



Audit Strategy Memorandum
London Borough of Hackney – Year ending 31 March 2026

8 May 2026

Audit Committee
London Borough of Hackney
Hackney Town Hall
Mare Street
London
8 May 2026

I am pleased to present our Audit Strategy Memorandum (“ASM”) for London Borough of Hackney for the year ended 31 March 2026. This document will be presented at the Audit Committee meeting on 17 June 2026. If you would like to discuss any matters in more detail, please contact me on 07977 261873.

This report provides an overview of the planned scope and timing of our audit, including the significant and enhanced audit risks we have identified. In addition, as it is a fundamental requirement that we are, and are seen to be, independent of London Borough of Hackney this report also summarises our considerations and conclusions on our independence.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of our audit and our respective responsibilities,
- Sharing information to assist each of us with fulfilling our respective responsibilities,
- Providing you with constructive observations arising during our audit, and
- Ensuring that we gain an understanding of your attitude and views in respect of the risks facing the Council which may affect our audit, including the likelihood of those risks materialising and how they are monitored and managed.

This report, which we have prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach.

Providing a high-quality service is extremely important to us and we strive to provide technical

excellence with the highest level of service quality, together with continuous improvement to exceed your expectations.

During the meeting, we would be grateful for your views/ knowledge on the following specific matters:

- Whether you have identified any other risks (business, laws & regulation, fraud, going concern, etc.) that may result in material misstatements in the financial statements.
- If there are any matters that you consider warrant particular attention during our audit and/ or any areas where you would like additional procedures to be undertaken.

Subject to our prior written agreement or as required by any applicable law or regulation, this report is considered confidential and is intended solely for [Those Charged With Governance] and should not be disclosed to any other party, used or quoted for any other purpose.

Yours faithfully,



Suresh Patel
Forvis Mazars LLP

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Your audit team



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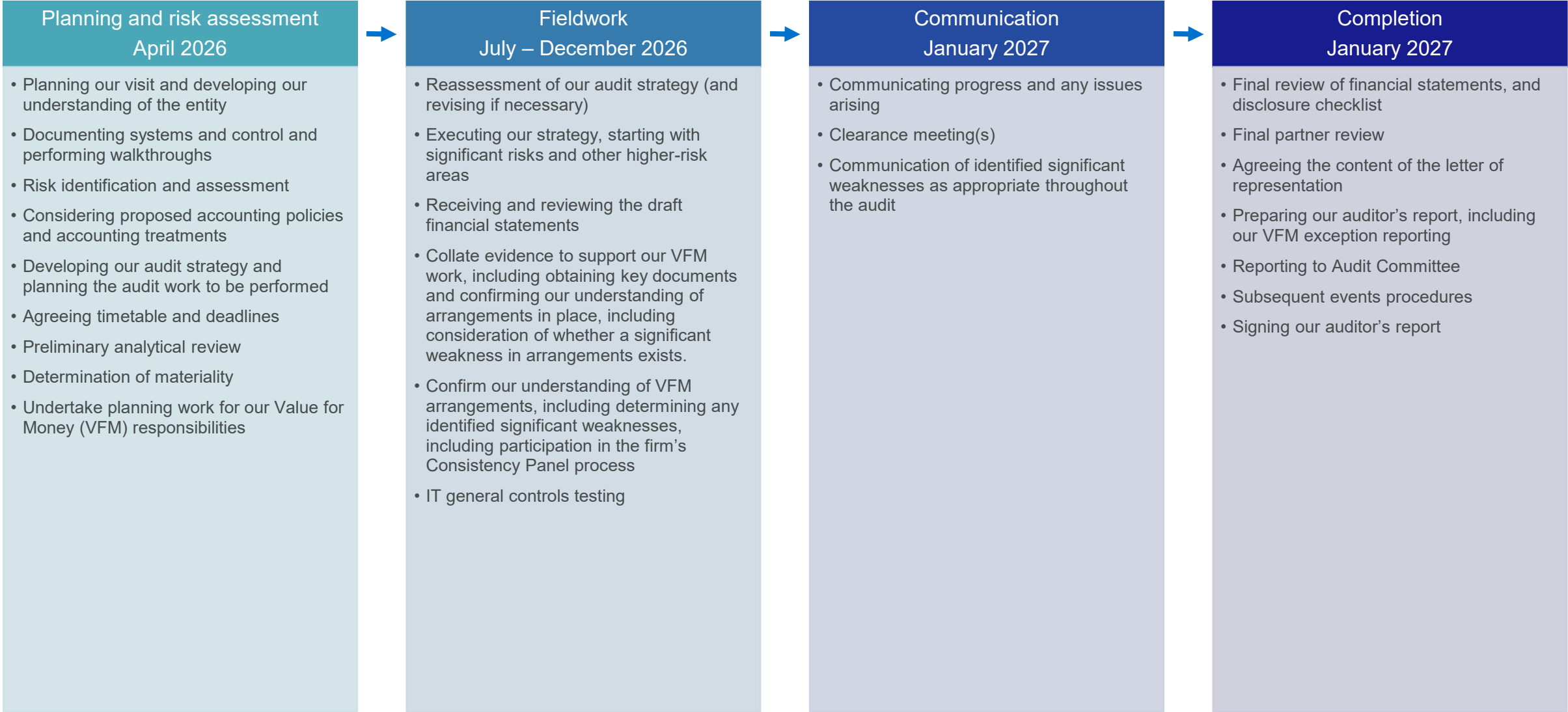


