London Borough of Havering

Provisional Audit Plan

Year ended 31 March 2025

28 April 2025

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28 April 2025

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

Dear Audit Committee Members

Provisional Audit Plan – 2024/25

Attached is the provisional Audit Plan for the upcoming meeting of the Audit Committee. This report aims to provide the Audit Committee of the London Borough of Havering (the Council) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is 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 summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

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 Statement of Accounts prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will 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. We will also consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements if deemed necessary. 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 Statement of Accounts (see Appendix A).

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 at the next Audit Committee meeting on the 15 July 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson

For and on behalf of Ernst & Young LLP

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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.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/). 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.psaa.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 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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2024/25 audit strategy overview

Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited Statement of Accounts by local bodies reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- **Phase 1: Reset;** clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- **Phase 2: Recovery from Phase** 1; from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 Statement of Accounts is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- **Phase 3: Reform;** involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As proposed in our Audit Results Report presented to the Audit Committee on 30 January 2025, we issued our audit opinion on the Council's 2023/24 Statement of Accounts by the 28 February 2025, and that audit report was modified by way of a disclaimed audit opinion.

We have obtained assurance over some of the closing balances in 2023/24. However, we do not have assurance over all brought-forward balances in 2024/25. Consequently, we lack assurance over all in-year movements and some closing balances for 2024/25. Although we will continue to consider rebuilding assurance ahead of the 2024/25 backstop date (subject to timely guidance and resource capacity), we will not be able to obtain sufficient evidence to have reasonable assurance over all closing balances. We therefore expect to issue a disclaimer of opinion in 2024/25.

2024/25 audit strategy overview (cont'd)

Rebuild of assurance – current position

The National Audit Office issued Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05 on 10 September 2024, detailing the principle of returning to a state where auditors can issue audit opinions on local authority Statement of with sufficient audit evidence. This process will take several years to achieve. Restoring assurance will need local authorities and auditors to work together. We are waiting for guidance from the National Audit Office and Financial Reporting Council to ensure a consistent approach for restoring assurance for disclaimed periods. Until then, we are unable to commence the rebuilding work programme.

We will audit the 2024/25 closing balance sheet and in-year transactions, similar to our approach for 2023/24, as well as performing additional risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position for 2024/25 . Updates on rebuilding assurance for the historical position will be provided as guidance is issued and its implications for the Council are evaluated taking into consideration the outcome of our risk assessment procedures. As the Council's Statement of Accounts for 2021/22, 2022/23 and 2023/24 were subject to a disclaimer of opinion, it is highly probable that our risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position will conclude that an elevated risk of material misstatement is associated with the reserve balances, because of the way in which they accumulate over successive years.

Responsibilities of management and those charged with governance

The Council's Section 151 Officer is responsible for preparing the Statement of Accounts in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the Statement of Accounts are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Audit Committee has an essential role in ensuring that it has assurance over both the quality of the Statement of Accounts and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements, where deemed necessary.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their Statement of Accounts.

2024/25 audit strategy overview (cont'd)

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.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Council and Group Statement of Accounts: Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the Statement of Accounts 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. We have identified below two specific areas where management override could manifest itself.
Council and Group Statement of Accounts: Risk of incorrect capitalisation of revenue expenditure (including Revenue Expenditure Funded from Capital Under Statute)	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 Statement of Accounts, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Council and Group Statement of Accounts: Accounting adjustments made in the 'Movement in Reserves Statement	Fraud Risk	Change in risk focus	One further area where the risk due to fraud and error manifests is in respect of the accounting adjustments made in the Movement in Reserves Statement and in particular adjustments made for the Minimum Revenue Provision. Given the financial pressure the Council is under, these adjustments could be used to manipulate the closing General Fund position. The Council have secured a Capitalisation Direction in £88.0 million in 2025/26, which could put additional pressure on the Council to demonstrate financial improvements during 2024/25.

