



Auditor's Annual Report
London Borough of Hackney – year ended 31 March 2025

27 February 2026

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

01

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for London Borough of Hackney ('the Council') for the year ended 31 March 2025. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued an unqualified opinion on 27 February 2026.



Value for Money arrangements

In our audit strategy memorandum, we reported that we had identified a risk of significant weakness in arrangements for the Council with regards to financial sustainability and also in relation to securing economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council's arrangements and a summary of our recommendations and the weaknesses identified.



Reporting to the group auditor

In line with group audit instructions issued by the NAO, Forvis Mazars are required to complete a programme of work on the Council's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO is yet to provide confirmation on the approach to selecting sampled components. Without this information, our auditors are unable to complete the work and issue its certificate which concludes the audit



Wider reporting responsibilities

We have received one objection in the 2024/25 financial year which has been rejected.

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Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2025 and of its financial performance for the year then ended. Our audit report, issued on 27 February 2026 gave an unqualified opinion on the financial statements for the year ended 31 March 2025.

We issued our Audit Completion Report on 12th February for the 24th of February Audit Committee meeting. There have been no further unadjusted misstatements or control recommendations to bring to the attention of members.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and conclude that they comply with the 2024/25 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances. Draft accounts were received from the Council on 30 June 2025 and were of a good quality. Working papers provided by the Council were also of a good quality with clear supporting evidence.

Significant difficulties during the audit

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

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

Other reporting responsibilities

| Reporting responsibility | Outcome |
|-----------------------------|---|
| Narrative Report | We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council. |
| Annual Governance Statement | We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting. |

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The 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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work, we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources, including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with officers

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on pages 15 and 25.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

| Reporting criteria | Commentary page reference | Identified risks of significant weakness? | Actual significant weaknesses identified? | Other recommendations made? |
|---|---------------------------|---|---|---------------------------------|
|  Financial sustainability | 16 | Yes – see risk 1 on page 15 | Yes | Yes – see commentary on page 30 |
|  Governance | 20 | No | No | No |
|  Improving economy, efficiency and effectiveness | 26 | Yes – see risk 2 on page 25 | Yes | Yes – see commentary on page 31 |

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

| Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|---|--|
| <p>Unsustainable and unplanned use of reserves and other short-term measures to deliver services</p> <p>As part of our initial risk assessment for financial sustainability, we have reviewed the 2024/25 Overall Financial Position report presented to Cabinet on 28 April 2025. This report highlights a forecast mitigated general fund overspend of £37.5m against budget, and £13.8m against the HRA, both of which will be balanced by use of reserves.</p> <p>1 The General fund reserve balance is projected to have fallen from £154.1 at 31/03/2024 to £99.6m by 31/03/2025.</p> <p>We also note that should the statutory override for the Dedicated Schools Grant (DSG), due to end in 2026, not be extended, further pressure may be placed on the General Fund as the Council's DSG deficit at 31 March 2024 was £19.080m and is forecast to remain at this level until 31 March 2026.</p> <p>The level of overspend presents a risk to the financial sustainability of the Council and mitigation by using reserves is not sustainable.</p> | <p>Work undertaken</p> <p>We engaged with management to assess what measures are being implemented to control levels of spend, make savings, and ensure financial sustainability. To support this assessment, we have reviewed:</p> <ul style="list-style-type: none"> • MTFP and budget setting process • Plans to monitor expenditure and savings including mitigating actions • Plans to replenish reserves and evidence of implementation • The process of setting and monitoring savings as well as the evidence of implementation. <p>Results of our work</p> <p>Whilst the general fund balance has been increased to £19m, the Group Director - Finance & Corporate Resources's prudent minimum level, other usable reserves (the General fund reserve balance) have fallen from £154.1m at 31/03/2024 to £111.6m by 31/03/2025. The Council has determined that it has sufficient reserves to cover expenditure at current levels for approximately two financial years to March 2027 before these are exhausted.</p> <p>Continued reliance on the use of reserves to mitigate lack of savings delivery and bridge budget gaps is unsustainable and risks the Council depleting its reserves whilst not achieving the savings and cost control measures needed to deliver services.</p> <p>In our view this is evidence of a significant weakness in the Council's arrangements for financial sustainability, specifically in relation to how the Council plans to bridge its funding gaps and identifies achievable savings.</p> |

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Background to Financial Sustainability and outturn in 2024/25

The 2024/25 financial year has presented significant challenges for London Borough of Hackney. Budget planning has been made increasingly more complex due to economic uncertainty, rising service demands, and the ongoing cost of living and housing crises. Hackney's population has a high level of deprivation, which given the global economic and political climate, has increased demand placed on the Council to provide frontline services to support its residents following a prolonged period of significant government funding reductions. This is exacerbated by 2025/26 being the seventh consecutive one-year Local Government Finance Settlement; the lack of long-term funding certainty makes medium-term financial planning more difficult. Combined with high inflation and demographic pressures, the financial resources of the Council are under strain. This picture is consistent with the London and national picture for local authorities.

The 2024/25 Overall Financial Position (OFP) report presented to Cabinet on 28 April 2025 highlighted a forecast mitigated general fund overspend of £37.5m against budget, and £13.8m overspend against the HRA. The final outturn for revenue expenditure against the general fund as per the financial statements and the June OFP report was a £26.3m overspend. This has been balanced by the application of reserves. Whilst the general fund balance has been increased to £19m, the Group Director - Finance & Corporate Resources's prudent minimum level, other usable reserves (the General fund reserve) have fallen from £154.1m at 31/03/2024 to £111.6m by 31/03/2025. This indicates an over-reliance on the use of reserves and other short-term measures to balance the budget where transformational savings of sufficient scale and pace have not been delivered or where there have been delays to delivery of savings, and growing demand-side pressures.

The main drivers of spend are:

- Cost pressures in Adult Social Care. There has been a 40% increase in clients since 2019/20. Homecare demand has increased by over 73% to the date of the Medium Term Financial Plan (MTFP) presented on 24 February 2025. This increased demand has been compounded by escalating unit costs due to inflation, including the London Living Wage (LLW), and the complexity of care packages.
- Cost pressures in Children's Social Care.
- Temporary Accommodation costs. There is a reliance on B&Bs and nightly paid accommodation because of growing demand and a shortage of other options. The Council has determined that it has sufficient reserves to cover expenditure at current levels for approximately two financial years to March 2027 before these are exhausted. Based on the above there is a significant weakness in financial sustainability as the Council is overly reliant on reserves to fill budget gaps, and this is unsustainable.

As at the end of 2024/25, the Council reported a deficit balance of £19m in its Dedicated Schools Grant (DSG) reserve which is the same as the end of 2024/25. There is a separate DSG reserve in credit of £2.6m (nil in the 2024/25 year), resulting in a net DSG balance of £16.4m. There is a risk to the DSG reserve over the medium term if rising demand and costs for children and young people with special educational needs remain.

The Council's financial planning and monitoring arrangements

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes appropriate provisions for budgetary pressures (such as inflation, pay awards, etc.) as well as the inclusion of statutory charges (Minimum Revenue Provision (MRP) etc.) and engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities and the impact on resources.

The MTFP considers wider elements such as: capital spend and the impact this has on revenue (growth built in based on planned capital programme); pay award built in, plus workforce impacts on policies such as insourcing of services; and joint work with North East London Integrated Care System (NEL ICS) partnership (through service forecasts). Overall, each aspect of the MTFP is reviewed and challenged as part of the budget setting process, with amendment as appropriate. Any reallocation of resources, whether to meet assessed needs or address the Council's ongoing efforts to address points within the corporate delivery plan, are scrutinised before being reflected in the budget estimates. The MTFP incorporates the latest information available regarding Government funding. It also includes growth based on increases in demand in key service areas which will be kept under ongoing review - these are mainly in Adults and Children's Social Care (both demographic change and inflationary pressures) but also reflects other known risks, for example, energy cost increases, provisions for pay-award and increase in demand for Temporary Accommodation.

The Council has updated its financial position to Cabinet throughout the year, and at year end has reported its revenue outturn position. We have reviewed the reports presented throughout 2024/25, noting these continue to be detailed and comprehensive and incorporate monitoring of the revenue budget and the capital programme. They also include a range of other financial measures and other performance information for officers and Members to review and allow consideration of the Council's overall performance. The Council follows an established timetable for reporting to Cabinet which includes reporting to directorate and divisional management teams as well as the strategic management team.

