

<b>Title of Report</b>	External Audit Plan 2025/26
<b>For Consideration By</b>	Audit Committee
<b>Meeting Date</b>	17 June 2026
<b>Classification</b>	Open
<b>Ward(s) Affected</b>	All
<b>Group Director</b>	Naeem Ahmed Group Director - Finance & Corporate Resources

## 1. **Introduction**

- 1.1. This report introduces the 2025/26 Indicative Audit Strategy Memorandums from Mazars, the Council's external auditors, in respect of the Council's Accounts.
- 1.2. The Audit Strategy Memorandums (ASMs) outline Forvis Mazars' planned audit approach for the London Borough of Hackney and its Pension Fund for the financial year ending 31 March 2026. They detail the engagement responsibilities, audit scope, timeline, materiality thresholds, significant identified risks, approach to Value for Money (VFM), audit fees, and confirmation of auditor independence. These memorandums have been prepared following initial planning discussions and agreed with relevant officers of the Council.

## 2. **Recommendations**

- 2.1. The Audit Committee is recommended to: Consider and note the contents of the attached 2025/26 Audit Strategy Memorandums from Forvis Mazars LLP, the Council's external auditor, for both the Council and the Pension Fund.

## 3. **Reason(s) for decision**

- 3.1. The Audit Committee constitutes "those charged with governance" in respect of the Council's annual statement of accounts and other financial matters. As such, they receive regular reports from Forvis Mazars LLP in relation to the financial accounts and the external audit strategy. This report provides the Committee with specific details of the audit arrangements for the 2025/26 Statement of Accounts.

#### 4. **Background**

##### Policy Context

- 4.1. The attached memorandums set out the arrangements for the audit of the Council's annual Statement of Accounts as required by the relevant legislation and related Accounts and Audit Regulations.

##### Equality impact assessment

- 4.2. This report does not require an equality impact assessment.

##### Sustainability and climate change

- 4.3. Not Applicable

##### Consultations

- 4.4. Forvis Mazars consulted with relevant senior officers of the Council in the preparation of the Memorandums.

##### Risk assessment

- 4.5. As set out in the Plan, the external auditors have considered the key risks and this has informed the audit approach as set out in the detailed reports from Forvis Mazars attached to this report as an Appendices.

#### 5. **Audit Strategy Memorandums 2025/26**

- 5.1. Mazars have identified four significant risks and one enhanced risk in relation to the Authority's accounts where audit attention will focus due to the likelihood of potential financial misstatement. Four of these risks relate to key accounting valuations and internal controls consisting of management override of controls, the valuation of property, plant and equipment (PPE), valuation of investment properties and the pensions defined benefit liability valuation. For the 2025/26 period, IFRS 16 Leases and PFI has been reclassified as an enhanced risk, moving from its previous status as a significant risk in 2024/25. Details of these risks and the audit approach to these are set out in page 7 of the Audit Strategy Memorandum, attached at appendix 1 of this report.

- 5.2. In relation to the audit of the Pension Fund Accounts, the auditors have identified just two significant risks relating to management override of controls and the valuation of level 3 investments where at least one input that has an impact on the valuation is not based on observable market data. Further details and the auditors' approach to these risks are set out in page 7 of the Pension Fund Memorandum at appendix 2.

- 5.3. To ensure the audit effectively targets areas vulnerable to significant financial misstatement, Forvis Mazars LLP has established initial materiality thresholds based on prior year financial profiles. For the Council's consolidated group financial statements, overall materiality is set at

£25.390m (calculated as 1.8% of gross revenue expenditure), with performance materiality at £19.043m and a clearly trivial reporting threshold of £773k. For the Pension Fund, overall planning materiality is set at £21.198m (representing 1% of net assets), alongside a specific Fund Account materiality of £8.577m benchmarked against contributions receivable. Additionally, a lower, specific materiality threshold of £10k per individual has been applied to senior officers' remuneration disclosures to maintain strict accountability for public reporting.