2024/25 audit strategy overview (cont'd)

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council and Group Statement of Accounts: Valuation of Investment Property	Significant risk	No change in risk or focus	Investment Property represents a significant balance in the Council and Group Statement of Accounts (2023/24: £102.69 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.
Group Statement of Accounts: The accounting treatment and valuation of Inventory held in the group subsidiaries.	Significant risk	Change in risk focus	The Group subsidiaries have material inventory (£32.6 million in 2023/24) held as a current asset in the Balance Sheet in the subsidiaries Statement of Accounts. The Group Statement of Accounts classifies this balance as a non-current asset within Property, Plant & Equipment. Given the difference in accounting treatment there is a risk that these balances maybe incorrectly accounted for in the Group Statement of Accounts. Should these assets be inventory in nature they should be measured at lower of cost and net realisable value which requires the use of assumptions, judgements and estimates regarding the expected returns from the project and total costs to complete the development. The variances between these assumptions and actual events could have a material impact on the ultimate net realisable value.
Group Statement of Accounts: Consolidation procedures in the Group Statement of Accounts	Significant risk	No change in risk or focus	The Council prepares Group Accounts to consolidate Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP. In 2020/21, we identified a number of misstatements with the intercompany elimination adjustments. In 2023/24 we prepared and sent group instructions to the subsidiary auditors. We did not receive all responses to these instructions and were therefore unable to obtain assurance that the level of errors identified in 2020/21 have been rectified and reduced in subsequent years. Given the nature and extent of the errors found in prior years, we consider this to be significant risk as the balances consolidated into the Group Accounts may be materially misstated. Management will also need 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 a group auditor during our audit.

2024/25 audit strategy overview (cont'd)

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council Statement of Accounts: IFRS 16 Implementation	Inherent risk	New risk	IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. Where the Council are the lessee, these will now be recognised on the Balance Sheet as a 'right of use' asset and a lease liability reflecting the obligation to make lease payments. Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have been had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts need to be updated annually based on prevailing indices.
Council Statement of Accounts: Valuation of land and buildings and Council dwellings	Inherent risk	No change in risk or focus	The valuation of land and buildings and Council dwellings represent significant balance in the Council's Statement of Accounts (2023/24: £1.30 billion). 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.
Council Statement of Accounts: Pension Liability valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its Statement of Accounts regarding its membership of the Local Government Pension Scheme. 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.

2024/25 audit strategy overview (cont'd)

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council Statement of Accounts: Accounting for the impairment of Receivables (Bad debt provision)	Inherent risk	No change in risk or focus	The bad debt provision is a material estimate in the Council's Statement of Accounts (£56.7 million in 2023/24). The estimate is made up of several separate complex calculations which requires Management to make a number of accounting judgements as to the recoverability of those debts. In 2023/24 we identified several immaterial misstatements and there therefore remains an inherent risk of misstatement over this balance.
Council and Group Statement of Accounts: Going Concern disclosure	Inherent Risk	Change in risk focus	The Council's updated Medium Term Financial Strategy, estimates a budget gap of £72.1 million in 2025/26 which rises to £183.4 million over the next four years. In February 2025, the Secretary of State approved a capitalisation direction of £88.0 million for the financial year 2025/26 following approved support of £32.5 million in 2024/25 and £18.1 million in 2023/24. Given the continuing financial support from the Secretary of State to enable the provision of core services, it is unlikely that the Council will be unable to continue operating as a going concern, but there is a risk that the Council and Group's Going Concern disclosure note does not adequately reflect the Council and Group's financial position and requirement for exceptional financial support.

We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.

2024/25 audit strategy overview (cont'd)

Group Materiality

Planning materiality

£7.53m

Materiality has been set at £7.53 million, which represents 1% of the Group's 2023/24 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 Statement of Accounts 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

£5.65m

Performance materiality has been set at £5.65 million, which represents 75% of materiality.

Audit differences

£0.38m

We will report all uncorrected misstatements relating to the primary statements (Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Cash Flow Statement, Housing Revenue Account and Collection Fund) greater than £0.38 million.

We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will be communicated to the extent that they merit the attention of the Audit Committee.

These areas include:

- Officer's remuneration and exit packages disclosures;
- related party transaction disclosures; and
- prior year figures (or comparatives).

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

2024/25 audit strategy overview (cont'd)

Council Materiality

Planning materiality

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Materiality has been set at £7.51 million, which represents 1% of the Council's 2023/24 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 external stakeholders on the Statement of Accounts 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.

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These areas include:

- Officer's remuneration and exit packages disclosures;
- related party transaction disclosures; and
- prior year figures (or comparatives).

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

2024/25 audit strategy overview (cont'd)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- our audit opinion on whether the Statement of Accounts give a true and fair view of the financial position as at 31 March 2025 and of the income and expenditure for the year then ended; and
- our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on the value for money arrangements in Section 3.

We also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider several key inputs:

- strategic, operational and financial risks relevant to the Statement of Accounts;
- developments in financial reporting and auditing standards;
- the quality of systems and processes;
- changes in the business and regulatory environment; and
- management's views on all the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant.