In March 2024, the Council set a balanced budget for the 2024/25 financial year, requiring an increase in Council Tax of 4.99% (including the 2% Adult Care precept). Throughout the year, the Council kept its budget forecasts up to date, facilitating scrutiny from members in the face of the economic challenges being faced by councils nationally, and in light of the particular challenges in the Borough.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability - continued

The medium-term financial plan serves as the blueprint for the Council's budget strategy spanning from 2025/26 to 2027/28. It is based on current policies and a review of the service and financial planning horizon (including forecast budget pressures), and the resources forecasts contained therein are based on illustrative external funding levels for 2026/27 to 2028/29 as well as projections for council tax, business rates, and other revenue streams. It is the financial framework which aims to ensure the Council can continue operating on a sustainable and sound financial footing. The MTFS identified budget gaps of £30.876 million in 2025/26, £31.7 million in 2026/27 and £42.7 million in 2027/28 after phase 1 and 2 savings and an increase of 4.99% council tax.

The financial challenge ahead remains considerable, particularly given the significant current uncertainty regarding the impact of future government plans for funding levels. The Council's latest 2026/27 to 2028/29 medium term financial plan, from 26 February 2025, includes a significant raft of savings and transformation of services, agreed by Cabinet in three phases, with those for 2025/26 being agreed in October 2024. These are set out in overall financial position reports which monitor the financial performance and position throughout the year and are presented to Cabinet. Savings proposals are subject to extensive review and engagement from Cabinet Members and the wider scrutiny function. Despite the agreed savings, there remains a structural deficit between the income the Council is able to generate and the level of expenditure forecast:

Budget Gap/Reserve Requirements before Transformation Savings:

- 2026/27 : £31.7m
- 2027/28 : £42.7m
- 2028/29 : £51.0m

Forecast budget gaps after transformation savings are:

- 2026/27: £17.7m
- 2027/28: £21.7m
- 2028/29: £30.0m

The 2025/26 Budget was challenging for the Council to balance. Initially, the Council had planned to utilise £10m of reserves to balance the budget. However, current monitoring indicates a greater drawdown of £17.8m (including a £7.8m strategic investment in projects aimed at generating savings and cutting costs and specific one-off initiatives such as school closure expenses). This drawdown occur before funding the projected overspend of £11m. Without transformation savings, the budget gap by 2028/29 is estimated to be £51m. The Council have identified the following transformation savings targets:

- 2026/27: £14m
- 2027/28: £21m
- 2028/29: £21m

There is a significant risk to financial sustainability relating to the unsustainable use of reserves. This is compounded by the risk that savings may slip or may not be delivered and therefore not completely cover the estimated gap.

Prudential borrowing

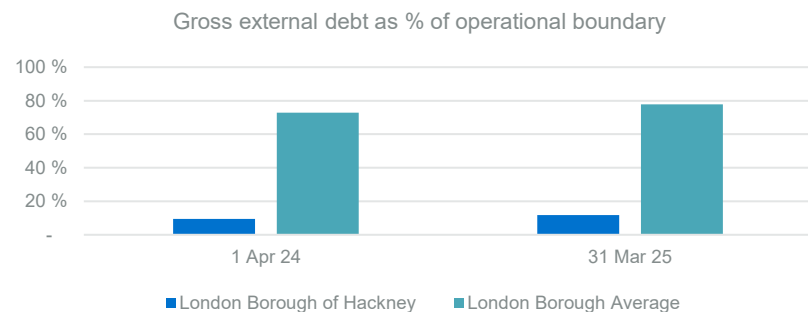
Local authorities are required by regulation to have regard to the Prudential Code. The revised CIPFA Prudential Code for Capital Finance in Local Authorities was issued on 20 December 2021. The objectives of the Prudential Code include the need to ensure capital plans are affordable, borrowing is sustainable, risks arising commercial investments are proportionate. We obtained data from Ministry of Housing, Communities and Local Government (MHCLG) on local authority capital expenditure and financing in England (2024-25) and have used this data, plus our own analysis, to compare the Council's position in relation to the percentage of the Council's debt against its operational boundary and against its authorised borrowing limit which Authorities are required to set under the Prudential Code as they allow sufficient headroom for operational management, including restructuring of debt.

[Continued overleaf]

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability - continued

The following charts show the position for 1 April 2024 and forecast to 31 March 2025:

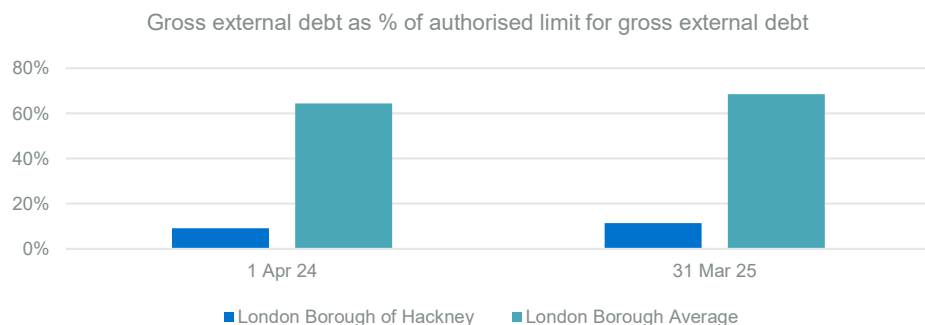


Based on the analysis, left, the Council has sufficient headroom for operational management. The Council's gross external debt is far below the operational boundary and remains significantly below the benchmark class (average of all other London boroughs) of 69%, which shows the Council does not overly rely on external borrowing, indicating good financial stability in this regard and prudent financial management. The risk of breaching debt limit is low as the debt remains within the authorised limit.

Minimum revenue provision

For local authorities, depreciation on fixed assets is treated as a notional accounting charge and is subsequently reversed out of the accounts. In its place, a Minimum Revenue Provision (MRP) is charged to the General Fund to ensure prudent repayment of borrowing. Capital expenditure is financed from a range of sources, including borrowing, and traditionally MRP has been calculated using an annuity method, which spreads the Capital Financing Requirement (CFR) (the Council's underlying need to borrow) over a 50-year period in line with asset lives.

For 2024/25, the Council's MRP policy remained unchanged, continuing the approach applied in the previous year for both supported borrowing and borrowing under the prudential system. The MRP charged to the General Fund in 2024/25 increased to £18.2 million (3.7% of the closing CFR, excluding HRA assets), compared with £4.7 million in 2023/24. The £18.2 million charge includes £13.5 million relating to the transition to IFRS 16 where additional operational lease assets and PFI assets not previously recognised on the balance sheet are now recognised. This level of provision is considered to be sufficiently prudent by the Group Director - Finance & Corporate Resources. The Council has confirmed that it has had regard to statutory guidance by providing an MRP in relation to the General Fund CFR, as set out in the MRP Policy appendix to the Treasury Management Strategy 2024/25.



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability - continued

The Council's arrangements for identifying, managing, and monitoring funding gaps and savings.

The Council has a savings and transformation plan, which is a multi-year savings programme. The scope of the transformational plan focuses on a few key areas, but the Council considers there to be potential to expand the programme to cover more areas and unlock additional savings in the coming year. The Council are taking initiatives in the transformation plan to mitigate the structural deficit, including freezing non-essential spending and recruitment, restricting overtime, and reducing agency costs. In response to the Council's three main drivers of overspending, the Council have identified mitigating factors:

Adult's Social Care

- Managing fee uplifts through the Adult Social Care annual uplift strategy.
- Managing demand and delivering significant efficiencies. In 2024/25 around £2 million of cost reductions/efficiencies were achieved.
- Launching a Transformation outcomes programme (TOP) with Newton Europe (2023/24), focusing on prevention, reablement, better transitions, and reducing reliance on high-cost placements.

Children's Social Care

- Benchmarking unit costs against other statistically similar neighbours and to sense check the trend of annually increasing unit costs.
- Collating and reporting regularly on the highest unit costs to the Directorate's Management Team and the Council's budget monitoring process.

Temporary Accommodation and homelessness prevention

- Considering alternative delivery models to increase the level of temporary accommodation available.
- Committing a £135m capital budget, which will be used to expand and maintain the supply of temporary accommodation. The key strategies being explored to achieve this are:
 - o Direct acquisition and development of properties to reduce reliance on paying external landlords.
 - o Developing and Repurposing Buildings for Temporary Accommodation.
 - o Strategic Leasing Programmes. This model focuses on securing properties from the private sector on better terms.

