

London Borough of Tower Hamlets

Audit Results Report

Year ended 31 March 2025

11 December 2025



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Audit Committee
London Borough of Tower Hamlets
Town Hall
160 Whitechapel Road
E1 1BJ

11 December 2025

Dear Audit Committee Members

2024/25 Audit Results Report

We are pleased to attach our audit results report, summarising the status of our audit. This report updates the provisional audit results report presented to the Audit Committee on 10 December 2025. Significant updates to the document have been included in **blue text**.

The audit is designed to express an opinion on the 2024/25 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on London Borough of Tower Hamlet's (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements; and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so. We draw Audit Committee members' and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly sets out what is expected of audited bodies in preparing their financial statements.

We first issued this report to management on 24 November 2025. As a well as discussions on the report held with officer, a written response was received 1 December 2025. While we have made factual corrections and incorporated additional context where appropriate, the core conclusions and reporting matters remain unchanged from the version issued to management in November 2025.

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

Yours faithfully



Stephen Reid

Partner, For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Executive Summary

Executive Summary - Context for the audit

Context for the audit - Measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- lack of capacity within the local authority financial accounting profession;
- increased complexity of reporting requirements within the sector;
- lack of capacity within audit firms with public sector experience; and
- increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG worked collaboratively with the FRC and other system partners, to develop and implement measures to clear the backlog. The approach to addressing the backlog consists of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2024/25 financial statements is 27 February 2026.
- Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our Audit Results Report (28 February 2025) we issued a disclaimer of opinion on the Council's 2023/24 financial statements under these arrangements to reset and recover local government audit. The Council's predecessor auditor also issued a disclaimer of opinion for the financial years 2020/21, 2021/22 and 2022/23. Whilst there have been some improvements in the financial statement and audit process in 2024/25, we have been unable to complete all planned audit procedures. When combined with the lack of assurance over the comparatives and opening balances, we are unable to conclude that the 2024/25 financial statements are free from material and pervasive misstatement. We therefore anticipate issuing a disclaimed 2024/25 audit opinion.

Appendix A sets out the current position of the Council in rebuilding to return to a position of full assurance on its financial statements. This is informed by the summary of the assurances we have gained from our 2023/24 and 2024/25 audit procedures, set out at Appendix B.

EY's Head of UK Government and Public Sector Audit wrote to the Section 151 officer at the Council on 3 June 2025 to set out our current approach to Phase 2. In line with the Government's requirement to deliver audits to an earlier timetable in future years, and considering our available resource, we phased a large proportion of our audits to be finalised prior to 31 December 2025, with a smaller proportion extending through to February 2026. At the same time, we needed to remain mindful of the expectations on us to safeguard the timeliness of the audits in other priority sectors where we audit public funds - central government, the NHS and higher education. In respect of the delivery of 2024/25 audits, as in 2023/24, we therefore prioritised those audits that we considered to meet the following criteria:

- high-quality draft unaudited financial statements published by 1 July 2025;
- evidence that the relevant finance teams can effectively and efficiently support the audit process; and
- high-quality audit evidence and supporting information that is delivered in accordance with our agreed timetable and in advance of the commencement of the audit.

We have further considered the weaknesses in the Council's arrangements for external financial reporting as part of our Value for Money work and issued associated statutory recommendations. See Section 3 for further details.

Executive Summary - Context for the audit

Scope update

In our Audit Planning Report presented at the 28 July 2025 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- During the 2024/25 audit, management focused resources on balances where evidence was achievable and acknowledged areas where sufficient audit evidence could not be provided. These areas related to PPE, pensions, and grant income. As evidence for these areas was either unavailable or could not be adequately supported, this constitutes a management-imposed limitation of scope.

Our Audit Planning Report outlined that our audit would be performed with overall group materiality set at £7.12m representing 0.5% of gross expenditure. We also set performance materiality at £3.56m, or 50% of planning materiality. We indicated that we would report uncorrected misstatements greater than £0.356m. Our procedures have been completed in line with those thresholds which remain unchanged.