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this Audit Plan and will discuss any impact on the proposed scale fee with management.

2024/25 audit strategy overview (cont'd)

Audit scope (cont'd)

Effects of climate-related matters on Statement of Accounts

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current Statement of Accounts may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the Statement of Accounts and in assessing value-for-money arrangements.

We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

Audit scope and approach

We plan to adopt a substantive audit approach.

Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

The value for money planning and related risk assessment aims to collect enough evidence to document our evaluation of the Council's arrangements, allowing us to prepare a commentary based on three reporting criteria. This process includes identifying and reporting any significant weaknesses in those arrangements and making suitable recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- Financial sustainability – How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance – How the Council ensures that it makes informed decisions and properly manages its risks.
- 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.

Commentary on Value for Money arrangements will be included in the 2024/25 Auditor's Annual Report. This will need to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

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.

02 Audit risks

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.

Misstatements due to fraud or error*

What is the risk?

The Council and Group Statement of Accounts as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent Statement of Accounts by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks
- Understand the oversight given by those charged with governance of management's processes over fraud
- Discuss 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)
- Consider the effectiveness of management's controls designed to address the risk of fraud
- Determine an appropriate strategy to address those identified risks of fraud
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the Statement of Accounts
- Undertake procedures to identify significant unusual transactions
- Consider whether management bias was present in the key accounting estimates and judgments in the Statement of Accounts

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', and Accounting adjustments made in the 'Movement in Reserves Statement' are required.

Our response to significant risks (cont'd)

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.

Inappropriate capitalisation of revenue expenditure (including Revenue Expenditure Funded from Capital Under Statute)*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the Statement of Accounts is most likely to be achieved through:

- 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.

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 Statement of Accounts.

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What is the risk?

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.

For the Council and Group Statement of Accounts we have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

- Test Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Assess whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Test 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.
- Seek 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.

Our response to significant risks (cont'd)

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.

Accounting adjustments made in the 'Movement in Reserves Statement'*

Financial statement impact

We have identified specific risk of misstatement due to fraud and error that could affect the Income and Expenditure accounts.

We consider the risk applies to accounting adjustments made in the Movements in Reserves Statement for the Minimum Revenue Provision that could result in the General Fund balance being misstated.

What is the risk?

The Council is under financial pressure to achieve its revenue budget. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the Movement in Reserves Statement.

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the Minimum Revenue Provision.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reconciling entries for consistency to other audited accounts within the Statement of Accounts, for example our work on Property, Plant and Equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- Reviewing the Council's policy and application of the 'Minimum Revenue Provision' (MRP) and testing the accuracy of the adjustments made for MRP; and
- Using our data analytics tool to identify and test journal entries adjustments made in the movement in reserves statement.

Our response to significant risks (cont'd)

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.

Valuation of Investment Property

What is the risk?

Investment Property represents a significant balance in Council and Group Statement of Accounts (2023/24: £102.69 million).

Management is required to make material judgments and apply estimation to calculate the year-end balances recorded in the Balance Sheet.

What will we do?

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and results of their work.
- Sample test key asset information used by the valuer in performing their valuation (e.g. market rent)
- When needed, engage EY Real Estate as our internal specialist to review the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties valued using market information.
- Consider the annual cycle of valuations to ensure that investment properties have been valued annually as required by the Code.
- Test accounting entries have been correctly processed in the Statement of Accounts.

Financial statement impact

The value of Investment Property represents a significant balance in the Council's Statement of Accounts and is subject to valuation based on market information. Given potential impacts of market uncertainty, this may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties at 31 March 2025. This leads to a risk of material uncertainty in the valuations of Investment Property within the Council's Statement of Accounts.

Our response to significant risks (cont'd)

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.

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

Financial statement impact

Inventory balances are being held as a non-current asset in the Group Statement of Accounts but are held as a current asset in the subsidiary accounts and therefore these maybe incorrectly classified in the Group Statement of Accounts.

Inventories are measured at 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.

What is the risk?

The group subsidiaries have material inventory (£32.6 million in 2023/24) held as a current asset in the balance sheet in the subsidiaries Statement of Accounts. The Group Statement of Accounts records this balance as a non-current asset within Property, Plant & Equipment. Given the difference in accounting treatment there is a risk that these balances maybe incorrectly accounted for in the Group Statement of Accounts.