Savings are considered at Cabinet and are broken into three workstreams: Reducing Services to residents increasing revenue, and outsourcing/Shared services and community delivery. Each Directorate benchmark their spend against other boroughs, each service is examined based on prioritisation, whether the service can be stopped, or reduced. The Cost drivers and levers to reduce spend are then examined.

Savings are being monitored monthly via a RAG-rated tracker which forms an appendix to the OFP report. The MTFS notes that most straightforward savings have already been made which increases the delivery risk

Services are asked to review, RAG rate and comment on the performance of each of the savings approved for 2024-25. This process will continue for savings agreed for 2025/26 This allows Cabinet and senior officers to focus on any potential non-achievement and plan for mitigations.

To close the budget gaps, officers have been asked to provide contextual information to help management make difficult decisions around looking at the nature and extent of services the Council can provide, the process and timetable will involve the Scrutiny panel. Savings/additional income are only factored in when there is evidence that these are achievable, and they have been agreed by Cabinet.

Monthly budget monitoring processes, channelled through to the Cabinet, are instrumental in identifying emerging risks, providing the wider leadership team with comprehensive visibility and facilitating timely interventions.

There are a number of initiatives underway which aim to reduce the budget gap. 'Phase three' budget proposals are a series of service remodelling and reductions due to go to budget Scrutiny in late November/early December 2025, with an estimated impact of around £2-4m across 2025/26 to 2027/28). The Council is also proposing increased investment in its Transformation programme which is being scaled up to escalate delivery of outcomes including savings delivery. This has an estimated impact of around £21m across 2025/26 to 2027/28. A targeted review of spend/income including a review of contract spend, further reductions in non-essential spend and further increases to fees & charges estimated savings impact of £1-£2m in 2025/26. Despite these initiatives, the Council have noted they will not be sufficient to balance the budget in 2025/26 or in the medium-term and anticipate that they will utilise between £15 million and £20million of reserves to balance the budget for 2025/26. As noted above, we consider this to be indicative of a significant weakness in arrangements with regards to financial sustainability as a result of unsustainable use of reserves to bridge the budget gap.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on Governance

The Council's risk management and monitoring arrangements

The Council has a well-established risk management framework alongside an embedded governance structure that covers the whole organisation. The Council continually refreshes its Risk Management Strategy which informs the Council's service planning arrangements. The risk management process details the importance of mitigating, avoiding or reducing risk at all levels, and there are therefore corporate, directorate, service and project risk registers, all of which build on the detailed assessments of the key risks that impact on each area. The Corporate Risk Register is formally reported regularly to the Corporate Leadership Team (CLT) and to Audit Committee with a supporting analysis detailing movement in risk levels.

Detailed Directorate, Service and Project risk registers are all fed from the data within the Council's risk management system and link to the strategic and corporate risks as well as the corporate plan / objectives (required for all risks). Risk registers calculate a risk score both before and after the identification and application of any mitigating measures. This enables the Council to identify those areas where risk is still assessed as too high and take further steps to actively manage the risks as necessary. We have reviewed the risk management strategy and examples of risk registers, as well as the corporate risk register and deep dives and assessments by the Audit Committee. Our review confirms the strategy is clear and detailed, and the registers appear comprehensive, containing sufficient and appropriate detail to inform Council officers and Members. Our review confirmed that the Council's risk assessment had appropriately identified risks in line with our understanding, including among others: The Council's Financial Position/The Economy, Cyber/Information Security, Adult Social Care Budgets, SEND funding, the Climate Emergency, and Council Property repairs (relating to failings noted by the Housing Ombudsman).

The Council has an in-house internal audit function which, through its programme work, provides assurance over the effective operation of internal controls. Overall management of the services is by the Group Director of Finance and Resources, who also oversees the arrangements to prevent and detect fraud, which is also provided by the internal team. A risk-based Internal Audit plan is in place to ensure that key areas of activity are independently reviewed and progress against the plan is reported to the Audit Committee. This plan provides assurance over the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. A team of investigators undertake enquiries to respond to and identify fraud committed against the Council in line with the Anti-Fraud & Corruption Strategy, the results of this work is also reported to Members. Other elements of the Council's counter-fraud arrangements include an independent whistleblowing hotline, declaration of interest process, anti-bribery policy, gifts & hospitality process and staff code of conduct.

We reviewed the Internal Audit Plan for 2024/25 and progress to 31 March 2025. We found the plan to align with the risk-based approach. The 2024/25 Audit Plan consisted of 60 audits. Eight audits have been postponed, three cancelled, and one was added since the plan was agreed. Of the cancellations, one had been an additional engagement requested by an Academy but later no longer needed, one was covered by the scope of another audit, and one was because of risk profile change. The deferrals were mainly due to staff

absences or capacity in service lines, rather than internal audit. 16 of the reviews carried forward from 2023/24 annual plan had been completed and reported. Overall, this level of delivery is not indicative of a significant weakness in arrangements. This demonstrates that the internal audit team is equipped to fulfil its roles and responsibilities promptly. Internal Audit progress reports include reporting on the follow up of recommendations from previous Internal Audit reports and an assessment of progress in delivering these.

At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year. For 2024/25, the Head of Internal Audit concluded that an adequate level of assurance could be given that the Council's overall framework of governance, risk management and control remain adequate and has been complied with. For 2024/25, the Corporate Head of Audit, Anti-Fraud and Risk Management concluded the Council's control framework is adequate and remains robust.

Our review of the outcomes identified one audit which had limited assurance relating to Temporary Accommodation which we consider important enough that we need to make a recommendation, however, do not consider to be a significant weakness in arrangements. Following a major cyber-attack in 2020, the Council's Temporary Accommodation (TA) team have been working from google spreadsheets rather than a booking system and a finance system. The booking system upgrade was implemented in June 2025, however, the finance function will continue to rely on spreadsheets until the integrated NEC housing system is made available which is not expected until 2027.

TA is one of the Council's main financial pressures. The 2024/25 outturn for Climate, Homes and Economy service being reported as a £18.2m variance (after £3.9m use of reserves) against a budget of £75.3m. Of the £18.2m. £13.6m of the overspend related to Temporary Accommodation.

Internal Audit reported on 12 February 2025 the following issues pertinent to VFM with the current systems:

- They may result in errors from duplication
- They do not flag when rent reviews are due
- Void monitoring and handover notification processes are not effectively used
- Limitations in the spreadsheet system have resulted in errors to supplier payments, rent overpayments, late billing, rent arrears, and void properties not being turned around in stipulated timescales

As the data set grows over time, there is a risk that more errors will occur. The lack of accurate management and operational information could result in less efficient use of resources and avoidable costs for the TA service. Service users may experience less beneficial outcomes and relationships with accommodation suppliers may suffer if accurate and timely payments are not made.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The TA service incurred an overspend of £13m for 2024/25. As part of the 2025/26 budget, the total growth was £21.3m, rising to £33.8m in 2028-29. Temporary Accommodation total budget for 2025/26 is £73.8m. The July 2025 budget monitoring report to Cabinet in September 2025, showed the TA service has now controlled costs within this budget due to a slow-down in the growth of demand comparing Q1 2526 with Q1 2425. Currently there is a £2.056m underspend against budget including growth allocation. If the trend shifts, this position may deteriorate.

Given the importance of the TA service's financial performance on the Council's overall financial outturn, we recommend that the Council should ensure that it has arrangements in place to provide reliable data to inform decision making on the spending plans of the TA service.

Throughout the year we have attended Audit Committee meetings, and from our attendance at these meetings we are satisfied this allows Members to engage with the papers and reports which they receive from management, internal audit and external audit. The Committee has a wide range of responsibilities, which includes an agreed workplan that addresses governance issues, and requests reports on specific internal control issues if considered appropriate. The committee has appropriate status within the organisation to challenge management and obtain assurance on the operation of the internal control and governance framework. The Committee identifies areas where it requires additional assurance, such as on IT disaster recovery and Treasury Management, and receives reports on these areas at future meetings.

Council arrangements for budget setting and budgetary control

The 2024/25 Revenue and Capital Budget was approved in February 2024 and set out the estimates of the financial challenge for the 2024/25 financial year, as well as savings plans as detailed within the MTFS. Financial monitoring reports were prepared throughout 2024/25, highlighting key issues, including the impact of inflation on care providers, increased social care costs and temporary housing demand.

The leadership team (Members and officers) were fully engaged in the financial planning process through Cabinet and CLT meetings at which the budget proposals are reported and fully discussed and challenged where appropriate. Annual budget planning commences in the April of the preceding year. Budget proposals are developed alongside Cabinet Members and go through a budget scrutiny process where all proposals are subject to review and challenge by Scrutiny and Audit Committee Chairs and Vice Chairs. Many savings cover more than one year. The expectation is that services continuously challenge the costs incurred to ensure services are delivered as efficiently, effectively and economically as possible with the leadership team challenging proposals in the context of Council objectives and service priorities. In 2024-25, savings were agreed for 2025-26, 2026-27 and 2027-28.