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We will use internal experts on this engagement to assist the audit team in our challenge of the valuation of Property, Plant and Equipment and Investment Properties.

Audit scope, approach, and timeline



Group audit scope

The preliminary scope of our group audit is set out below. When scoping our group audit, we have considered quantitative criteria (the contribution of each of the group's consolidated components to the group financial statements); qualitative criteria (the risks of material misstatement of the group financial statements that consolidated components may present individually at component level); and we have assessed the risk of material misstatement across the group's consolidated components in aggregate.

Component	%	Auditor	Scope
London Borough of Hackney Council	> 99.9% of Gross Revenue Expenditure	Forvis Mazars LLP	Full audit carried out by auditor
Hackney Housing Company Limited	<0.1% of Goss Revenue Expenditure	Forvis Mazars LLP	Out of Scope. We note that a separate Forvis Mazars LLP audit team carries out a full audit of this entity.
Hackney PRS Housing Company Limited			
Hackney HLR Housing Company Limited			
Makers Management Company Limited			
Otto Management Company Limited			
Hackney Commercial Services Limited			
Connect2Hackney (Hackney & Kent Commercial Services LLP)	Revenues are internal	N/A	Out of Scope. London Borough of Hackney provide 100% of the Revenues and are the only customer. £33M of revenue is pass-through of agency staff salaries and are covered from a group perspective through audit of the CIES. Assets and liabilities are immaterial.

Audit risks and other significant matters

Significant risks

In this section, we have set out the significant and enhanced audit risks we have identified and our planned response. If we identify additional risks or change our risk assessment during our audit, we will report this to you. Refer to Appendix A for definitions. We have also set out in this section of the report any other significant matters that we consider should be brought to your attention.

Risk	Description	Our planned response
<p>Management override of controls</p>	<p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, we are required by auditing standards to identify a significant risk of management override of controls on our audit.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • Testing a sample of journals that meet our risk criteria and other adjustments recorded in the general ledger in preparing the financial statements
<p>Valuation of net defined pension liability</p>	<p>The net pension liability represents a material element of the Council's balance sheet as the Council is an admitted body of the Hackney Pension Fund.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2025/26.</p>	<p>Our planned procedures to address the risk are:</p> <ul style="list-style-type: none"> • critically evaluating the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • challenging the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the NAO; • critically assessing the competency, objectivity and independence of the Actuary; • liaising with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively, and that the underlying data submitted for the triennial valuation agrees to the data used by the actuary; • reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets. • reviewing the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information. • comparing assumptions to expected ranges, using information provided by the consulting actuary engaged by the NAO; and • agreeing data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.

Audit risks and other significant matters

Significant risks

In this section, we have set out the significant and enhanced audit risks we have identified and our planned response. If we identify additional risks or change our risk assessment during our audit, we will report this to you. Refer to Appendix A for definitions. We have also set out in this section of the report any other significant matters that we consider should be brought to your attention.

Risk	Description	Our planned response
Valuation of property, plant and equipment	<p>Where a Council's assets are subject to revaluation, the CIPFA Code requires that the carrying value should reflect the appropriate fair value as at the year end. Estimation of fair values is subject to complex estimation. This creates a risk that the carrying value of those assets revalued in the year are materially mis-stated.</p> <p>For 25/26, the CIPFA Code has been updated with a revaluation expedient for PPE requiring valuations once every five years or on a five-year rolling basis and supported by indexation in intervening years. Alternatively, a desktop valuation in year three in rare cases where no index is available. This applies to Other Land and Buildings, Vehicles, Plant and Equipment, Surplus Assets, and Right of Use Assets. This guidance notes that indices should ideally be based on transactional evidence.</p> <p>Land and buildings including Council dwellings are the Council's most valuable assets accounting for £2.491 billion of the Council's £4.569 billion Property, Plant and Equipment balance at 31 March 2025. In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group.</p> <p>The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by Government. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>	<p>We will assess the risk of valuations changing materially in year, considering the movement in market indices between valuation dates and the year end, to determine whether these indicate that fair values have moved materially. We will consider whether the Council's approach to valuation is compliant with the updated Code requirements and CIPFA bulletin 22. We will seek assurances from management that they have appropriately challenged the work of their experts. In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"> • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; • for a sample of assets, perform testing of the associated underlying data and assumptions; and • ensure the accounting treatment of the valuation and associated movements is compliant with relevant accounting framework.
Valuation of Investment Property	<p>The CIPFA Code requires that the carrying value of investment properties should reflect fair value.</p> <p>For the Council's £136.433m of investment properties, as of March 2025, this is using fair value. Due to the high degree of estimation uncertainty associated with market, we have determined there is a significant risk in this area.</p>	<p>We will review the Council's approach to revaluing its investment property portfolio as at 31 March 2025 and engage our own expert to test a sample of properties to:</p> <ul style="list-style-type: none"> • review the methodology used; and • for a sample, test the underlying data and assumptions.