Should these assets be inventory in nature they should be measured at lower of cost and net realisable value which requires the use of assumptions, judgements and estimates regarding the expected returns from the project and total costs to complete the development. The variances between these assumptions and actual events could have a material impact on the ultimate net realisable value.

What will we do?

- 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 Statement of Accounts.
- Preparing Group Instructions for the component auditors of the Council's subsidiaries; and,
- Reviewing 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.

Our response to significant risks (cont'd)

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.

Consolidation procedures in the Group Statement of Accounts

Financial statement impact

The Local Authority Accounting Code of Practice requires the Council to prepare group accounts and supporting disclosures within its Statement of Accounts 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.

What is the risk?

The Council prepares group accounts to consolidate Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP. In 20/21, we identified a number of misstatements with the intercompany elimination adjustments.

In 2023/24 we prepared and sent group instructions to the subsidiary auditors. We did not receive all responses to these instructions and therefore were unable to obtain assurance that the level of errors identified in 2020/21 have been rectified and reduced in subsequent years.

Given the nature and extent of the errors found in prior years, we consider this to be significant risk as the balances consolidated into the group accounts may be materially misstated. Management will also need 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 a group auditor during our audit.

What will we do?

- Review the Council's assessment of its group boundary and the significance of the components in the group Statement of Accounts;
- 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 Statement of Accounts:
    - 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 Statement of Accounts to ensure that they are materially accurate and complete.

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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

IFRS 16 Implementation (Inherent risk)

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 2024/25 Statement of Accounts.

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.

Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g., RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

The Council performed an initial impact assessment in 2023/24 and expected to recognise a right of use asset of £11.5 million.

Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- Gain an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. We will pay particular attention to the Council's arrangements to ensure lease and lease-type arrangements considered are complete.
- Review the discount rate that is used to calculate the right of use asset and assess its reasonableness.
- 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 2024/25 Statement of Accounts
- Sample test leases to ensure that transition arrangements have been correctly applied.
- Consider the accounting for leases provided at below market rate, including peppercorn and nil consideration, and the need to make adjustments to cost in the valuation of right of use assets at the balance sheet date.

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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Valuation of land and buildings and Council dwellings (inherent risk)

The valuation of land and buildings and Council dwellings represent significant balance in the Council's Statement of Accounts (2023/24: £1.30 billion). These balances 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.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- 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; and
- Test accounting entries have been correctly processed in the Statement of Accounts.

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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Pension liability valuation (Inherent risk)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its Statement of Accounts regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund asset is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £92.84 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

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.

Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- Liaise with the auditors of London Borough of Havering Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering;
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- Review and test the accounting entries and disclosures made within the Council's Statement of Accounts in relation to IAS19.

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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Accounting for impairments of Receivables (Inherent risk) The impairment of Receivables (Bad debt provision) is a material estimate in the Council's Statement of Accounts (£56.7 million in 2023/24). The estimate is made up of several separate complex calculations which requires management to make a number of accounting judgements as to the recoverability of debt. in 2023/24 we identified a number of immaterial misstatements and there therefore remains an inherent risk of misstatement over this balance.	In order to address this risk we will: - Review the calculation of the bad debt provision for reasonableness and accuracy; and - Reperform the bad debt calculation and test managements judgements regarding the recoverability of debt by testing a sample of trade receivables.

Going Concern Disclosure (Inherent risk)
 	
The Council's updated Medium Term Financial Strategy, estimates a budget gap of £72.1 million in 2025/26 which rises to £183.4 million over the next four years. In February 2025, the Secretary of State approved a capitalisation direction of £88.0 million for the financial year 2025/26 following approved support of £32.5 million in 2024/25 and £18.1 million in 2023/24.
 	
Given the continuing financial support from the Secretary of State to enable the provision of core services, it is unlikely that the Council will be unable to continue operating as a going concern, but there is a risk that the Council and Group's Going Concern disclosure note does not adequately reflect the Council and Group's financial position and requirement for exceptional financial support.
	In order to address this risk we will:
	
	We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosures in the Statement of Accounts by:
	
	- Testing the appropriateness of the Council's going concern disclosure to corroborating evidence, including
	    - the Council's cashflow forecast and the Council's consideration of whether it has sufficient liquidity to continue to operate as going concern.
	    - The Council's latest medium term financial plan and budget monitoring reports to confirm the position of it's reserves and projected budget gaps.
	- Undertaking a 'stand back' review to consider all of the evidences obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.

03 Value for Money risks

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.

