Delivery of a Balanced Budget 2026/27 |
|--|
| <p data-bbox="162 371 574 405">Actions taken during 2025/26</p> <ul data-bbox="201 412 1449 1131" style="list-style-type: none"> • Comprehensive budget process undertaken analysing potential service costs for 2026/27 based on current user numbers, inflationary pressures, complexity of cases and market conditions • Continued lobbying of Government to give Havering a fairer deal through the fair funding review. • Outcome of fair funding fully built into revised MTFs model • £10m of savings identified for 2026/27 to help close the budget gap • Remaining budget gap at budget setting was £77m on a worst case scenario and £65.9m based on a midcase scenario • Application made for Exceptional Financial support which was provisionally agreed at £77m by MHCLG in February 2026 • Budgets will be allocated within the mid-case scenario, so not to increase the Council's structural budget deficit. Managers will also be asked to develop their commissioning/procurement pipeline on the Corporate Contracts register, seeking better value in re-procurement exercises. • The Council's unit costs have increased again in 2025/26, and services are asked to make more use of comparative information with other boroughs to identify areas where efficiencies can be made • The 2025/26 outturn position is an improvement from the assumptions used to set the 2026/27 budget. As such all directorates to review their base position for 2026/27 in order to recast the level of growth required for 2026/27. |
| <p data-bbox="162 1164 555 1198">Planned actions for 2026/27</p> <ul data-bbox="201 1211 1449 2040" style="list-style-type: none"> • Base budget review to take account of improved 2025/26 outturn position • Close monitoring to ensure delivery of savings in 2026/27 • Identification and actioning of further savings initiatives and one-off costs associated with those proposals • All spending controls to remain in place to contain costs including • Recruitment panels in place to control all new staff placements • Continuation of recovery boards to closely monitor and control all council spend • Star Chamber process to systematically review all services to identify efficiencies and savings moving forward • Robust procurement to maximise benefit of new and existing contracts • Delivery of the Capital programme to create longer term Housing solutions to mitigate the Councils temporary accommodation pressures • Joint work with Health to achieve common aims and priorities whilst ensuring a fair distribution of funding • Robust baselining of all budgets including metrics • Accurate monitoring of the cost drivers linked to financial pressures to fully understand emerging budget pressures • Work to be undertaken to fully understand the councils' cost drivers including reviewing deprivation factors, population data in order to build up a model to understand what is driving Council spend. • Build a medium-term view of the factors which ultimately drive costs and develop initiatives to tackle those underlying factors including improving school attainment, tackling domestic abuse, providing whole lifecycle support for our users and prevention work to help people in danger of becoming homeless |

- Continued dialogue with MHCLG over the Councils medium term financial position and continued reliance on EFS to balance the budget

Lead Officer: Strategic Director, Resources

2. Procurement: Continuing to strengthen the governance arrangements for procuring goods and services may be compounded by resourcing issues, effective link in with commissioning, and changes to the scheme of delegation and new regulations during 2024.

Actions taken during 2025/26

- Centralisation of social value will be adopted underpinned by the adoption of the new social value policy by Cabinet in December 2025 to enable clear understanding of the commitments made, the ability to track and record outputs and finally to enable accurate reporting.
- Implementation of a new e-procurement tool that will look end to end in the procurement and contract management cycle to enhance visibility in the process and governance.
- Complete the re-draft of the Contract Procedure Rules (CPR's) to include new legislative requirements under the Health and Care Act 2022 and the Procurement Act 2023. This action was completed in March 2026 with the adoption of the revised CPR's by full Council.

Planned actions for 2026/27

- Continuation of embedding Social Value and working with strategic partners to develop reporting and monitoring capability organisation wide
- Continue to develop the e-procurement tool to become a whole lifecycle support
- Develop and Implement procurement training for the organisation

Lead Officer: Strategic Director, Resources

3. Inadequate judgement outcome of Starting Well's Social Care Department following Ofsted's Inspection of Local Authority Children's Services (ILACS) in December 2023.

Resulted in an ongoing Children's Services Improvement Plan supported by oversight by the DfE.

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| <p>A full reinspection is likely to be in spring 2027 following ongoing monitoring visits by Ofsted and the DfE.</p> <p>Ofsted monitoring visit reports are published following each monitoring visit. An Area SEND Inspection is also due alongside the ILACS framework.</p> |
| <p>Actions taken during 2025/26</p> <ul style="list-style-type: none"> • Completion of Phase Two of the Starting Well reorganisation to deliver improvements within the Early help services by end of May 2025 • Following the review of Case recording System in 2024-2025, corresponding remedial work by December 2025 • Development of AI apps to support managers and staff to improve • Improvement programme in line with improvement plan delivered with overview from the practice improvement board and practice Improvement oversight board • Further corporate investment of £7.7m • Improvement actions taken in line with the Improvement plan and monitored via the bi-monthly Practice Improvement Board (PIB) chaired by the DfE allocated advisor and the quarterly Practice Improvement Oversight Board with cross-party political attendance chaired by Havering Council's Chief Exec. |
| <p>Planned actions for 2026/27</p> <ul style="list-style-type: none"> • Roll out of the Family First reforms including development of Family First team, Family hubs, and multi-agency child protection teams and implementation of family group decision making model into the model of practice • Roll out of the SEND reforms including the development and embedding of the SEND assurance plan • Responding to any actions and recommendations from the ofsted monitoring visits and DfE reviews • Delivery of the improvement plan actions ready for the full inspection in the spring of 2027. |
| <p>Lead Officer: Director of Starting Well</p> |

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|---|
| <p>4. A number of control failures were identified towards the end of 2024/25 across three service areas. Reviews undertaken of these incidences have highlighted a combination of inconsistent application of the financial framework and poor management oversight in a limited number of areas. These issues led to financial inefficiencies, potentially resulting in a misallocation of resources, which may have impacted on service delivery within the areas affected, ultimately resulting in financial loss to the Council. In all incidences, both the first (service delivery and day-to-day management of risks) and second (support, advisory and monitoring responsibilities) line of defence were ineffective.</p> |
| <p>Actions taken during 2025/26</p> |

- Follow up reports and progress provided to Audit Committee in June 2025 and in early 2026
- Additional reviews added to the Internal Audit Plan 2025/26 and further for consideration in 2026/27
- Finance Restructure launched

Planned actions for 2026/27

- Internal audit reviews added to 2026/27 plan including Follow Up reviews for previous limited assurance reports.
- Roll out of Finance Training for Budget Holders to create an organisation base line for financial literacy.
- New Service Level Agreement with clear outlined accountabilities between Finance and Budget Holders, driving clear ownership and accountability.
- Review forecast completion processes including requiring Budget holders to input forecasts and promote forecasts. Strengthening accountability and ownership. Reporting on the level of completion periodically to ELT Resources as part of budget monitoring.
- Work with HR to include Finance related questions in recruitment for all jobs that require Budget Management
- Work with HR to introduce check ins on financial tasks being completed and provide PDR advice for inclusion for Budget Holders.
- The above actions should deliver a culture of ownership and accountability, embed practices and empower Budget holders.
- Ensuring a culture where revised processes to improve control environment are embedded and applied across the Council.

Lead Officer: Strategic Director, Resources

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year. We did not find any matters that needed addressing during our review other than those that were previously identified and on which action has been taken to address.

Signed:

Leader of the Council Date.....

Chief Executive Date.....

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