Status of the audit

Our audit procedures to issue our opinion are now complete.

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission [remain outstanding until further guidance is issued by the National Audit Office. Once these have been finalised we will issue the audit certificate.](#)

Audit differences

- Uncorrected misstatements identified in the 2024/25 audit increase expenditure and reduce reserves by £1.017 million. After taking into account the impact of turnaround misstatements (those uncorrected misstatements identified in the 2023/24 audit), the impact is to reduce expenditure by £5.939 million.
- Management has corrected a number of disclosure misstatements, including those relating to sensitive notes where we would apply a lower materiality threshold.
- Schedules of corrected and uncorrected misstatements can be found in Section 5.

Executive Summary (cont'd)

Value for Money

In our Audit Planning Report presented to the Audit Committee on 28 July 2025 we reported that we had identified seven risks of significant weakness arising from our risk assessment procedures. In relation to those seven risks, we identified five actual significant weaknesses in the Council's arrangements for securing value for money for 2024/25. As we have undertaken our Value for Money procedures, we have identified a further five actual significant weaknesses and an additional draft Statutory Recommendation. As a result, we are reporting ten significant weaknesses in the Council's value for money arrangements and an additional statutory recommendation in relation to our 2024/25 audit. See Section 3 of the report for further details.

Other reporting issues

We have reviewed the information presented in the draft Annual Governance Statement for consistency with our knowledge of the Council. We provided a significant level of comments to the Council for their consideration. We understood that management reviewed our comments to provide a revised set of financial statements and Annual Governance Statement. [All required amendments have not been made to the Annual Governance Statement. Therefore, we will be reporting by exception in our audit opinion.](#) In our interim Value for Money report presented to the 3 December 2025 Audit Committee, we reported a significant value for money weakness in relation to the preparation of the Annual Governance Statement.

During the course of the audit we became aware of instances of potential non-compliance with laws and regulations which required us to complete extended procedures in order to assess the risk to the financial statements. As set out on page 21 we have been limited in our ability to undertake all of our procedures as management has not yet concluded their internal investigations and procedures. Since these matters are unresolved at the time of issuing our audit opinion, we will include a reference to them in the opinion. As noted in our interim Value for Money report we have identified a significant weakness in relation to the effectiveness of the Council's process for conducting internal investigations. We have not included any further commentary in relation to these matters in this report, however, in Appendix G, we have included guidance for management and members of the Audit Committee of our, and your, responsibilities regarding such matters.

We have not yet concluded the procedures required by the NAO on the Whole of Government Accounts submission, as the NAO has not yet confirmed the final reporting position and whether any questions will be raised on individual returns. We cannot issue our Audit Certificate until these procedures are complete.

Control observations

During the audit, we identified 13 deficiencies in internal control, [which have been considered alongside those control observations we identified in the prior year.](#) These are set out in Section 6 of this report.

Independence

Please refer to Section 08 for our update on Independence. We have not identified any issues to bring to your attention.

Executive Summary (cont'd)

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial statements of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report and summarised below.

Risk/area of focus	Risk identified	Details
Management override: Misstatement due to fraud or error	Fraud risk	Due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this risk, including those related to estimates, journals, unusual transactions, and any further procedures to address the heightened risk of fraud.
Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure	Fraud Risk/ Significant risk	Due to the matters identified on page 11 we have been unable to complete all planned procedures in relation to this risk.
Risk of fraud in revenue recognition: Overstatement of Fees, Charges and Other Service Income	Fraud Risk/ Significant risk	We have been unable to complete all planned procedures to address this risk. However, the work completed has not identified any instances of inappropriate revenue recognition in relation to the overstatement of fees, charges and other service income.
Valuation of land and property	Significant risk	Management confirmed that the issues identified in the prior year had not been resolved. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.
Implementation of IFRS 16: Leases	Significant risk	Due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this risk.
Preparation of Group financial statements	Higher Inherent Risk	Due to the matters identified on pages 9, 11 and 15 in relation to property valuations we have been unable to complete all planned procedures in relation to this risk.
Transfer of planning powers	Higher Inherent Risk	We have not identified any matters to be reported to the audit committee in relation to the financial statements.
Pension Liability/Asset Valuation	Higher Inherent risk	Management are yet to finalise their work to reconcile the membership data and to evidence that the financial statements present a materially correct position. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues.
- You concur with the resolution of the issue.
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary (cont'd)

