

# London Borough of Havering

Provisional Audit Plan  
Year ended 31 March 2026

30 April 2026



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# Appendix A

30 April 2026



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

Dear Audit Committee

## Provisional Audit Plan 2025/26

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

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

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

Yours faithfully



**Mark Hodgson**  
Partner  
For and on behalf of Ernst & Young LLP  
Enc

# Appendix A

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

This report is made solely to the Audit Committee and Management of London Borough of Havering. Our work has been undertaken so that we might state to the Audit Committee and Management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and Management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Overview of our 2025/26 audit strategy

# 2025/26 audit strategy overview: Rebuilding Assurance

## The purpose of this report

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

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

## Our shared strategy to rebuild assurance

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

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

To deliver this, it is essential that Management:

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

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

# 2025/26 audit strategy overview: Rebuilding Assurance

## Our shared strategy to rebuild assurance continued

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

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

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

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

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

# Appendix A 2025/26 audit strategy overview: Rebuilding Assurance

## Preparedness for audit

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

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

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

## Scope of our audit

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

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

## Timeline

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

## Our independence considerations

Please refer to Appendix B for our update on independence.

## Appendix A

# 2025/26 audit strategy overview: Audit risks and materiality

### Audit risks and areas of focus

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

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

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

## Appendix A

# 2025/26 audit strategy overview: Audit risks and materiality

### Audit risks and areas of focus

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

## Appendix A

# 2025/26 audit strategy overview: Audit risks and materiality

### Audit risks and areas of focus

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

## Appendix A

# 2025/26 audit strategy overview: Audit risks and materiality

### Group Materiality

**Planning  
materiality  
£8.0m**

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

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

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

**Performance  
materiality  
£4.0m**

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

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

**Audit  
differences  
£0.4m**

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

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

## Appendix A

# 2025/26 audit strategy overview: Value for Money

### Our risk assessment

Under the NAO Code we are required to:

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

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

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

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

# Appendix A

## 2025/26 audit strategy overview: Value for Money

### Our risk assessment

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



# 02 Audit risks

# Our response to significant risks

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

## Presumptive risk of management override of controls\*

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

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

- Management has the primary responsibility to prevent and detect fraud. It is important that Management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.
- Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

### Our response: Key areas of challenge and professional judgement

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

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

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

# Our response to significant risks

## Inappropriate capitalisation of revenue expenditure\*

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

# Other areas of audit focus

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

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

# Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
<p><b>Consolidation procedures in the Group Financial Statements</b></p>		
<p>The Local Authority Accounting Code of Practice requires the Council to prepare group accounts and supporting disclosures within its financial statements when the group operations become material to the Council.</p> <p>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.</p>	<p>The Council prepares group accounts to consolidate the following components: the Council, Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering &amp; Wates Regeneration LLP and Rainham &amp; Beam Park Regeneration LLP.</p> <p>The financial statements of the corporate components are audited by three different audit firms.</p> <p>Given the number of components being consolidated and the number of different component auditors, we consider this to increase the complexity of consolidation procedures and therefore there is a heightened risk that the group accounts maybe misstated.</p> <p>Management will also need to continue to consider the timing of the subsidiary audits to ensure that subsidiary auditors are able to complete their procedures to allow reporting to us as the group auditor.</p>	<p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▪ Review the Council's assessment of its group boundary and the significance of the components in the group financial statements.</li> <li>▪ Prepare group instructions for the component auditors of the Council's subsidiaries.</li> <li>▪ 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.</li> <li>▪ Ensure that appropriate consolidation procedures are applied in line with the Code of Practice when consolidating subsidiaries into the Council's group financial statements.                         <ul style="list-style-type: none"> <li>• Understand the process for consolidation;</li> <li>• Understand transactions between group subsidiaries and test that the appropriate accounting entries have been made to eliminate inter-group transactions;</li> <li>• 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</li> <li>• Review the disclosures in the group financial statements to ensure that they are materially accurate and complete.</li> </ul> </li> </ul>

# Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
<p><b>The accounting treatment and valuation of inventory held in the group subsidiaries</b></p>		
<p>The group subsidiaries hold £39.2 million (in 2024/25) of inventories held as a Current Asset in the Balance Sheet in the subsidiaries financial statements.</p>	<p>The group subsidiaries have material inventory held as a Current Asset in the balance sheet in the subsidiaries financial statements.</p> <p>These inventories are reclassified within the Group financial statements as a Non-current Asset within Property, Plant &amp; Equipment.</p> <p>Inventories in the subsidiary's financial statements are measured under IAS 2 at the lower of cost and net realisable value where various assumptions are adopted. These assumptions could be impacted by the prevailing economic conditions and could have a material impact on the ultimate net realisable value.</p> <p>Non-current asset within Property, Plant &amp; Equipment in the Group financial statements are held at cost under IAS 16.</p> <p>Given the differences in accounting treatment under the different accounting standards there is a risk that these balances maybe incorrectly accounted for in the Group financial statements.</p>	<p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Test Managements assessment to confirm the appropriate accounting treatment in the Group financial statements.</li> <li>▪ Prepare Group Instructions for the component auditors of the Council's subsidiaries.</li> <li>▪ Review the work undertaken by component auditors and determine whether we can place reliance on their work to obtain assurance over the Inventory balances consolidated into the group accounts.</li> </ul>

# Other areas of audit focus

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

# Other areas of audit focus

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

# Other areas of audit focus

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

# Other areas of audit focus

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



# 03 Value for Money

# Value for Money

## Council's responsibilities for Value for Money

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

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

## Auditor responsibilities

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

The specified reporting criteria are:



### Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services.



### Governance

How the Council ensures that it makes informed decisions and properly manages its risks.



### Improving economy, efficiency and effectiveness

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

# Value for money

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

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

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

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

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

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

## Reporting on Value for Money arrangements

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

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

# Value for money

## Value for money risk assessment

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

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

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

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

## Value for money

### Value for money risk assessment (continued)

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



# 04 Audit materiality

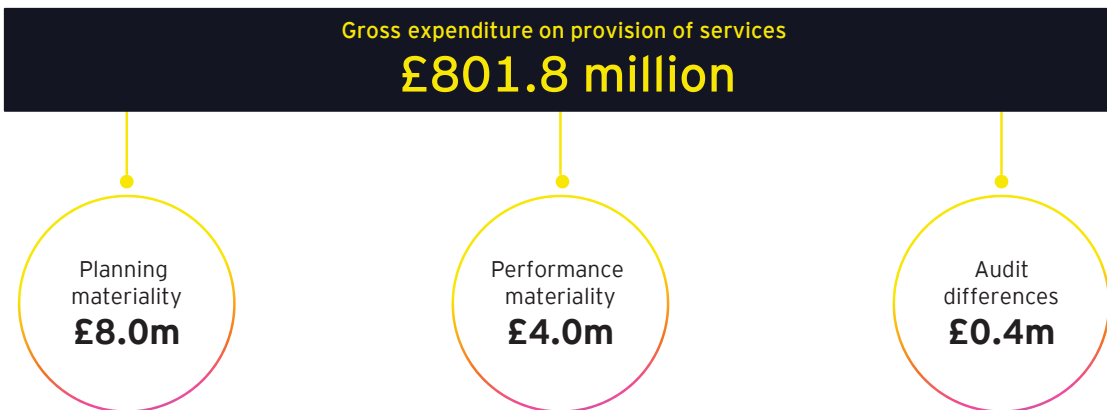
# Materiality

## Appendix A

### Group materiality

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

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



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

### Key definitions

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

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

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

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

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

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

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



# 05 Scope of our audit

# Audit process and strategy

## Appendix A

### Objectives of our audit scoping

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

#### 1. Financial statement audit

Our opinion on the financial statements:

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

Our opinion on other matters:

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

Other procedures required by the Code:

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

#### 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.

### Internal Audit

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

# Scoping the group audit

## Group scoping

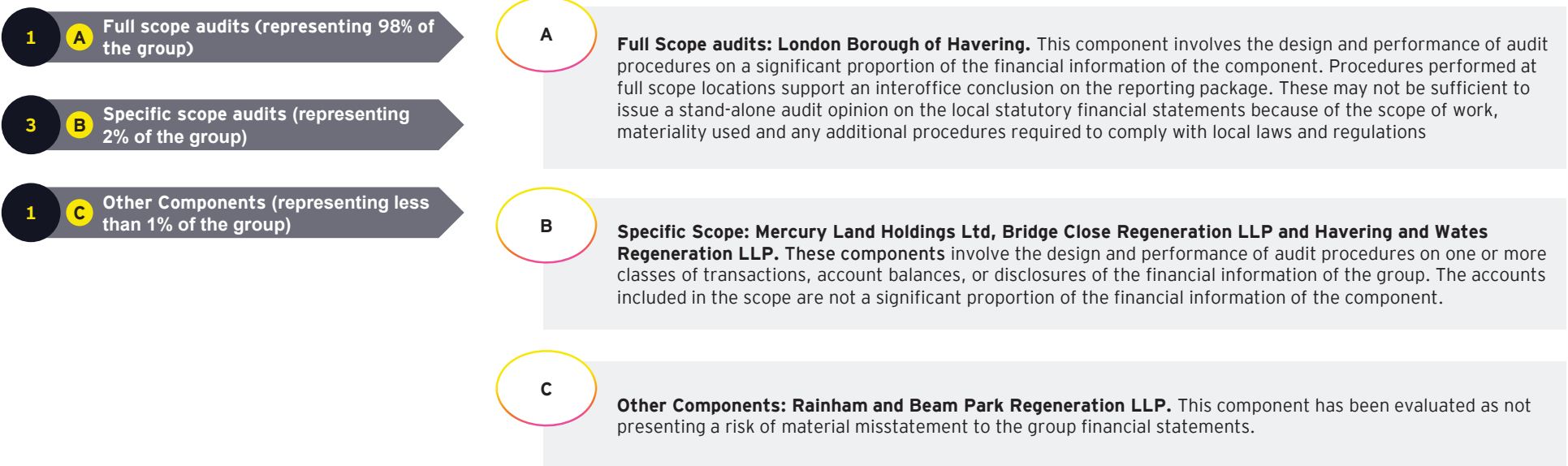
The Council prepares its financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group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

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

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

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

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



# Scoping the group audit continued

## Non-EY member firms

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

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

## Group audit team involvement in component audits

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

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



# 06 Audit team

# Audit team

## Audit team leadership

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

## Our approach to the use of specialists

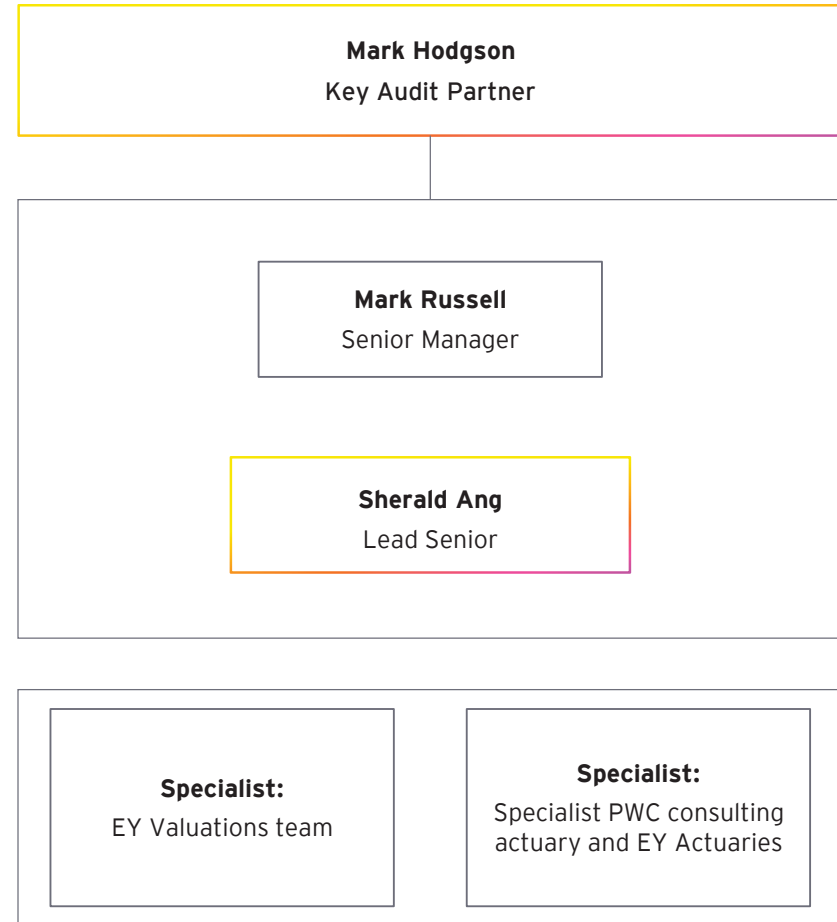
When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