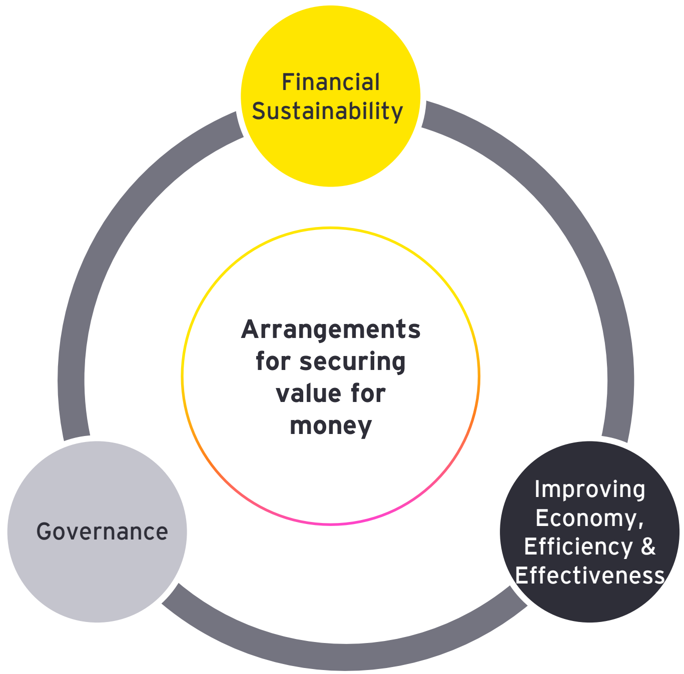
As part of the material published with the Statement of Accounts, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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:

- 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 (cont'd)

Planning and identifying risks of significant weakness in VFM 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 governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the Statement of Accounts;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem as 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;
- 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.

Responding to identified risks of significant weakness

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.

Value for Money (cont'd)

Reporting on VFM

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 Statement of Accounts.

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 awareness. 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 2024/25 Auditor's Annual Report requires to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

Status of our 2024/25 VFM planning

We have commenced our detailed Value for Money planning. To date we have identified two risks of weakness in the Council's value for money arrangements as detailed on the next page and one area of focus relating to the arrangements that the Council has in place in relation to financial sustainability and the Council's progress against its budget and savings plans.

Upon completion of our planning procedures, we will update the next Audit Committee meeting on the outcome of our Value for Money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

Value for Money (cont'd)

Value for Money Risks

The table summarises the risk of significant weaknesses identified during our planning. We will review arrangements and risks regularly, updating our work if new risks arise and inform you of any additional significant weaknesses.

What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
In 2023/24 we reported a significant weakness relating to the outcome of an Ofsted inspection report, where the overall effectiveness in respect of the Council's Children's Service has been rated as 'inadequate'. Without an appropriate and timely response to the report findings, and how effective those responses have been, constitutes a risk of weakness in 2024/25.	**Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers services.	Change in risk focus	• Assess the arrangements the Council has put in place to address the issues raised in the Ofsted inspection report. • Assess the progress the Council has made against actions plans to address the issues raised in the Ofsted inspection report. • Enquire of and consider the impact of any additional reporting in respect to children's services
The Council consolidates four subsidiaries into the Group Statement of Accounts. These subsidiaries are audited by three different auditors and in 2023/24 the group subsidiary auditors did not fully respond to our group instructions prior to the 2023/24 backstop date. The lack of timely assurance from the subsidiary auditors, over which the Council has responsibility, could give rise to a risk within any of the subsidiary bodies of which Members are not aware. We have therefore identified a risk of weakness relating to the governance of these subsidiaries and timely financial reporting.	**Governance:** How the body ensures that it makes informed decisions and properly manages its risks.	New risk for 2024/25	• Review the governance arrangements for the Group and the ability for those charged with governance to have appropriate oversight to enable the Council to make informed decisions. • Consider Management's plans to ensure subsidiaries report to the group in a timely basis.

04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2024/25 has been set at £7.53 million. This represents 1% of the Group's 2023/24 Gross Expenditure on the Provision of Services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of utmost interest to the users of the Group's Statement of Accounts. We have provided supplemental information about audit materiality in Appendix F.

Group gross expenditure on provision of services

£753.27 million

Planning materiality
£7.53m

Performance materiality
£5.65m

Audit differences
£0.38m

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 Statement of Accounts.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.65 million which represents 75% of group materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee.

We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will communicate to the extent that they merit the attention of the Audit Committee.