Factors impacting the execution of the audit				
Area	Status			Explanation
	R	A	G	
Timeliness of the draft financial statements	Requires Improvement			The financial statements were published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. The Council will need to reflect on whether the number of adjustments made to the financial statements and annual governance statement (outlined below), results in the documents needing to be republished, along with an additional inspection period.
Quality and completeness of the draft financial statements, narrative report and Annual Governance Statement	Requires Improvement			There were several internal inconsistencies, typographical and arithmetic errors in the draft financial statements, including the omission of the exit packages note. Some of these changes were brought to our attention by management after the draft financial statements had been published. We also raised a significant number of comments on the narrative report and Annual Governance Statement. In our view, a thorough internal quality review by the Council prior to publication would have detected a number of these issues.
Delivery of working papers in accordance with agreed client assistance schedule	Requires Improvement			We have continued to experience challenges with the receipt of working papers in accordance with agreed timelines. The most significant areas relate to debtors, creditors, payroll, the Housing Revenue Account (HRA) and grant income.
Timeliness and quality of working papers and supporting evidence	Ineffective			Although there has been improvements in the timeliness and quality of working papers compared to 2023/24 for certain areas of the financial statements, the overall quality remains inconsistent. Management recognises that further work is needed, particularly in areas such as the HRA, debtors, creditors, exit packages, and other sections of the financial statements. To help the Council provide timely, high-quality evidence to support the audit process we held a workshop in March 2025 with finance staff to outline the requirements for providing quality audit evidence. In addition, income and expenditure samples were selected during the interim audit, with supporting evidence due at the final audit fieldwork phase four months later. While the quality of evidence has improved compared to the prior year, significant issues persist. Many items were returned for failing to meet the required standard, and some were resubmitted multiple times before appropriate evidence was received.
Timeliness and quality of evidence supporting key accounting estimates	Ineffective			As in previous years, the Council has been unable to provide evidence that materially accurate balances for pension assets and liabilities have been accounted for within the financial statements. Furthermore, issues raised in our 2023/24 audit regarding the valuation of land and buildings within property, plant, and equipment remain unresolved, and the Council has not provided adequate support for these valuations. Prior to the commencement of our work in these areas, management reviewed the available evidence and concluded that the work should not proceed. This decision resulted in a management-imposed limitation on our planned audit procedures for 2024/25.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires Improvement			Management and the core finance team have remained responsive to our requests, and although there were delays in providing evidence as set out above staff have engaged appropriately throughout the audit process. However, we continue to experience more substantial delays where evidence is required from Council employees outside the core finance team.
Volume and value of identified misstatements, including disclosure misstatements.	Requires Improvement			We have identified several misstatements as a result of the audit procedures we have been able to complete which are included in Section 5 of this report. In addition, management alerted us to further amendments that they plan to make when the financial statements are finalised ahead of the December 2025 Audit Committee.



02

Areas of Audit Focus

Areas of Audit Focus

Audit status

Management has engaged positively throughout the audit process. Both teams worked diligently under pressure, demonstrated strong cooperation, and continued to build on the constructive working relationship established in the prior year. We observed improvements in the timeliness and quality of working papers and supporting evidence in certain areas of the financial statements. Appendix B presents the assurance ratings for the 2023/24 and 2024/25 balances, showing progress in some areas. However, as highlighted in this report and our interim Value for Money Report, significant challenges remain, which prevented us from completing all planned audit procedures.