Audit risks and other significant matters

Enhanced risks

Risk	Description	Our planned response
IFRS 16 - Leases and PFI	<p>IFRS 16 was introduced in the 2024-25 financial statements and has been applicable from 1 April 2024. It is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.</p> <p>In the 2024-25 financial year, we included the implementation of IFRS 16 as a significant risk. Whilst we no longer consider this to be a significant risk, due to the number and value of errors found in the 24/25 leases calculations and the inherent complexity of PFI models, we are including this as an enhanced risk for 2025-26. This will increase the level of sampling required to ensure we have sufficient appropriate assurance that leases and PFI are free from material misstatement.</p>	<p>We will test a sample of leases reported under IFRS 16 to confirm their appropriate accounting treatment and disclosure in the 2025/26 accounts.</p> <p>We will substantively test PFI lease balances and seek evidence to support that they have been correctly classified and accurately measured.</p>

Materiality

For the consolidated financial statements, we consider the gross expenditure of the group to be the key focus of the users of the financial statements. We have therefore determined our initial materiality levels using gross revenue expenditure as the benchmark.

For the parent only financial statements, we consider the gross expenditure of the Council at the surplus/deficit level to be the key focus of the users of the financial statements. We have therefore determined our initial materiality levels using gross revenue expenditure as the benchmark.

We expect to set financial statement materiality as 1.8% of gross revenue expenditure for our audit of the consolidated financial statements and for our audit of the parent only financial statements. Based on the prior year audited financial statements, we anticipate setting our financial statement materiality and performance materiality for our audit of the consolidated and parent only financial statements at the levels set out in the adjacent table. We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

We will accumulate misstatements identified during our audit that are above the reporting thresholds set out in the table adjacent, i.e., any misstatements that we identify that are above the reporting thresholds will be reported to you and management. Any misstatements that we identify that are below those amounts would not need to be reported because we expect that the accumulation of such amounts would not have a material effect on the financial statements and our audit opinion.

Each misstatement above our reporting threshold that we identify will be classified as **adjusted** (corrected by management), or **unadjusted** (not corrected by management). We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to you as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on the financial statements and our audit opinion.

We also consider whether there are any financial statement areas or disclosures where a misstatement of an amount lower than overall materiality could reasonably be expected to influence the economic decisions of users of the financial statements. Our assessment of the financial statements and/or disclosures to which this applies and the specific materiality level we have set is shown below.

Misstatements also cover qualitative misstatements and quantitative and qualitative misstatements and omissions relating to the notes of the financial statements. If you have any queries about our reporting threshold, please raise these with me.

Consolidated financial statements		
	2025-26 (£'000s)	2024-25 (£'000s)
Overall materiality	£25,390	£25,759
Performance materiality	£19,043	£19,319
Clearly trivial	£762	£773

Parent only financial statements	2025-26 £'000s	2024-25 £'000s
Overall materiality	£25,374	£25,759
Performance materiality	£19,030	£19,319
Clearly trivial	£760	£772

Specific materiality:

Officers' remuneration	The value for specific materiality on this disclosure note is £10k per individual. This is because errors above £10k would materially affect the reader's understanding of the individual remuneration of senior officers.
Termination benefits	We have set specific materiality at 20% of the balance of termination benefits with specific performance materiality at 75%. For 24/25, the total value of termination benefits was £4,966k, so at planning we have set this specific materiality at £993k and performance materiality at £745k in line with the prior year.

Fees

Audit fees and other services provided by Forvis Mazars LLP

Our fees (exclusive of VAT and disbursements) for the audit of the financial statements for the year ended 31 March 2026, and for any non-audit assurance services or other non-audit services provided by Forvis Mazars LLP in the period, are outlined in the table adjacent.

Our fees are designed to reflect the time, professional experience, and expertise required to perform our audit. The main aspects impacting our audit which fall outside of the work included within the PSAA scale fee are outlined in the table adjacent.