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

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

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

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





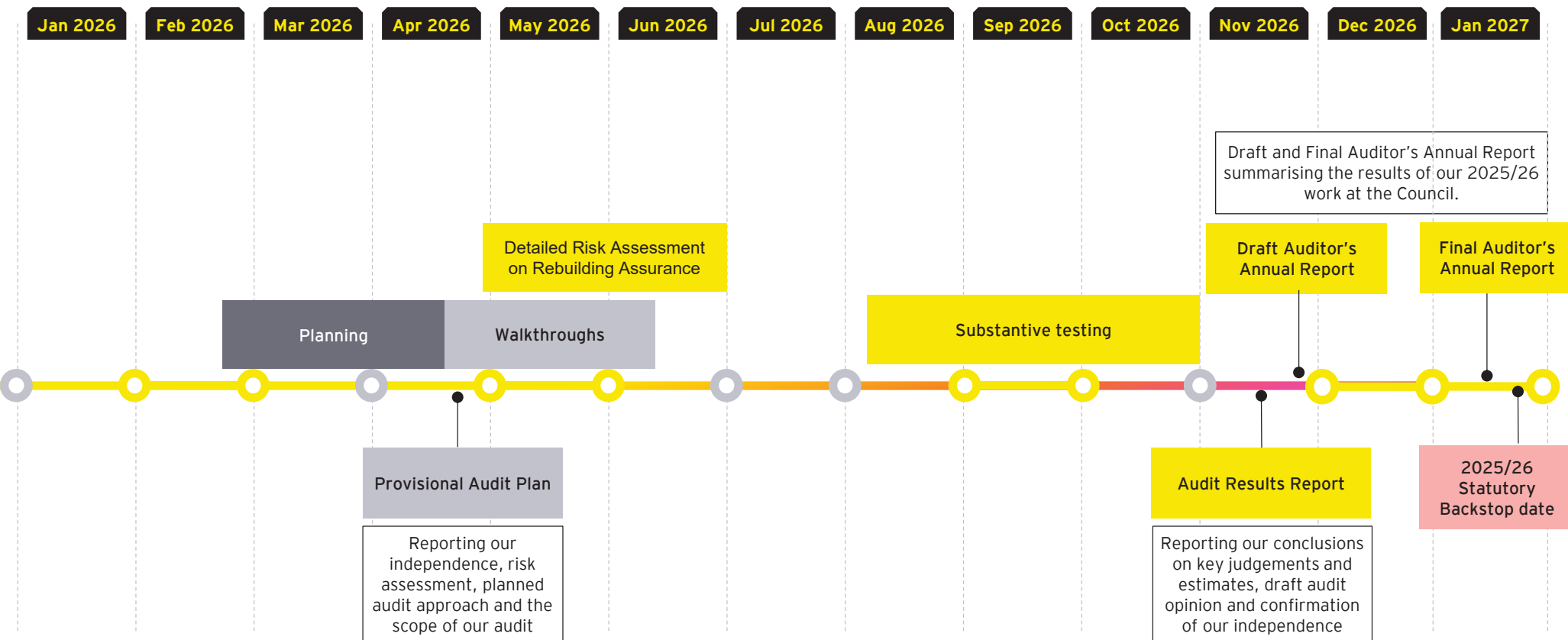
# 07 Audit timeline

# Appendix A Timetable of communication and deliverables

## Timeline

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

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





# 08 Appendices

# Appendix A – Rebuilding assurance: responsibilities

## The Council's responsibilities

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

### Preparation of the financial statements

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

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

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

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

## Observations from 2024/25

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

We have repeated this assessment on the following page.