The Council has well established budget monitoring arrangements. On the ground, the Council has a long-established business partnering approach with finance staff who report to the Group Director - Finance & Corporate Resources. This aims to ensure that internal finance teams are aligned with the Council's management portfolio structure and that the team work closely with budget holders to review, discuss and consider the financial pressures impacting on specific service areas. The Council has a detailed internal budget monitoring timetable to ensure reports, and associated commentary and discussions, are completed

and discussed on a timely basis. Overall financial position monitoring reports are prepared on a variety of bases, including the whole Council position in respect of both its Capital and Revenue budgets which are presented to Cabinet throughout the year. These have been used to provide updates on how the Council is delivering in respect of its previously identified key performance indicators in the short and medium term.

Directors of Finance play a pivotal role in this collaborative environment, regularly attending Departmental Management Team (DMT) meetings to provide insights into financial performance. This practice extends to divisional levels and individual Assistant Directors of Service budget meetings, facilitating a greater understanding of financial dynamics at all levels of operation. The Group Director, Directors and Assistant Directors of Finance also meet monthly to discuss and review current financial issues

At an organisation-wide level, the Group Director - Finance & Corporate Resources regularly provides finance updates to senior managers, the Senior Managers Network meetings and provides Cabinet with detailed monthly budget monitoring reports which set out the forecast for the year, new and emerging financial risks and mitigating actions in respect of budget pressures.

Council decision-making arrangements and control framework

The Council's core decision making structure and arrangements are well established and detailed within the Council Constitution, with decisions being either made by Members (Cabinet, Council, or service committees), the Mayor, Cabinet portfolio leads, or officers as appropriate. All Cabinet and Key Decision reports include Officer Comments, together with notes of Finance, Legal, Risk Management, Equalities and Organisational Implications. The Council has a range of overview and scrutiny commissions that continue to challenge and scrutinise Council decisions.

The Council's Scheme of Delegation sets out decision-making responsibilities in relation to Full Council and committees, including Cabinet and those delegated to officers. Where key decisions are made, they require a business case in the form of a Cabinet, Cabinet Procurement and Insourcing Committee report or a delegated powers report (DPR). All reports are required to be considered by finance to determine financial implications, as well as legal and in the case of procurement decisions compliance with procurement procedures.

The Council has an effective Scrutiny function which leads scrutiny reviews in key areas of service delivery. This function is made up of the Scrutiny Panel which coordinates and oversees the work of the four scrutiny commissions: Children and Young People, Health in Hackney, and Living in Hackney, Skills, Economy and Growth. Each year, the commissions will conduct one or two topics to be reviewed, as well as carrying out one-off investigations where needed. Active involvement of the public and their views is encouraged for those topics which are under review.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Council's Constitution came into force on 4 September 2023. The Constitution includes a Section around decision-making which clearly sets out the principles to be followed (Part 1, Section B).

All reports presented to any of the Council's decision-making bodies, e.g. Cabinet, Council, Audit Committee etc, are required to contain legal comments to ensure that any legislative or statutory requirements are considered as part of the decision-making process.

The Council has a Councillor Code of Conduct (which covers the Elected Mayor, Councillors and Co-Optees) as required under the Localism Act 2011. The Code assists the Council in complying with its duty to promote and maintain high standards of conduct by its Councillors and co-optees and forms part of the Council's Constitution). The Code was adopted by Full Council in January 2022 and came into effect following the Council wide elections in May of that year. The Code forms part of the Council's Constitution (Part 7, Section A).

The Council publishes register of interest forms for the Elected Mayor and Councillors on its website. It also publishes the declarations of gifts and hospitality. The declaration of interests is a standard item on agendas at all Council meetings and the Elected Mayor, Councillors, Co-Optees and Officers are required to declare any interests relevant to specific items on the agenda. Declarations are recorded in the minutes of each meeting.

The Council's Code of Conduct for Officers provides a framework and outlines core behaviours expected of Council employees. It forms part of the employment contract, is readily accessible on the intranet and is required to be read and understood by every Council employee.

The Council maintains a register of interests for senior officers which is updated annually. Any potential conflicts are brought to the attention of the relevant Director and measures are put in place to ensure that the position of the Council is not compromised by any such conflict. The Monitoring Officer is responsible for considering the declaration made by the Chief Executive.

The Council also has a protocol on relations as between the Elected Mayor/Councillors and Officers which forms part of the Council's Constitution (Part 9, Section C). This describes the differing roles and responsibilities of the Elected Mayor and Councillors and Officers, how the working relationship operates and the expectations that each may have of each other.

Based on the above considerations we are satisfied the Council has in place the proper arrangements in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

| Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|---|---|
| <p>Failure to comply with Health and Safety standards in relation to Social Housing</p> <p>In response to regulatory scrutiny, the Council self-referred to the Regulator of Social Housing (RSH) in June 2024 for non-compliance with the new Safety & Quality Tenant Satisfaction Measure, resulting in a 'C3' grading. This indicates serious failings in delivering consumer standards and a need for significant improvement. The Housing Ombudsman Service (HOS) also launched a special investigation into the Council's repairs delivery and complaints handling processes, publishing its final report in May 2025.</p> <p>The report by the Regulator for Social Housing noted a separate individual referral was sent to the Regulator for Social Housing in June 2024 raising concerns around London Borough of Hackney's data, stock quality, and repairs and maintenance service. As a result of the 2020 cyber attack, the Council has lost data and therefore could not evidence that checks and remedial actions had been completed in relation to asbestos, waste safety, and lift safety checks. The report also noted that the Council were in breach of the Safety and Quality Standard as due to the data loss, the Council lacked an accurate and up to date understanding of the condition of its homes, in particular with regards to assessment for hazards under the Housing Safety Rating System.</p> <p>The Council has accepted the HOS recommendations, integrating them into an updated Housing Improvement Plan. This plan includes workstreams for health and safety compliance, repairs, learning from complaints, knowledge and information management, oversight, workforce development, policy and procedure. The implementation of these recommendations is monitored by the HOS with quarterly advisory reports submitted to Cabinet and the Living in Hackney Scrutiny Commission.</p> <p>There is risk that the Council is failing to make progress against recommendations made by a regulator.</p> | <p>Work undertaken</p> <p>We engaged with management and obtain corroborating evidence to assess the progress the Council has made during 2024/25 to address the findings of the Housing regulators.</p> <p>We sought evidence from the Council on the action it has taken during 2024/25 to gain assurance over the adequacy of the data it holds over its Safety and Quality Standard and its housing stock.</p> <p>Results of our work</p> <p>The failure of the Council to deliver its overarching action plan to achieve 100% compliance with the Home Standard is evidence of a significant weakness in the Council's arrangements for Governance, specifically taking appropriate action for securing improvement in areas identified as requiring improvement by a regulatory body.</p> |

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

Overall commentary - Improving economy, efficiency and effectiveness

The Council has a range of performance monitoring and financial monitoring reports which are presented to senior management and Cabinet as part of the budget monitoring and performance reporting cycle. During 2024/25, financial monitoring reports included information about the financial pressures of the Council, the response to them, updates on the impact of the cost-of-living crisis, increased social care and temporary accommodation demands and management of associated financial pressures. The Council has a suite of performance indicators for which it collects data on a regular basis. It makes a large range of live management data about current service performance available to the services via Qlik which presents information in clear dashboards. Performance and progress against projects is monitored at all levels of the organisation to ensure that the Council is delivering its objectives, as laid out in the Strategic Plan, and statutory obligations.

The Council evaluates its performance in multiple ways at both a service-specific and an overarching Council-wide level. Directors, Group Directors, Corporate Leadership Team (CLT) and Cabinet members, and officer groups have access to online performance dashboards. The Council's KPIs are agreed by CLT/Cabinet and are updated as new data becomes available. These are regularly reviewed at meetings of CLT and between CLT and Cabinet Members and the Mayor. The Council's Assistant Director responsible for performance also meets the Chief Executive on a monthly basis to update on any performance issues and emerging issues and trends. The Audit Committee has also compiled a dashboard of KPIs which are reported on each quarter to the committee with relevant Directors available to answer questions from members of the Committee and address concerns.