The proposed fee reflects the scale fee determined by PSAA and information on how the scale fee is set can be found on PSAA's website. Where an auditor is required to undertake substantially more or less work to deliver their responsibilities a fee variation may be proposed which is subject to approval by PSAA. Examples compiled by PSAA of circumstances that may trigger a fee variation are available on the PSAA [website](#).

Any threats to our independence arising from the provision of non-audit services and the associated safeguards we have identified and/ or put in place are set out on the in the 'Our independence' section of this report.

Nature of service	2025-26 proposed fee	2024-25 actual fee
Statutory audit work to comply with the NAO Code of Audit Practice	584,955	569,023
Additional fees		
Prior period adjustment	-	9,414
Value for Money	10,000-15,000	23,308
IFRS 16	TBC	11,812
PPE and IP valuations	TBC	15,992
Total audit fees	TBC	629,549

Our independence

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships that we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that, in our professional judgement, there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the context of the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration and complete annual ethics training,
- All new partners and staff are required to complete an independence confirmation,
- Rotation policies covering audit engagement partners and other key members of the audit team, and
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that Forvis Mazars LLP, the engagement team and others in the firm as appropriate, are independent and comply with relevant ethical and independence requirements. However, if at any time you have concerns or questions about our integrity, objectivity, or independence, please discuss these with me in the first instance.

Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

We have not identified any threats to our independence in connection with the services we have provided to the Council. As indicated on the previous slide, we do not anticipate that we will be providing any non-audit services in the current audit period. We will update our independence assessment if this changes and inform you of the outcome as part of subsequent reporting to you.

Status update

Set out below is an update we have obtained from management on the progress made to remediate the significant control deficiencies identified in the prior period by us, including our observations on the impact on our current year audit.

Previously communicated deficiency	Management's comments on progress	Our observations
<p>CedAR E5 Journals with the same journal poster and authoriser</p> <p>Journals testing 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. The journal upload templates provided act as an additional level of control where the original uploader is recorded, and the CedAR journal upload receipt issued to the poster can be reviewed, however this was not consistently implemented as we noted 4 journals either did not have the receipt saved, or the upload template had not been appropriately completed to record the Poster.</p> <p>We understand from discussions with the council that this is a presentational issue in the CedAR e5 system.</p>	<p>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.</p> <p>This presentational issue has been rectified with system change that has been tested and monitored as of 13th May 2026. From this point we do not expect the issues to occur.</p> <p>The recommendation has now been completed. Within the e5 Financial System a journal cannot be authorised by the user who uploaded the journal. This was not under question but in some instances the inputter and journal authoriser were recorded against the journal as the same user. The Financial Systems Team carried out a period of extensive testing and investigations to determine the circumstances that would lead to this result. From the testing a number of iterative system configuration changes were made to prevent future recurrence. Final changes were implemented on 13 May 2026 and no further instances of the issue have been identified since.</p>	<p>We will consider the work the Council has done to rectify the system glitch as part of our journals testing and will update the members of the Audit Committee in our Audit Completion Report.</p>

Status update

Set out below is an update we have obtained from management on the progress made to remediate the significant control deficiencies identified in the prior period by us, including our observations on the impact on our current year audit.

Previously communicated deficiency	Management's comments on progress	Our observations
<p>Documentation of Revenue Capitalisation</p> <p>Our sample selection criteria in journals testing identified 19 journals where there had been capitalisation of revenue spend which we considered to be a risk requiring further investigation. For 3 of these journals, it was unclear that the works undertaken met the threshold for capitalisation under IAS16. The descriptions and review recorded by the Council were not sufficiently detailed to give conclusive support that these should have been capitalised and may have been outside the remit of capital programme works.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. Retain clearer documentation referencing capital business cases which meet the threshold for capitalisation of works, particularly regarding void works or tenant associated defects. 2. Ensure all documentation highlights why the works are a significant enhancement and meet the threshold for capitalisation under IAS 16 and not general repairs and maintenance work undertaken on voids or other property, plant and equipment. 	<p>In light of the audit recommendations, the review of potential capital miscoding is now conducted on a quarterly basis. This revised process provides sufficient time to examine individual jobs, which meets the threshold for capitalisation of works.</p> <p>The core principles for capitalisation of works applied on the basis that they constitute:</p> <ul style="list-style-type: none"> • Enhancement and Improvement: Work that increases the value of the asset, extends its useful life, or increases its capacity/service potential (e.g., new kitchen, new bathroom, roof works) • Integral Features/Replacement: Replacing a significant component of an asset. For instance, could be replacing major components on a lift which will increase the life of the lift. • One off rewire to a property or legal disrepair works ordered by legal. 	<p>We will consider capitalisation of revenue as part of our work on journals testing and additions testing at year end and will update the members of the Audit Committee in our Audit Completion Report.</p>

Status update

Set out below is an update we have obtained from management on the progress made to remediate the significant control deficiencies identified in the prior period by us, including our observations on the impact on our current year audit.