# Appendix A – Rebuilding assurance: responsibilities

## Factors impacting the execution of the 2024/25 audit

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

**Key:**

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

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

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

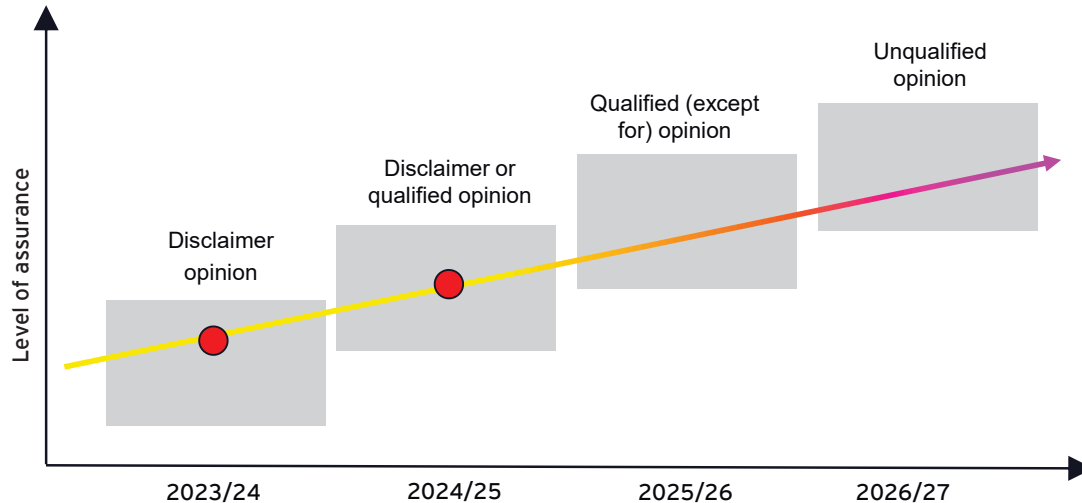
## Appendix A

# Appendix A – Rebuilding assurance continued

### Progress to full assurance

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

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



#### London Borough of Havering progress

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

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

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

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

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

# Appendix B - Independence and Fees

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

## Required communications

### Planning stage

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

### Final stage

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

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

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

## Relationships, services and related threats and safeguards

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

# Appendix B - Independence and Fees continued

## Overall Assessment

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

## Self interest threats

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

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

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

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

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

## Self review threats

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

## Management threats

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

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

## Other threats

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

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

## EY Transparency Report

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

# Appendix B – Independence and Fees continued

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

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

The agreed fee presented is based on the following assumptions:

- 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.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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

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

#### All fees exclude VAT

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

# Appendix C – Prior year financial control recommendations

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

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by Management.

**Grade 3:** Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by Management.

## Financial control weaknesses

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

# Appendix C – Prior year financial control recommendations

## Financial control weaknesses (continued)

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

# Appendix C – Prior year financial control recommendations

## Financial control weaknesses (continued)

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

# Appendix D – Prior year VFM recommendations

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

## Value for money arrangements

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

# Appendix E – Required communications with the Audit Committee

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

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

# Appendix E – Required communications with the Audit Committee

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

# Appendix E – Required communications with the Audit Committee

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

# Appendix E – Required communications with the Audit Committee

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▪ 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</li> <li>▪ Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence</li> <li>▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▪ Management's refusal for us to request confirmations</li> <li>▪ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report - Audit Committee - November 2026
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit Results Report - Audit Committee - November 2026
Internal controls	<ul style="list-style-type: none"> <li>▪ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - Audit Committee - November 2026
Group audits	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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</li> <li>▪ 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</li> </ul>	Audit Results Report - Audit Committee - November 2026

# Appendix E – Required communications with the Audit Committee

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

# Appendix F – Regulatory update

## Key regulatory changes

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

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

# Appendix F – Regulatory update continued

## Key regulatory changes continued

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

# Appendix F – Regulatory update continued

## National Audit Office reporting

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

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

# Appendix F – Regulatory update continued

## National Audit Office reporting continued

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

# Appendix F – Regulatory update continued

## National Audit Office reporting continued

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

# Appendix G – Additional audit information

## Objective of our audit

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

## Other required procedures during the course of the audit

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

## Purpose and evaluation of materiality

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

Materiality determines:

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

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

# Appendix A

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UKC-038208 (UK) 03/25. Creative UK.  
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