Performance review analysis undertaken by the Council has highlighted areas of changes in service demand, whether arising from temporary accommodation rising demands or other service pressures, as well as the impact of government initiatives, policies, and cost of living crisis requirements on the Council's financial and operational performance. These reports identify service delivery challenges, such as increased demand/unit cost or underlying underperformance. This allows Officers and Members to identify resources required to address issues and ensure these are managed within the overall resource envelope. It also sought to identify any mitigating actions, based on forecasting from the available performance data, the Council could implement to manage demand, improve efficiency and reduce the impact on planned expenditure.

The Council adopted a new Performance Framework during 2024/25 creating new corporate dashboards for 2025/26. As part of the new Performance Management Framework implementation, for 2025/26 municipal year, performance will move from the Audit Committee to the Scrutiny Panel as recommended by the LGA Peer Challenge.

The Council also employs financial and performance marking across its services. Examples include use of Revenue Outturn, Section 251 data in determining potential areas for efficiency savings, through the Adult Social Care – Finance Report statistical returns and through regular ADASS (Directors of adult social services) budget surveys, as well as responded to ad hoc requests for benchmarking facilitates through the ADASS Finance Leads group, the use of marking data to underpin transformation work in Housing Services and the use of national Local Environmental Quality Indicator, to compare the cleanliness of Hackney's streets with other local authorities and to ensure continuous improvement in their performance. In addition to the corporate performance reporting, the Council continues to undertake a range of internal performance and management reporting to help it evaluate performance and identify areas for improvement and potential changes to service delivery.

Internal performance monitoring is supplemented by external scrutiny. In January 2025, the Local Government Association (LGA) published a report from their Corporate Peer Challenge process which was carried out from 17-20 September 2024. This report recognised Hackney Council as a strong, high-performing Council, while providing recommendations to help the Council build on its strengths and overcome its challenges. The report noted strengths with community understanding, equalities agenda, partnerships, leadership, financial management, and the Council's transformation program (while underlining the importance of delivering transformation in a large-scale and timely way in order to address the serious financial challenges the Council faces). The report made 11 recommendations focusing on prioritising objectives, transformation, financial challenges, partnerships, and support for elected members. As a response to this, the Council developed an action plan which was approved by Cabinet in March 2025. Progress against these recommendations is being reported to the Corporate Transformation Board on a quarterly basis and started in June 2025.

At a service level, the Council's engagement strategy aims to exceed statutory requirements to ensure Council projects are informed by meaningful, representative community engagement. The Council conducts a biannual resident survey, which covers the full spectrum of the Council's work, and also provides representative insights into the priorities of the community and their view of how the Council is performing. This is then considered as part of decision-making, prioritisation and delivery of services. The Council endeavours to learn from service specific external scrutiny and regulation, including recent inspections by Ofsted into the Council's children's services, the Care Quality Commission into the Council's housing with care, Regulator of Social Housing and the Housing Ombudsman. Our review of Ofsted reporting and CQC has not identified any indicators of significant weaknesses in arrangements.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness – continued

The Regulator of Social Housing and the Housing Ombudsman have highlighted clear areas of concern, which are considered in the next section and indicate a significant weakness in arrangements with regards to delivering improvements in efficiency, economy and effectiveness because this indicates a failure to take appropriate action or secure improvement in areas where the body has identified, or a relevant inspectorate or regulatory body has identified, weaknesses in terms of service performance. The work the Council has done to improve its housing services has been acknowledged and feedback from the two bodies continues to help inform the Council's efforts, however, there has not yet been follow up reporting confirming that the Council has fully addressed these findings. The Council has also set up a Resident Scrutiny Panel designed to ensure residents' views are at the heart of everything the service does, and is looking to set up a Housing Advisory Panel to provide oversight and challenge to the work of improving the service tenants and leaseholders receive.

Failure to comply with Health and Safety standards in relation to Social Housing

The Council made a self-referral to the Regulator for Social Housing (the Regulator) in June 2024 following an external review by the Regulator which gave an overall rating of 'no-assurance' in relation to its health and safety compliance, asset and data management and assurance framework in respect of Social Housing. The Regulator delivered a C3 grading in its report which was delivered in August 2024. The report noted 'serious failings in the landlord delivering the outcomes of the consumer standards and significant improvement is needed'. The Regulator covers five areas in their August 2024 report: gas, fire, asbestos, water and lift safety checks. Concerns were noted around the Council's repairs and maintenance service, the stock quality, and the lack of data the Council maintains relating to housing. The data loss is a result of the 2020 cyber-attack and has resulted in a breach of the Safety and Quality Standard. As a result, the Council lacks an accurate and up-to-date understanding of the condition of its homes, in particular with regard to assessment for hazards under the Housing Safety Rating System and could not evidence that checks and remedial actions had been completed in relation to asbestos, waste safety and lift safety checks.

The Council subsequently referred itself to the Regulator again for not having fully met their expectations in the abovementioned areas by the end of June 2025. This is indicative of a failure to improve on the recommendations previously issued by the Regulator of Social Housing.

Separately, in May 2025, the Housing Ombudsman released a special report on their investigation which commenced in October 2023. This was reported to the Scrutiny Panel on 12th June 2025. The report found factors indicative of wider repeated service failures within housing (those being: repairs and maintenance, mould and damp, and complaints handling, Knowledge and Information Management), geographical locations, failure to learn from complaints, and lack of oversight and governance to identify and act on repeated issues. They also found policy weaknesses.

The Ombudsman noted underlying problems in how the Council's scrutiny and oversight was supported to address the issues. Senior management have placed emphasis on achievements, without focussing

sufficiently on the causes of the service failings which the regulator investigated. This includes implementing 5-day inspection targets for damp and mould which the Council have been meeting but not implementing appropriate time frames to resolve the damp and mould itself; a performance-related bonus scheme that incentivised marking jobs as complete prematurely, distorting performance data (33% of recorded repairs visits are repeats, which supports this).

The report notes the Council's positive engagement as a landlord with the Ombudsman and the acceleration of work to improve the initial issues identified, however, these are still noted to be a problem following their initial report and so, given that the number of maladministration and high case load, we consider this to be a failure to significantly improve on the previous recommendations of the Regulator for Social Housing, and a significant weakness relating to improving economy, efficiency and effectiveness. Further detail has been documented in our risk consideration documents and will be outlined in the commentary.

The Council's arrangements for effective partnership working

The Council's Community Strategy 2018-28 sets out the overarching vision for Hackney over the decade to 2028. It provides direction for the Council's decision making throughout this period, including budget setting and a focus for work in partnership with residents, businesses, local organisations and community groups. The strategy was produced in partnership with local people and organisations in the local community over a period of three years ensuring it is reflective of the lived experiences of residents in the borough.

The strategic plan 2022-26 sets out the Council's organisational priorities including how it will work with partners. Specific partnership structures such as statutory arrangements for Health & Wellbeing Board and Community Safety Partnership are in place alongside non-statutory partnerships. During 2024/25, the Council was subject to a Local Government Association Corporate Peer Challenge. This reviews a range of aspects of the Council's strategy, delivery and governance including partnerships. The review team met with a range of partners both statutory and non-statutory and feedback was largely positive relating to partnership working, though noted some improvements needed with the Voluntary, Community and Faith Sector.

In addition, at a day-to-day level, the Council has a developed approach to stakeholder and consultation engagement which is evidenced in its approach to co-production and consultation across the range of services in respect of both business-as-usual processes to service transformation (including those integral to budget decisions) and more wide-ranging customer insight exercises. From consultation and engagement with tenants and leaseholders, through wide-ranging consultation on the wider community strategy to focussed engagement pieces such as the Young Futures Commission.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

Through various committees, the Council monitors the work and associated service delivery of key partnerships including consideration of changes to risks detailed in the applicable risk register. Key partnerships include those with its wholly owned housing subsidiaries and its relationship with healthcare partners as part of an integrated health and care system. These have developed and moved as the Council has worked with parties to respond and address points from the response to the pandemic. The Council has developed business plans with the 100% owned housing companies to allow for the delivery of effective services and activities in line with objectives, whilst ensuring that any associated generation of income can contribute towards further extension of these. There are detailed governance arrangements in place within the Council to provide oversight of the companies and their working and monitoring of development as they expand and change, and specific projects are completed and associated sales and rentals are completed. During the year the Council has continued to work closely with its local healthcare partners to manage services with consideration of the impact of the pandemic on health and social care. The Council contributes to the North East London Health and Care Partnership to seek to develop and implement a fully integrated health and care system that builds on existing arrangements to improve health and wellbeing and reduce inequalities. Subsequently the Council has worked extensively with these partners to develop a Recovery Plan, recognising that they need to continue to work together through the various arrangements to address delivery issues and ensure further learning and adaptation. The developed Recovery Plan has taken the learning and experience from the development of responses to Covid-19 and the existing inequalities in health outcomes of Hackney's population.