Previously communicated deficiency	Management’s comments on progress	Our observations
<p>Indexation of Property Plant and Equipment: Community Assets</p> <p>We noted during testing that the Council applied the Savills land index to both land and buildings, when they should have applied the BCIS build cost index to Buildings. This resulted in a nonmaterial misstatement of building values at the reporting date,</p> <p>Therefore, we have noted that the deficiency in the controls surrounding the year end valuation of land and buildings, in relation to those assets which are not revalued has continued.</p> <p>Recommendation The council should apply land indices to Community Assets that are Land and build cost indices to Community Assets that are buildings.</p>	<p>For the 2025/26 accounts, the Council has implemented BCIS build cost indices to the Community Assets to maintain valuation accuracy (DRC valuation methodology).</p>	<p>We will consider the appropriateness of applied indices as part of our work on valuations and will update members of the Audit Committee in our Audit Completion Report.</p>

Status update

Set out below is an update we have obtained from management on the progress made to remediate the significant control deficiencies identified in the prior period by us, including our observations on the impact on our current year audit.

Previously communicated deficiency	Management's comments on progress	Our observations
<p>Completeness of Related Parties 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.</p> <p>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.</p>	<p>For the 2025/26 accounts, we are currently focused on ensuring all pertinent relationships and transactions are comprehensively reported within the financial statements. This work is part of our ongoing commitment to maintaining full compliance with the CIPFA Code of Practice moving forward.</p>	<p>We will request all related parties forms completed by Councillors as part of our work on related parties and will update members of the Audit Committee in our Audit Completion Report.</p>
<p>Password Security Parameters 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.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> 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 	<p>The password policy was update in April-26 to be 12 characters (minimum), in line with best practice standards. Anyone who didn't have this in place had to create a new password. MFA is standard across the organisation.</p>	<p>We will confirm that the password policy has been updated as part of our work on ITGCs and will update members of the Audit Committee in our Audit Completion Report.</p>

Status update

Set out below is an update we have obtained from management on the progress made to remediate the significant control deficiencies identified in the prior period by us, including our observations on the impact on our current year audit.

Previously communicated deficiency	Management's comments on progress	Our observations
<p>User Access Review 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.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> 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 	<p>E5 Cedar progress update : User access reviews. The Financial Systems Team use reports from iTrent to review leavers and movers on a regular basis. In addition, a user access list I sent to key stakeholders on a monthly basis. The access list details users and the roles and responsibilities that they currently have access to within e5. The email specifically asks the stakeholders to review the data and advise the Financial System Team of any changes or amendments that might be required. This would include staff who have changed role, etc.</p> <p>From July 2026 we will ensure that the documentation relating to the user review process is updated and fully captures the way we seek to ensure users continue to have access appropriate to their role. We will introduce a formal process to sign off the monthly reviews.</p> <p>iTrent progress update : A process document has been created to outline the access process for the internal users for iTrent, external 3rd party Consultants and Leavers. Daily monitoring is carried in iTrent to ensure any leavers are immediately managed in iTrent. Periodic spot checks are completed with daily reporting available of user accounts in iTrent. Further details are documented here : https://docs.google.com/document/d/1eDN3oEvHvPTybuC2wSuAB25VHlkxxtS1yi8J_FUfMek/edit?tab=t.0#heading=h.2w4pse5acxe</p>	<p>We will test whether there are regular user access reviews occurring and being appropriately reviewed and signed off as part of our work on ITGCs and will update members of the Audit Committee in our Audit Completion Report.</p>

Value for money

The framework for Value for money work

We are required to form a view as to 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 in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

We undertake our VFM work in accordance with the 2024 Code of Audit Practice (the Code). Our responsibility, under the Code, is to be satisfied that the Council has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **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 approach

Our work falls into three primary phases as outlined opposite. We gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle, and we are not expected to wait until issuing our overall commentary to do so.

Planning	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none">• 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 staff and members
Additional risk- based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none">• Significant weaknesses identified and our recommendations for improvement; and• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council

Value for money

Identified risks of significant weaknesses in arrangements

The Code of Audit Practice and Auditor Guidance Note 03 issued by the NAO require us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	<p>Effectiveness of arrangements for children and young people with special educational needs and disabilities (SEND).</p> <p>An Area SEND inspection by Ofsted in November 2025 identified weaknesses in performance management, including the absence of clearly defined key performance indicators, declining timeliness and variable quality of Education, Health and Care plans, persistently high exclusion rates and limited evaluation of alternative provision arrangements.</p> <p>These matters indicate a risk that the Council's SEND resources may not consistently be achieving intended outcomes, particularly given the scale and long-term cost pressures associated with SEND services.</p> <p>The Council has acknowledged these issues and set out improvement plans, including strengthening performance frameworks, improving statutory timeliness, and developing more inclusive approaches with schools.</p>	○	○	●	We will engage with management to assess what measures are being implemented to respond to the findings of the Ofsted report.