These areas include:

- Officer's remuneration and exit packages disclosures;
- related party transaction disclosures; and
- prior year figures (or comparatives).

Materiality

Council materiality

For planning purposes, Council materiality for 2024/25 has been set at £7.51 million. This represents 1% of the Council's 2023/24 gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of utmost interest to the users of the Council's Statement of Accounts. We have provided supplemental information about audit materiality in Appendix F.

Council gross expenditure on provision of services

£751.08 million

Planning materiality	Performance materiality	Audit differences
£7.51m	**£5.63m**	**£0.38m**

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 Statement of Accounts.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.63 million which represents 75% of group materiality.

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We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will be communicated to the extent that they merit the attention of the Audit Committee.

These areas include:

- Officer's remuneration and exit packages disclosures;
- related party transaction disclosures; and
- prior year figures (or comparatives).

05 Scope of our audit

Audit process and strategy

Objective and Scope 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 issue an audit report that covers:

1. Financial statement audit

Our opinion on the Statement of Accounts:

- Whether the Statement of Accounts 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 Statement of Accounts 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 Statement of Accounts is consistent with the Statement of Accounts.

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 Statement of Accounts for the relevant reporting period in line with the instructions issued by the National Audit Office.

2. 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.

Audit process and strategy (cont'd)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as pensions and property valuations.

Our initial assessment of the key processes across the Council has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the Statement of Accounts rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the Statement of Accounts are not materially misstated.

Analytics

We will use a data driven approach to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

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 Statement of Accounts.

Scope of our audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group Statement of Accounts.

We identify individually relevant components based on various risk characteristics and apply professional judgement to determine which accounts were to be included in the work performed at these components. We then consider the balance of group accounts not yet subject to planned audit procedures and 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 Statement of Accounts. Having identified the components for which work will be performed, we then determine the scope to assign to each component.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping by Entity

Our preliminary audit scopes as per the 2023/24 Statement of Accounts by number of locations we have adopted are set out below.

- 1 — A — Full scope audits (London Borough of Havering)
- 4 — B — Specific scope audits
- 0 — D — Specified procedures
- 0 — E — Other procedures

Scope definitions

Full scope: locations involving the design and performance of audit procedures on a significant proportion of the financial information of the component. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory Statement of Accounts because of the scope of work, materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations involving the design and performance of audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of the group. The accounts included in the scope are not a significant proportion of the financial information of the component.

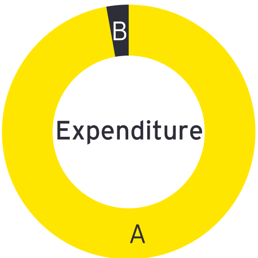
Specified Procedures: locations where the component team performs procedures specified by the Group audit team to obtain audit evidence for one or more elements of the group Statement of Accounts and/or to respond to identified risks of material misstatement.

Remaining components: Based on our planned audit scope, there may exist residual amounts of balances and accounts of the group Statement of Accounts which are not included in the group scope. These amounts have been evaluated as not presenting a risk of material misstatement to the group Statement of Accounts and may comprise balances at multiple location where the balances may be material in aggregate. Components/locations that are not assigned a scope of work nor subject to centralised procedures, and comprise amounts solely contributing the residual amounts are described as 'remaining components'. We update and perform further risk assessment procedures as necessary to conclude our assessment that there is no risk of material misstatement in those amounts.

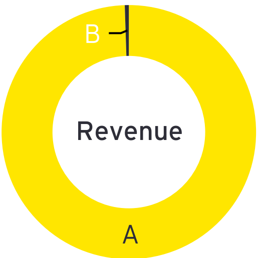
Scoping the group audit

Coverage of Revenue/Profit before tax/Total assets

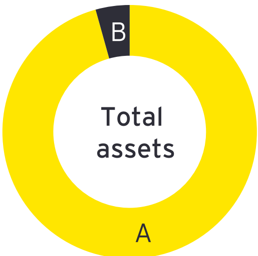
Based on the group's prior year results, our scoping is expected to achieve the following coverage of Gross Expenditure, group's revenue and total assets.



100% of the group's gross expenditure will be covered by full and specific scope audits



100% of the group's revenue will be covered by full and specific scope audits



100% of the group's total assets will be covered by full and specific scope audits

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Key changes in scope from last year

We have not completed our full audit scope procedures, there are currently no changes to the group scope in 2024/25.