The Council's Constitution contains details of its specific Procurement policy and strategy and sets out the processes the Council must follow when procuring goods or services. A principal aim of the strategy is to secure value for money from contracting activities and achieve the best outcome for Hackney residents. We have reviewed the procedure rules and confirmed that these appear comprehensive and cover the procurement procedures, the quotation and tender process, use of frameworks, tender evaluation and development of relevant contract monitoring processes.

As part of its approach to purchasing, the Council has a Procurement Strategy which seeks to improve the Council's contracting approach through changing its engagement with the market, in particular local and Small to Medium Enterprise suppliers, and includes guidance on implementation of sustainable procurement. This is achieved by ensuring the strategy focuses on environmental, economic and social sustainable development themes, to promote procuring on a green basis and for a better and fair society. Any assessment for service procurement and contract management the Council has implemented a separate approach to insourcing to give services a more structured approach for those decisions. The implementation of the Procurement Act 2023 changes have been effectively undertaken. Hackney Procurement Board meets regularly to review the pipeline of procurement activity and to oversee the delivery of current procurement activity and ensure this is

compliant with the Act.

All procurement activities must be carried out in accordance with the Council's Contract Standing Orders as set out in part 5 of the Constitution, and in compliance with the Council's General Scheme of Delegation to Officers. There are detailed procurement routes applicable to various levels of spend, as well as a risk management framework in place for any procurement in excess of £120k (including VAT). The application of the risk framework and the estimated value of the requirement determine the governance arrangements applicable to individual procurements. All procurements assessed as medium or high risk are required to use the Council's procurement gateway process with high-risk decisions taken by the Cabinet Procurement and Insourcing Committee and medium risk decisions taken by the Hackney Procurement Board.

Subsequent to the award, the Council Contract managers are responsible for monitoring contracts to ensure that suppliers are delivering against agreed specifications and maintaining records of supplier performance. Detailed support is provided from the Procurement Team for the management of high risk and key strategic contracts.

The Council uses specific key performance indicators to establish expected outcomes and benefits from the procurement within contracts, and subjects these to active monitoring to ensure the benefits are being delivered. Where contract management information indicates issues with delivery, the Council seeks to engage with suppliers to develop and implement improvements to processes and service delivery. Maintaining dialogue with suppliers is crucial in delivering services and in ensuring disputes and disagreements are minimised.

VFM arrangements


Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement


As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

| Identified significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Recommendation for improvement |
|---|---|------------|-------------------|--|
| <p>Unsustainable and unplanned use of reserves and other short-term measures to deliver services</p> <p>Whilst the Council's general fund balance has been increased to meet the Group Director - Finance & Corporate Resources' prudent minimum level of £19 million in 2024/25, other usable reserves (the General fund reserve balance shown in the statement of accounts) have fallen from £154.1 million at 31/03/2024 to £111.6 million by 31/03/2025, a reduction of £43.5m. The Council should reduce its reliance on reserves to fund budget gaps by identifying further transformation opportunities to enable efficient and sustainable service delivery.</p> <p>1 The Council has determined, through its Medium Term Financial Planning that it has sufficient reserves to cover expenditure at current levels for approximately two financial years to March 2027 before these are exhausted, although this timeframe relies on the Council achieving its identified savings proposals and income initiatives. After this, the Council does not have a plan to balance its budget. Continued reliance on the use of reserves to mitigate lack of savings delivery and bridge budget gaps is unsustainable and risks the Council depleting its reserves whilst not achieving the savings and cost control measures needed to deliver services. In our view this is evidence of a significant weakness in the Council's arrangements for financial sustainability, specifically in relation to how the Council plans to bridge its funding gaps and identifies achievable savings.</p> |  | | | <p>The Council should reduce its reliance on reserves to fund budget gaps by identifying further transformation opportunities to enable efficient and sustainable service delivery</p> |

VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

| Identified significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Recommendation for improvement |
|--|--------------------------|------------|---|---|
| <p>2</p> <p>Failure to comply with Health and Safety standards in relation to Social Housing In June 2024, the Council made a self-referral to the Regulator of Social Housing (the Regulator) and engaged with them on issues relating to its social housing health and safety compliance, asset and data management and assurance framework. In August 2024, the Regulator issued a report which noted serious failings in the Council delivering the outcomes of the expected consumer standards, and reported significant improvement was needed. The Regulator also noted that they had received a separate 'individual referral' (a referral made by an interested party and not related to the Council's self-referral) in June 2024 which raised concerns around the Council's data, stock quality and repairs and maintenance service.</p> <p>As a result a cyber attack in 2020, the Council lost data and therefore could not evidence to the Regulator that checks and remedial actions had been completed in relation to asbestos, waste safety, and lift safety checks. The report also noted that the Council was in breach of the safety and quality Standard as due to the data loss, the Council lacked an accurate and up to date understanding of the condition of its homes, in particular with regards to assessment for hazards under the Housing Safety Rating System.</p> <p>In addition, in May 2025, the Housing Ombudsman Service separately reported on its special investigation into the Council's repairs delivery and complaints handling. The report found factors indicative of wider repeated service failures within housing (those being: repairs and maintenance, mould and damp, and complaints handling, knowledge and information management), geographical locations, failure to learn from complaints, and lack of oversight and governance to identify and act on repeated issues.</p> <p>These matters impact the Council's ability to meet its responsibilities for providing social housing. Continued underperformance risks further regulatory action.</p> <p>In our view the above identified issues are evidence of a significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness, specifically in relation to how the Council evaluates the services it provides to assess performance and identify areas for improvement</p> | | |  | <ol style="list-style-type: none"> 1) The Council should take steps to implement recommendations made by the Regulator for Social Housing and Housing Ombudsman. 2) The Council should work to restore the data held on its properties. 3) The Council should ensure targets focus on resolving the underlying issues noted by the Regulator for Social Housing and the Housing Ombudsman and ensure arrangements are in place to monitor performance so that the issues do not recur. |

Other reporting responsibilities

Other reporting responsibilities

Wider reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received one objection in the 2024/25 financial year which has been rejected.

Reporting to the group auditor

Whole of Government Accounts (WGA)

In line with group audit instructions issued by the NAO, Forvis Mazars are required to complete a programme of work on the Council's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO is yet to provide confirmation on the approach to selecting sampled components. Without this information, our auditors are unable to complete the work and issue its certificate which concludes the audit

05

Audit fees and other services

Audit fees and other services

Fees for work as the Council's appointed auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in May. We are currently in discussion with the s151 Officer regarding additional fees prior to submission to the PSAA.

Our fees are designed to reflect the time, professional experience, and expertise required to perform our audit. The main aspects impacting upon the fee this year when compared to the prior year are higher scale fees set by PSAA and additional work to address risks. PSAA is currently considering the final fees for the 2023/24 audit. We will discuss and agree our final fees with the Group Director of Finance and Corporate Resources.

| Area of work | 2024-25 Proposed Fee | 2023-24 Actual Fee |
|--|-------------------------|--------------------|
| Code Audit Work | £569,023 | £534,622 |
| Additional fees for: | | |
| Work carried out on PPE and IP valuations, including use of our expert ¹ | £10,000 - £15,000 | £15,500 |
| Work carried out for the revised International Auditing Standards (ISAs) 315 and 240 | (Included in scale fee) | £15,690 |
| Risk based procedures for value for money ² | £5,000-£20,000 | - |
| IFRS 16 first year implementation ³ | TBC | - |
| Dealing with objections ⁴ | - | TBC |
| TOTAL | TBC | TBC |

Notes

The following items are not included in the PSAA scale fee:

1. Use of our own expert for auditing PPE and IP valuations.
2. Work required to address identified risks of significant weakness in VFM arrangements.
3. Implementation of IFRS16 in year one.
4. Time taken to deal with correspondence and objections to the accounts.

All fees excluded VAT

06

Audit of London Borough of Hackney Pension Fund

Audit of London Borough of Hackney Pension Fund

Summary of key information

As the auditor for London Borough of Hackney Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year ended 31 March 2025.



Opinion on the Pension Fund financial statements

We issued our audit report on 27 February 2026. Our opinion on the financial statements was unqualified.