5.4. To mitigate control weaknesses highlighted in the 2024/25 audit, the Council has implemented remedial measures concerning IT password and user security, revenue capitalisation, and the CedAR E5 journals system glitch. The external auditors will evaluate these actions during the upcoming audit, and progress will be formally reported to the Audit Committee within the Audit Completion Report.

5.5. The Audit Strategy Memorandum sets out the requirements of the external auditor in relation to the Council's value for money arrangements under the Code of Audit Practice. Auditors evaluate proper arrangements across Financial Sustainability, Governance, and Improving the 3Es. Forvis Mazars LLP highlighted two new risks of significant weakness and two previous follow-up areas:

- SEND Services (New VFM Risk): An Ofsted inspection in November 2025 flagged poor KPI definitions, declining timeliness of Education, Health, and Care plans, and high exclusion rates.
- Adult Social Care (New VFM Risk): A CQC assessment in February 2026 rated the service as "Requires Improvement" due to severe operational delays in assessments and lower-than-average outcomes for carers.
- Reliance on Reserves (Follow-up VFM Risk): Continued oversight of the "unsustainable" general fund overspend balanced by reserves.
- Housing Health & Safety Standards (Follow-up VFM Risk): Tracking remediation following a 2024 self-referral to the Regulator of Social Housing, which exposed data loss on asbestos and safety checks originating from a 2020 cyberattack.

## 6. **Comments of the Group Director, Finance and Corporate Resources**

6.1. The proposed base fee for the annual audit of accounts is estimated at £585k for 2025/26 (up from £569k in 2024/25), representing 2.8% increase. Additional estimated fees vary between £10k to £15k for risk-based Value for Money work, with fees for IFRS 16 and PPE/IP valuations currently pending final determination ("TBC")

6.2. In addition to the main Council audit, the proposed fee for the Pension Fund audit is £80k for 2025/26 (excluding additional pending fees for testing the triennial valuation membership data). This represents an 4.5% decrease on the prior year's scale fee of £84k.

6.3. The costs outlined will need to be contained within existing budgets.

7. **Comments of the Director of Legal, Democratic and Electoral Services**

7.1. Article 9.3 of the Council's constitution gives the Audit Committee responsibilities relating to the Councils risk management framework, internal financial & governance control and financial reporting.

7.2. The Council is required to have its annual statement of accounts audited in line with current legislation and related regulations.

7.3. The external auditor's statutory responsibilities are set out in the Local Audit and Accountability Act 2014 and the national Audit Office's Code of Audit Practice. They are required to audit/review and report on the financial statements, providing an opinion and the use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness (the VFM conclusion).

7.4. In accordance with the terms of reference Appendix 3, (h) the Audit committee function is to consider reports on the effectiveness of internal controls and to monitor the implementation of agreed actions. The recommendations set out at 2.1 of this report accords with this function.

**Appendices**

Appendix 1 - Audit Strategy Memorandum – LB Hackney 2025-26

Appendix 2 – Audit Strategy Memorandum – LB Hackney Pension Fund 2025-26

**Background documents**

None

<b>Report Author</b>	<a href="#">Mizanur Rahman</a> Assistant Director of Corporate Finance <a href="mailto:mizanur.rahman@hackney.gov.uk">mizanur.rahman@hackney.gov.uk</a> 020 8356 4347
<b>Comments for the Group Director of Finance &amp; Corporate Resources prepared by</b>	<a href="#">Naeem Ahmed</a> Group Director - Finance & Corporate Resources <a href="mailto:naeem.ahmed@hackney.gov.uk">naeem.ahmed@hackney.gov.uk</a> 020 8356
<b>Comments for the Acting Director of Legal, Democratic and Electoral Services prepared by</b>	<a href="#">Georgia Lazari</a> Team Leader (Places) <a href="mailto:Georgia.Lazari@legal.hackney.gov.uk">Georgia.Lazari@legal.hackney.gov.uk</a> 020 8356 1369