Throughout the audit, we will determine whether the group audit strategy needs to be updated to reflect new information. The group audit strategy is an iterative process, and we will continuously consider information throughout the group audit and reassess the group audit strategy, which includes re-assessing group scoping, and updating it as necessary.

We will keep the Audit Committee updated on any changes to group scoping as the audit progresses.

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 the underlying workpapers.

06 Audit team

Audit team

Mark Hodgson
Key Audit Partner

Mark Russell
Senior Manager

Sherald Ang
Lead Senior

Specialist: EY Real Estates

Specialist: PWC consulting actuary and EY Actuaries

Use of specialists

Our approach to the involvement of specialists, and the use of their work:

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 & Investment Properties	Wilkes Head & Eve (Management specialist) EY Real Estates (if required)
Pensions disclosure	EY Actuaries Hymans Robertson (Management specialist)
NDR Appeals Provision	Analyse Local (Management specialist)
Financial Instruments	Link Assets Services (Management specialist)

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:

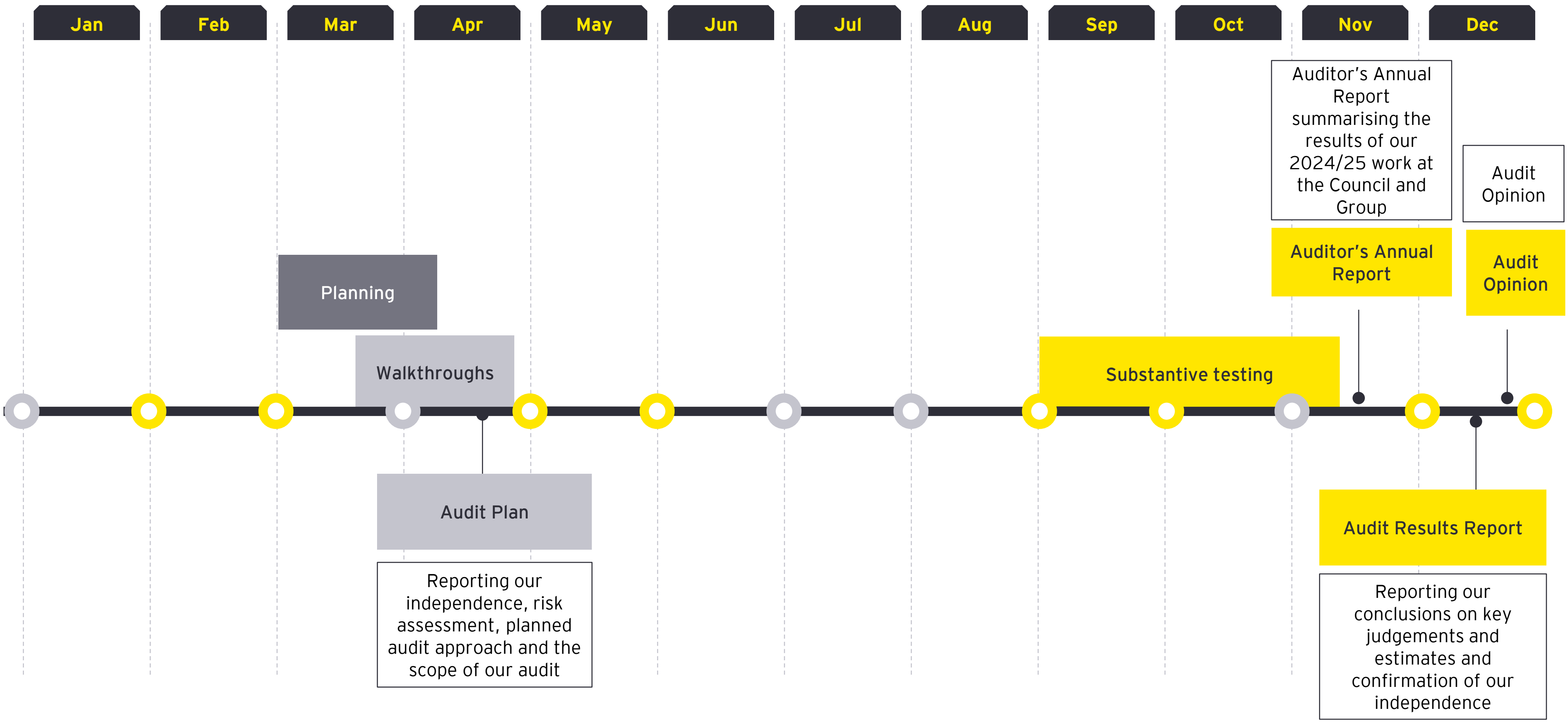
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
-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

07 Audit timeline

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 2024/25 audit cycle. 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.