Value for money

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
2	<p>Adult Social Care (CQC findings)</p> <p>The Care Quality Commission (CQC) published its local authority assessment of Hackney Council in February 2026, rating the Council’s adult social care arrangements overall as ‘Requires improvement’. The report identified ongoing delays in adult social care assessments, reviews and financial assessments, including disproportionate waiting times for individuals assessed as lower risk.</p> <p>Although management actions have been taken to improve triage and front-door processes, the persistence of delays creates a risk that resources are not being deployed efficiently and that avoidable demand for higher-cost or unplanned care may arise.</p> <p>The inspection also reported that outcomes for carers were worse than the national average, linked to under-identification of carers and a reactive approach to carers’ assessments. While a carers strategy is now in place, the impact of these actions is not yet evident in outcomes, presenting a risk to the effectiveness and long-term sustainability of adult social care arrangements.</p> <p>In addition, outcome measurement and performance information were found to be underdeveloped in some areas, particularly for preventative and grant-funded activity, and commissioning arrangements were characterised by reliance on spot purchasing.</p>	○	○	●	<p>We will assess whether the Council has:</p> <ul style="list-style-type: none"> implemented effective actions to reduce delays in assessments, reviews and financial processes, and whether improvements are sustained; strengthened arrangements for identifying and supporting carers, and whether this is resulting in improved outcomes; developed performance and outcome information that enables robust monitoring of effectiveness, particularly for preventative and grant-funded activity; and made progress in strengthening commissioning and market management arrangements to support economy and long-term sustainability.

Value for money

Our work to follow-up on previous recommendations

As part of our audit work in previous years, we identified significant weaknesses in the Council's arrangements. The table below sets out the significant weaknesses identified, our previous recommendations and the work we intend to carry out as part of our 2025/26 audit.

	Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2024-25 recommendations	Planned procedures for 2025-26
1	<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>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>	Financial sustainability	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>We will engage with management to assess what measures are being implemented to control levels of spend, make savings, and ensure financial sustainability.</p> <p>To support this assessment, we will review and consider:</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.

Value for money

	Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2024-25 recommendations	Planned procedures for 2025-26
1	<p>Failure to comply with Health and Safety standards in relation to Social Housing</p> <p>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>	Improving the 3 Es	<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. 	<p>We will engage with management and obtain corroborating evidence to assess the progress the Council has made during 2025/26 to address the findings of the Housing regulators.</p> <p>We will seek evidence from the Council on the action it has taken during 2025/26 to gain assurance over the adequacy of the data it holds over its Safety and Quality Standard and its housing stock.</p>

Appendix A: Other communications

Audit scope and approach

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are driven primarily by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud), we develop our audit strategy and design audit procedures to respond to the risks we identify.

If we conclude that appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or if we decide that it would be more efficient, we may take a wholly substantive approach to our audit testing if, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence.

Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required by UK auditing standards to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality'* section of this

report.

Use of internal audit

We will liaise with internal audit throughout the audit and obtain a copy of their reports relating to the financial period under audit to determine whether any findings will have an impact on our risk assessment and planned audit procedures. We do not plan to rely on the work of internal audit

Management's and our experts

Management makes use of experts in specific areas when preparing the Council financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson (London Borough of Hackney Pension Fund - LBHPPF). Barnett Waddingham (London Pension Fund Authority - LPFA)	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries.
Property, plant and equipment and Investment Property valuation	Internal valuer Sanderson Weatherall	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Council's valuations in comparison with these, challenging conclusions as appropriate. We will use our internal valuation team to support our review of valuations where necessary
Financial Instruments disclosures	Arlingclose	No expert required.

Appendix A: Other communications

Responsibilities

We are appointed to perform the external audit of London Borough of Hackney (the Council) for the year to 31 March 2026. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24](#). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the CIPFA Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit Committee, as those charged with governance, of their responsibilities. The Chief Finance Officer is responsible for the assessment of London Borough of Hackney’s ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists, and
- b) the appropriateness of the Group Director - Finance & Corporate Resources’ use of the going concern basis of accounting in the preparation of the financial statements.

Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of London Borough of Hackney’s internal control.

Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in the ‘Value for Money’ section of this report.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting. As part of our audit procedures in relation to fraud, we are required to inquire of you and key management personnel and internal audit on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors’ rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. We also report to the NAO on the consistency of the Council’s financial statements with its Whole of Government Accounts (WGA) submission.

Appendix A: Other communications

Required communications

This section of our report sets out the matters that we are required to report to you by UK auditing standards, including which form of our communications satisfy, or will satisfy, those requirements.