Risks, misstatements and internal control recommendations

A summary of the control recommendations made between issuing our Audit Completion Report on 12 February for the 24th February audit committee meeting and the completion of our audit is included for the attention of members in Appendix B. This outlines 2 control recommendations.



Consistency report

We concluded that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of London Borough of Hackney.



Wider reporting responsibilities

We have not exercised any of these powers as part of the audit of London Borough of Hackney Pension Fund's 2024/25 audit.



Significant difficulties during the audit

We draw the following matters to your attention:

- Extensive additional work was required to obtain sufficient appropriate audit evidence for the classification of level 3 investments. While the Fund's working papers were largely adequate, they did not clearly record the sources for the disclosures in the financial statements needed to reperform and determine the investments were appropriately supported by the underlying custodian reports.
- Responses to queries have often been unexpectedly delayed. One outstanding query initially issued on 5th October 2025 was only resolved on 12th February. This relates to the reconciliation of IAS 19 data to the custodian reports. Where responses were received in a more timely fashion, often they were insufficient to satisfy the request and required additional work by the audit team.

Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Risk Management Panel on 18 June 2025. Having completed our work for the 2024/25 financial year, we can confirm that our fees are as follows:

| Area of work | 2024/25 fees | 2023/24 fees |
|---|----------------|----------------|
| Planned fee in respect of our work under the Code of Audit Practice | £83,963 | £73,362 |
| Additional fees for work on level 3 investments | TBC | - |
| Additional fees in respect of changes to International Auditing Standards (ISAs) 315 (understanding the fund) and 240 (fraud). This is now built into the PSAA scale fee. | - | £7,840 |
| Total fees | £83,963 | £81,202 |

Fees for other work

We confirm that we have not undertaken any non-audit services for the Pension Fund in the year.

Appendices

[Appendix A: Further information on our audit of the London Borough of Hackney financial statements](#)

[Appendix B: Further information on our audit of the Pension Fund financial statements](#)

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council identified since issuing the ACR

Unadjusted misstatements which were not previously recorded in the ACR:

| | Description | Nature | Assets | Liabilities | Reserves | Income Statement |
|---|---|--------------|--------|-------------|----------|------------------|
| 1 | <p>Dr: Reserves Cr: Other Services Expenses</p> <p>Cut off error misstatement</p> <p>Two items of expenditure totalling £435k were recorded in the 2024/25 financial year but related to the 2023/24 financial year. No accruals had been made. This resulted in a £10.9 million projected overstatement other service expenses and reserves.</p> <p>This item was previously reported in the ACR as a projected misstatement of £8,180k and has been revised following review of testing.</p> | Extrapolated | | | 10,851 | (10,851) |

Updates to documented unadjusted misstatements in the ACR:

| | Description | Nature | Assets | Liabilities | Reserves | Income Statement |
|---|---|--------------|--------|-------------|----------|------------------|
| 2 | <p>Dr: Fees, Charges and Other Service Income Cr: Reserves</p> <p>Updated Fees, Charges and Other Service Income testing error</p> <p>We noted in testing of Fees, Charges and Other Service income that income for 2023/24 had been recognised in 2024/25. We understand that the Council has a de minimis threshold for accruals in place, however, as this is not included in the accounting policies this error has been extrapolated against the total population to determine the representative error in the balance. £1,554 actual error noted.</p> <p>This was reported incorrectly in the ACR as £8.2 million.</p> | Extrapolated | | | (9,318) | 9,318 |
| 3 | <p>Dr: Creditors Cr: Usable Reserves</p> <p>Updated Creditors testing error</p> <p>The entry for misstatement #5, whereby a grant received in advance had been incorrectly classified as a short-term creditor, was incorrectly reported in the ACR. The amount was correct, but the double entry was DR CIES and CR Balance Sheet. The correct entry is DR Liabilities and CR Reserves.</p> | Extrapolated | | 4,884 | (4,884) | |

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council identified since issuing the ACR

Updates to documented unadjusted misstatements in the ACR:

| | Description | Nature | Assets | Liabilities | Reserves | Income Statement |
|--|--|--------------|----------------|--------------|--------------|------------------|
| 4 | <p>Dr: Investment Properties Cr: CIES</p> <p>Updated Investment Properties valuations testing error Income evidence provided totalled £2,547,219, the amount used in the calculation by the external valuer was £2,457,219, resulting in understatement of £1,770k. This was incorrectly reported in the ACR. The amount was correct, but the double entry was DR CIES and CR CIES. The correct entry is DR Assets and CR Income Statement.</p> | Extrapolated | 1,770 | | | (1,770) |
| Total unadjusted errors (inclusive of those previously reported in the ACR) | | | (1,392) | 4,884 | (189) | (3,303) |

Appendix A: Further information on our audit of the Council's financial statements

Summary of adjusted misstatements for the Council identified since issuing the ACR

Updates to ACR adjusted misstatements:

| | Description | Nature | Assets | Liabilities | Reserves | Income Statement |
|---|--|--------------|--------|-------------|----------|------------------|
| 4 | <p>Dr: PPE (RoU Assets) Cr: Lease Liability Market Value Leases Misstatement This adjustment corrected various errors noted in the calculation of the right of use assets and corresponding liabilities for market value leases.</p> | Extrapolated | 17,460 | (17,460) | | |

Adjusted misstatements which were not previously recorded in the ACR:

| | Description | Nature | Assets | Liabilities | Reserves | Income Statement |
|--|---|---------|------------------|-----------------|-----------------|------------------|
| 5 | <p>Dr: PPE Cr: Revaluation Reserve Cr: I&E Updated Indexation Error We noted a calculation error led to an incorrect percentage being applied and the land valuations being understated by around £25.4m. The Council applied -3.41% instead of -0.03% due to a formula error. Estimated misstatement previously included in the ACR was £28.0 million.</p> | Factual | 25,352 | | (24,550) | (802) |
| Total adjusted errors (inclusive of those previously reported in the ACR) | | | (179,983) | (17,460) | (34,404) | 231,847 |

Appendix A: Further information on our audit of the Council's financial statements

Internal control observations for the Council

Other deficiencies in internal control

A deficiency in internal control exists if:

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

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

The matters reported in this appendix are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

This Appendix sets out the internal control observations that we have identified since issuing our Audit Completion Report on 12 February for the 24th February audit committee meeting. These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Appendix A: Further information on our audit of the Council's financial statements

Internal control observations for the Council

Other deficiencies in internal control

Related Parties

Description of deficiency

The Council ensures the completeness of related parties arising from councillors through two controls. The first is the statutory register of interests. The second is a specific related parties form. We identified that not all councillors completed their related parties forms during the financial statement closing process despite the efforts of the finance team to obtain these.

Potential effects

The potential effect of non-compliance from filling out the related parties declarations is that related party transactions and relationships are not disclosed in the financial statements.

Recommendation

We recommend the Council strengthens processes and controls in place to meet 100% compliance during the financial statement closing process in the filling out of related party forms by councillors.

Management response

Two councillors did not submit their related party forms; one was on maternity leave, and the other did not engage, indicating a minor lapse in our otherwise robust processes. Despite this, we are committed to achieving 100% compliance with the CIPFA Code of Practice going forward, ensuring all relevant relationships and transactions are fully disclosed in the financial statements.

Appendix A: Further information on our audit of the Council’s financial statements

Internal control observations for the Council

Other deficiencies in internal control

Password Security

Description of deficiency

ITGC testing of Password Security of IT systems identified inconsistencies within the policy and best practice principles relating to restricted reuse of passwords for users, password expiry timeframes and number of characters passwords.

Potential effects

There is a risk that passwords may be weaker and more susceptible to cyber-attack which would impact the operational effectiveness of the entity.

Recommendation

1. Ensure that password policy is in line with best practice standards
 2. Ensure that parameters on google workspace and account sign ons are consistent with password policies.
-

Management response

The IT Department is currently conducting a comprehensive review of our existing password policy to ensure continued alignment with industry best practices and evolving security standards.

Currently, our Google Workspace and Single Sign-On (SSO) protocols mandate a "Strong Password" configuration—requiring a combination of letters, numbers, and symbols—with a minimum length of nine characters. This policy also strictly prohibits password reuse and enforces Multi-Factor Authentication (MFA).

While our current standards meet many foundational security requirements, we will be increasing the minimum password length to 12 characters. This technical modification will be applied to Google Workspace and all integrated sign-on systems to ensure consistent enforcement. These proactive measures are vital to bolstering our defense against sophisticated cyber-attacks and maintaining the integrity of our operations.