08 Independence

Introduction

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	**Final 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). ▪ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.	▪ 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.

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 the Council. Examples include where we have an investment in the Council; 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.

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.

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 decision 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.

Other communications

EY Transparency Report 2024

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 2024 and can be found here**: EY UK 2024 Transparency Report.**

09 Appendices

Appendix A — PSAA Statement of Responsibilities

As set out on the next page 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.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 set out what is expected of audited bodies in preparing their Statement of Accounts. We set out these paragraphs in full below:

Preparation of the Statement of Accounts

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 Statement of Accounts.

27. In preparing their Statement of Accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the Statement of Accounts;
- 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 Statement of Accounts and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those Statement of Accounts 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 Statement of Accounts before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft Statement of Accounts 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.

Appendix B — Fees

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 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 Statement of Accounts. 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.

	2024/25	2024/25 Scale fee	2023/24
	£000's	£000's	£000's
Total Fee – Code Work	452,308 Note 2	452,308	421,745 Note 1
Scale fee variation	TBC		TBC
Total audit	**TBC**	**452,308**	**TBC**

Other non-audit services not covered above (Housing benefits) (see Note 3)

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DLUHC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 and 2023/24 audits. The 2023/24 work has been completed and a final fee will be determined in due course. For 2023/24 the planned fee represents the base fee, i.e., not including any extended testing.
2. The 2024/25 the planned fee represents the base fee, i.e. not including any extended testing.

The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the Statement of Accounts. We expect to charge addition fee for this. The 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:

- Lower materiality level based on expectation of users of the Council's Statement of Accounts
- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16 and other significant and inherent risks identified.
- Non-compliance with law and regulation with an impact on the Statement of Accounts.
- 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

3. The 2020/21 and 2021/22 Housing Benefits work has been completed and signed off. The final fee for 2020/21 is £12,000 and 2021/22 £17,200. The 2022/23 audit has commenced and the fee for this year is yet to be determined. We have not commenced work on 2023/24 or 2024/25.

Appendix C – 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	Communication of: ▪ The planned scope and timing of the audit ▪ Any limitations on the planned work to be undertaken ▪ The planned use of internal audit ▪ The significant risks identified 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	Provisional Audit Plan – June 2025 – Audit Committee
Significant findings from the audit	▪ 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 ▪ Significant matters, if any, arising from the audit that were discussed with management ▪ Written representations that we are seeking ▪ Expected modifications to the audit report ▪ Other matters if any, significant to the oversight of the financial reporting process ▪ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit Results Report – December 2025 – Audit Committee

Appendix C — Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▪ Whether the events or conditions constitute a material uncertainty ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the Statement of Accounts ▪ The adequacy of related disclosures in the Statement of Accounts	Audit Results Report - December 2025 - Audit Committee
Misstatements	▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management	Audit Results Report - December 2025 - Audit Committee
Fraud	▪ 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, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the Statement of Accounts ▪ 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 - December 2025 - Audit Committee

Appendix C — Required communications with the Audit Committee (cont'd)

		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 including, when applicable: ▪ Non-disclosure by management ▪ Inappropriate authorisation and approval of transactions ▪ Disagreement over disclosures ▪ Non-compliance with laws and regulations ▪ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report - December 2025 - Audit Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ 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 Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. ▪ 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 ▪ 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	Provisional Audit Plan - June 2025 - Audit Committee Audit Results Report - December 2025 - Audit Committee

Appendix C — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - December 2025 - Audit Committee
Consideration of laws and regulations	▪ 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 Statement of Accounts and that the audit committee may be aware of	Audit Results Report - December 2025 - Audit Committee
Internal controls	▪ Significant deficiencies in internal controls identified during the audit	Audit Results Report - December 2025 - Audit Committee
Group audits	▪ 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 ▪ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group Statement of Accounts ▪ Significant deficiencies identified in the group's system of internal control	Audit Results Report - December 2025 - Audit Committee

Appendix C — Required communications with the Audit Committee (cont'd)

		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	▪ 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
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Provisional Audit Plan – June 2025 – Audit Committee Audit Results Report - TBC - Audit Committee Auditors Annual Report – TBC – Audit Committee

EY | Building a better working world

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

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

Ernst & Young LLP

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