Required communication	Where addressed
Our responsibilities in relation to our audit of the company's financial statement and the responsibilities of management and those charged with governance.	Audit Strategy Memorandum and engagement letter
The planned scope and timing of our audit, including any limitations (specifically with respect to significant risks and key audit matters, if applicable).	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, • The effect of uncorrected misstatements related to prior periods, • A request that any uncorrected misstatement is corrected, and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Inquiries with you to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the company, • Any fraud that we have identified or information we have obtained that indicates that fraud may exist, and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)
Significant matters arising during our audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management, • Inappropriate authorisation and approval of transactions, • Disagreement over disclosures, • Non-compliance with laws and regulations, and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report

Appendix A: Other communications

Required communications

Required communication	Where addressed
<p>Significant findings from our audit, including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices, including accounting policies, accounting estimates, and financial statement disclosures, • Significant difficulties, if any, encountered during our audit, • Significant matters, if any, arising from our audit that were discussed with management or were the subject of correspondence with management, • Written representations that we are seeking, • Expected modifications to our auditor’s report, and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified during our audit that we believe are relevant to those charged with governance in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during our audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and inquiry of you into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that you may be aware of.</p>	<p>Audit Completion Report and Audit Committee meeting(s)</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the company’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the event or condition constitutes a material uncertainty, • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements, and • The adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>

Appendix A: Other communications

Required communications

Required communication	Where addressed
<p>Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm’s system of quality management team completes, as part of an ongoing and iterative process, key steps to assess and conclude on our firm’s system of quality management, including:</p> <ul style="list-style-type: none"> • Ensuring there is an appropriate assignment of responsibilities, • Establishing and reviewing quality objectives each year, ensuring our firm’s quality objectives align with our strategies and priorities, • Identifying, reviewing, and updating quality risks each quarter, taking into consideration multiple input sources (such as FRC/ ICAEW review findings, internal monitoring findings, findings from our firm’s root cause analysis and remediation functions, etc.), • Identifying, designing, and implementing responses to strengthen our firm’s internal control environment and overall quality, and • Evaluating our quality responses and remediating control gaps or deficiencies. <p>We perform an evaluation of our system of quality management on an annual basis. We publish the details of our annual evaluation, and our conclusion, in our Transparency Report, which can be accessed on our website at: https://www.forvismazars.com/uk/en/who-we-are/corporate-publications/transparency-reports.</p>	<p>Audit Strategy Memorandum (the communication adjacent satisfies this requirement)</p>
<p>We are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include:</p> <ul style="list-style-type: none"> • Significant delays in management providing information that we require to perform our audit. • An unnecessarily brief time within which to complete our audit. • Extensive and unexpected effort to obtain sufficient, appropriate audit evidence. • Unavailability of expected information. • Restrictions imposed on us by management. • Unwillingness by management to make or extend their assessment of the company’s ability to continue as a going concern when requested. <p>We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor’s report).</p>	<p>Audit Completion Report, discussion at Audit Committee meeting(s), and audit clearance meeting(s)</p>

Appendix A: Other communications

Required communications

Required communication	Where addressed
An overview of the work to be performed at the components of the group and the nature of our involvement in the work to be performed by component auditors.	Audit Strategy Memorandum and Audit Completion Report
Instances where our review of the work of a component auditor gave rise to a concern about the quality of the component auditor's work, and how we addressed that concern.	Audit Completion Report
Any limitations on the scope of our group audit; for example, significant matters related to restrictions on access to people or information.	Audit Strategy Memorandum and Audit Completion Report, as necessary
Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.	Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)

Appendix A: Other communications

Definitions

Term	Definition
Materiality	<p>An expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.</p> <p>We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to the company. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to you (reporting threshold). Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.</p> <p>An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:</p> <ul style="list-style-type: none"> • Have a reasonable knowledge of business, economic activities, and accounts, • Have a willingness to study the information in the financial statements with reasonable diligence, • Understand that financial statements are prepared, presented, and audited to levels of materiality, • Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events, and • Will make reasonable economic decisions based on the information in the financial statements. <p>We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors. When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks. We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.</p> <p>The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.</p>

Appendix A: Other communications

Definitions

Term	Definition
Significant risk	A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by UK auditing standards), including management override of controls and revenue recognition.
Enhanced risk	<p>An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:</p> <ul style="list-style-type: none">• Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement, and• Risks relating to other assertions and arising from significant events or transactions that occurred during the period.
Standard risk	A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.
Key audit matter	<p>A matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement (whether due to fraud or error) we identified, including those which had the greatest effect on our overall audit strategy, the allocation of resources in our audit, and directing the efforts of our engagement team.</p> <p>It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way it is described. This report highlights which of the significant and other risks are expected, at this stage, to be determined as key audit matters. It should be noted, however, that other audit areas may be determined as key audit matters during our audit.</p>