Appendix A: Further information on our audit of the Council's financial statements

Internal control observations for the Council

Other deficiencies in internal control

IT General Controls

Description of deficiency

ITGC testing of User Access Reviews of in-scope IT systems identified that there was no implementation of the user review policy which requires System Leads to review licence access and user access requirements in line with roles. Whilst the council provided verbal assurance that these reviews were taken and there were no users with inappropriate access given on either iTrent or CedAR systems there was no formal documentation in place therefore are unable to confirm the successful implementation of this control.

Potential effects

There is a risk that users may not have their access reviewed in a timely and appropriate manner which may result in inappropriate privileges being given to individuals beyond the scope in which the access originally agreed or beyond that changes to roles would permit.

Recommendation

1. Document regular reviews of user access lists and security access levels dependent on role
 2. Evidence any inquiry with other service areas as part of the process and document any actions taken in response to review
 3. Ensure reviews are formally documented and signed off by the system lead in line with the Council's User Access Policy
-

Management response

To strengthen internal controls, the Council is transitioning from a verbal assurance model to a mandatory, documented review process for user access.

To clarify, the existing control environment. Current protocols for initial user provisioning are comprehensive and include mandatory management authorisations and the enforcement of Least Privilege through Role-Based Access Control (RBAC). Furthermore, a strict offboarding process is in place to ensure user credentials are deactivated immediately upon termination. To enhance the current framework, the documentation of periodic access reviews will be formalised. This will ensure that any discrepancies between evolving job functions and system privileges are captured and remediated in a traceable manner.

System Leads will be required to regularly review user access lists against current roles and responsibilities and formally sign off on these reviews. A standardised template will be introduced to record all inquiries made to other service areas and the resulting actions, such as revoking access. This new process will be incorporated into the Council's User Access Policy to guarantee that user privileges consistently align with the scope of their individual roles.

Appendix B: Further information on our audit of the Pension Fund financial statements

Internal control observations for the Pension Fund

Other deficiencies in internal control

Fund Manager Reconciliation

Description of deficiency

Quarterly reconciliations between the Fund Manager and GL have not been taking place due to disagreements about the figures.

Potential effects

This means that the assertions of Existence, Rights and Obligations, and Valuation have not been accurately assessed on a regular basis which may impact internal budgets. A year-end reconciliation has been taking place, which means that the scope for material deficiencies is limited.

Recommendation

In order to improve the controls process, there should be adequate discussions with the custodian to come to a consensus for quarterly reconciliations to still take place. This helps to ensure that the value of investments remains accurately valued.

Management response

The Pension Fund changed custodian in September 2023, the processes and reporting of investments by the custodian has changed over time following the transition. The historic arrangement meant some transactions were payments directly to the fund managers from the Pension Fund such as purchases for private market capital calls and some income, capital distributions from fund managers were paid directly to the Fund's bank account rather than the custodian. This had led to some differences between what the fund manager reports compared to the custodian. Fund officers have taken steps to implement the more common model whereby all transactions go through the custodian. We have had some success but the custodian would not implement capital calls due to LGPS pooling now underway.

Fund officers use a combination of custodian reports, fund manager reports and cashflows for completeness when carrying out reconciliations on investments and assess whether appropriate valuation of investments have been reported in the custodian reports prior to posting transactions to the general ledger.

Officers engaged with the custodian in October 2024 to undertake monthly fund manager reconciliations which commenced in December 2024, this was only possible for the segregated bond mandate for which they provide custody. The remaining fund managers were pooled investments and reported to the custodian and Fund on a monthly or quarterly basis. The custodian provides quarter reporting in addition to annual reporting to assist officers in reconciliations.

Officers have continued to engage with the custodian to align valuation methods and improve on the recording of cash flows such as directing investment distributions from the fund manager to the custodian. Officers will continue to engage with the custodian to find a solution that improves the timeliness of reporting, resolving discrepancies and approval of reconciliations. We recognise that the custodian and fund managers may have differences in valuation methods, officers will ensure that reconciliations include reasons for differences.

Appendix B: Further information on our audit of the Pension Fund financial statements

Internal control observations for the Pension Fund

Other deficiencies in internal control

Related Parties

Description of deficiency

Not all councillors (including Pension Fund Committee Councillors) completed their related parties forms during the financial statement closing process despite the efforts of the finance team to obtain these. The CIPFA Code of Practice Guidance Notes detail that sole reliance on the statutory register of interests requires recording of transactions as well as relationships, and therefore we consider the operation of both of these controls necessary to ensure the completeness of the related parties note. We consider that the control is currently deficient.

Some Pension Fund Committee members declaration forms are included in this and so the control recommendation also applies to LBHPF.

Potential effects

Related party note might be incomplete or inaccurate.

Recommendation

We recommend the Council strengthens processes and controls in place to meet 100% compliance during the financial statement closing process in the filling out of related party forms by councillors.

Management response

Two councillors did not submit their related party forms; one was on maternity leave, and the other did not engage, indicating a minor lapse in our otherwise robust processes. Despite this, we are committed to achieving 100% compliance with the CIPFA Code of Practice going forward, ensuring all relevant relationships and transactions are fully disclosed in the financial statements.

Appendix B: Further information on our audit of the Pension Fund financial statements

Internal control observations for the Pension Fund

Other deficiencies in internal control

Fund Manager Reconciliation

Description of deficiency

Inconsistencies were identified within the password security policy and best practice principles relating to restricted reuse of passwords for users, password expiry timeframes and number of characters passwords would be. This control is to be included in the follow-up letter to the audit completion report.

Potential effects

There is a risk that passwords may be weaker and more susceptible to cyber-attack which would impact the operational effectiveness of the entity.

Recommendation

We recommend the Council ensures that password policy is in line with best practice standards that parameters on google workspace and account sign-on are consistent with password policies.

Management response

The IT Department is currently conducting a comprehensive review of our existing password policy to ensure continued alignment with industry best practices and evolving security standards.

Currently, our Google Workspace and Single Sign-On (SSO) protocols mandate a "Strong Password" configuration—requiring a combination of letters, numbers, and symbols—with a minimum length of nine characters. This policy also strictly prohibits password reuse and enforces Multi-Factor Authentication (MFA).

While our current standards meet many foundational security requirements, we will be increasing the minimum password length to 12 characters. This technical modification will be applied to Google Workspace and all integrated sign-on systems to ensure consistent enforcement. These proactive measures are vital to bolstering our defence against sophisticated cyber-attacks and maintaining the integrity of our operations.

Appendix B: Further information on our audit of the Pension Fund financial statements

Internal control observations for the Pension Fund

Other deficiencies in internal control

User Access Review

Description of deficiency

ITGC testing of User Access Reviews of in-scope IT systems identified that there was no implementation of the user review policy which requires System Leads to review licence access and user access requirements in line with roles. Whilst the council provided verbal assurance that these reviews were taken and there were no users with inappropriate access given on either iTrent or CedAR systems there was no formal documentation in place.

Potential effects

There is a risk that users may not have their access reviewed in a timely and appropriate manner which may result in inappropriate privileges being given to individuals beyond the scope in which the access originally agreed or beyond that changes to roles would permit.

Recommendation

We recommend the Council document regular reviews of user access lists and security access levels dependent on role with evidence of inquiry as part of the process and document any actions taken in response to review with authorisation by the system lead in line with the Council's User Access Policy.

Management response

To strengthen internal controls, the Council is transitioning from a verbal assurance model to a mandatory, documented review process for user access.

System Leads will be required to regularly review user access lists against current roles and responsibilities and formally sign off on these reviews. A standardised template will be introduced to record all inquiries made to other service areas and the resulting actions, such as revoking access. This new process will be incorporated into the Council's User Access Policy to guarantee that user privileges consistently align with the scope of their individual roles.

Appendix B: Further information on our audit of the Pension Fund financial statements

Internal control observations for the Pension Fund

Other deficiencies in internal control

CedAR E5 System Fault

Description of deficiency

Journals testing on the Council audit identified 7 instances in which the journal inputter's user ID was the same as the reviewer ID. This was caused by a system fault in CedAR e5, where the reviewer ID overwrites the initial poster ID. We cannot ascertain how many journals overall may be impacted by this issue. There were no indications of management override of controls or fraud in the journals selected for testing because they had the same user and approver. Due to the shared ledger system this control deficiency applies to both the Council and the Pension Fund audits.

Potential effects

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

Recommendation

We recommend the Council review the reporting function in CedAR and ensure that reporting accurately reflects the journal uploader, reviewers and authoriser as well as ensure that journal upload templates are updated for all manual journals to ensure consistency.

Management response

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

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