Appendix A: Other communications

Definitions

Term	Definition
Key audit partner	<p>(a) An individual who is eligible for appointment as a statutory auditor and who is designated by our firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of our firm.</p> <p>(b) In the case of a group audit, any of the following: (i) an individual who is eligible for appointment as a statutory auditor and who is designated by our firm as being primarily responsible for carrying out the statutory audit of the consolidated accounts of the group on behalf of our firm; (ii) an individual who is eligible to conduct the audit of the accounts of any subsidiary undertaking determined by us to be a 'material subsidiary' and who is designated as being primarily responsible for that audit.</p> <p>(c) An individual who is eligible for an appointment as a statutory auditor and who signs the audit report.</p>

Appendix B: Current year updates, forthcoming accounting & other issues

HM Treasury changes to non-investment asset valuation

Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the “Code”)

Following a thematic review of non-current asset valuations for financial reporting in the public sector, HM Treasury has made a number of changes to its requirements for the valuation frequency, valuation methodology and classification of non-investment property assets. The changes are effective from 1 April 2025 as set out in the 2025-26 Code and include:

- A change to the requirements regarding revaluation frequency. Rather than adhering to paragraph 34 of IAS 16 which requires an asset to be revalued whenever its carrying value differs materially from its current value, entities will be required to revalue assets on a quinquennial basis, i.e. every five years, supplemented by annual indexation in the intervening years. This requirement can be adhered to either as part of a full revaluation or as part of a rolling programme. The Code requires bodies to use the best index available to them. Should management determine that there is no appropriate index to use, then the quinquennial valuation is supplemented by a valuation in the third year.
- Revaluations carried out prior to 2025/26, in line with former requirements of the Code, remain valid throughout the transition period (being 1 April 2025 to the date the next revaluation is due for a given asset). During the transition period, the maximum period between revaluations must not exceed five years.
- The requirement to consider indicators of impairment under IAS 36 remains, so management will still be required to undertake an annual assessment of whether there are indicators of impairment, and where these are present, it may be necessary to undertake valuations outside of the 5-yearly valuation programme.

Whilst management will no longer need to consider annually whether it is necessary to revalue non-investment assets, they will need to be satisfied that they have appointed a suitably qualified valuer to undertake the valuation of assets whenever they fall due either as part of a full valuation or a rolling programme. If local indices are used, management will need to have sufficient evidence to demonstrate these indices are appropriate and relevant to the entity’s circumstances, and to provide this evidence to the auditor.

Appendix B: Current year updates, forthcoming accounting & other issues

Effective for accounting periods beginning on or after 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements

The standard was UK-adopted in December 2025, and the date of incorporation into the Code is not confirmed, though expected to be within the 2028/29 financial year. It is not yet confirmed what interpretations and adaptations HMT will determine are necessary for implementation in the public sector. We have provided an outline of the main changes arising from IFRS 18 as unadapted and without interpretation and will provide an update on the expected impact on the London Borough of Hackney as and when detail is available as to when and how the standard is incorporated into the Code.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements.

New categories and subtotals for inclusion within the statement of profit or loss

- Income and expenses are to be classified into three new defined categories: operating, investing and financing, in addition to the income taxes and discontinued operations categories.
- All companies are to present new defined subtotals – operating profit and loss, and profit or loss before financing and income taxes.

New reporting requirements on Management Performance Measures (MPMs)

- New requirements are introduced for management-defined performance measures (MPMs), which may also be called Alternative Performance Measures (APMs). These are described as subtotals of income and expenses that an entity: (a) uses in public communications outside financial statements; (b) uses to communicate to users of financial statements management's view of an aspect of the financial performance; and (c) are not listed within IFRS 18 or specifically required to be presented or disclosed by another IFRS Accounting Standard.
- All MPMs are required to be disclosed in a single note in the financial statements setting out:
 - an explanation of why the MPM is reported, and
 - a reconciliation to a directly comparable GAAP measure within IFRS 18 or another IFRS Accounting Standard.

Enhanced requirements for aggregation & disaggregating information

- Enhanced requirements are set out for the aggregation and disaggregation of items based on similar and dissimilar characteristics. Items that have dissimilar characteristics must be disaggregated when the resulting information is material. Guidance is also included on how to describe items within the financial statements, requiring an entity to label items presented or disclosed as 'other' only if a more informative label cannot be found.
- New guidance is provided on whether information should be reported in the primary financial statements or the notes. This includes guidance on presentation and disclosure of expenses classified in the operating category, alongside introducing more prescribed requirements for an entity that classifies expenses by function as well as the requirement to disclose expenses by nature in a single note for certain amounts - depreciation, amortisation, employee benefits, impairment and write-downs of inventories

Many principles and requirements have been brought forward from IAS 1 to IFRS 18 such as frequency of reporting, comparative information, offsetting, capital disclosures and the requirements for the statement of financial position and for the statement of changes in equity.

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