During the 2024/25 audit, management actively participated in discussions regarding areas of the financial statements where sufficient audit evidence would not be available. This approach allowed the Council to focus its resources on providing evidence for balances where it believed the required documentation could be delivered. The areas identified as having a higher likelihood of insufficient evidence being available included Property, Plant and Equipment (PPE), pensions, and grant income. As audit evidence for these areas was not provided, we classify this under auditing standards as a management-imposed limitation of scope.

Given the ongoing challenges in auditing the financial statements (refer to page 9), we agreed with management to prioritize audit requests based on criteria such as value for money procedures, likelihood of completion, and potential to provide assurance over closing balances or future periods. Examples of issues encountered were:

- **Inefficient Walkthrough meetings:** Walkthrough sessions often involved multiple Council representatives who did not actively contribute or were not required. The absence of screen sharing and supporting evidence during calls caused delays and hindered timely completion of documentation. Greater efficiency is expected as staff gain experience and confidence in responding to audit queries.
- **Quality and Structure of working papers:** Working papers were frequently difficult to navigate, with unclear links between supporting documentation and figures in the financial statements. Multiple documents were provided without clear reconciliation to audited figures. Management has acknowledged the need for continued improvement in this area.
- **Exit Packages testing:** Exit packages presented significant challenges during 2024/25, requiring repeated clarifications on audit evidence requirements. Testing was further delayed by the need to resample due to discrepancies between interim and year-end populations.
- **Debtor and Creditor balances:** In the prior year, management was unable to provide operational working papers for debtor and creditor balances, with some areas lacking supporting schedules. Although progress was made in 2024/25, substantial effort was still required.

The Council is on an improvement journey and must consider how to build capacity to address these issues and achieve an unmodified opinion in the medium term. This will require sustained effort over several years while also addressing broader challenges facing the Council.

Areas of Audit Focus (cont'd)

Fraud Risk

Presumptive risk of management override of controls: Misstatements due to fraud or error

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

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

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

We have evaluated the risk of management override as higher, reflecting the assessment of the control environment alongside matters of Non-Compliance with Laws and Regulations (NOCLAR), specifically with respect to procurement. We respond to this risk by designing specific procedures to address it.

Findings against our planned procedures

As part of our fraud risk assessment procedures we:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud and discussed with those charged with governance the risks of fraud present at the Council.

We considered whether there were any fraud risk factors associated with related party relationships and transactions and determined that they do not give rise to a risk of material misstatement due to fraud.

We considered the effectiveness of management's controls designed to address the risk of fraud and determined that they are not effective. We issued statutory recommendations as outlined in the value for money section of this report.

We engaged our forensic specialists to assist in our fraud risk assessment, as well as perform extended management enquiries to a wider group of Council employees than we would normally interview. These conversations identified that staff generally understand their responsibilities in relation to preventing fraud.

Our conclusions relating to the Council's MRP policy have been set out on page 20.

There have been five non-compliance with laws and regulation matters we have undertaken procedures on in 2024/25. Further information on these has been included on page 21.

What are our conclusions

Due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this risk, including those related to estimates, journals, unusual transactions, and any further procedures to address the heightened risk of fraud.

Areas of Audit Focus (cont'd)

Fraud Risk and Significant risk

Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What are our conclusions?

Due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this risk.

Our response to the key areas of challenge and professional judgement

We commenced testing over Revenue Expenditure Funded from Capital Under Statute (REFCUS) to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. [However, we have been unable to conclude our procedures to gain substantial assurance.](#)

We commenced our testing of Property, Plant and Equipment (PPE) additions to ensure:

- the expenditure incurred and capitalised was capital in nature;
- the capitalised spend clearly enhanced or extended the useful life of asset rather than simply repairing or maintaining the asset on which it was incurred; and
- any development or other related costs capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.

However, we have been unable to conclude our procedures in relation to [REFCUS](#) and PPE additions, as well as those related to any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Areas of Audit Focus (cont'd)

Fraud Risk and Significant risk

Risk of fraud in revenue recognition: Overstatement of Fees, Charges and Other Service Income.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams, other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, dwelling rentals and other income), where management may have overstated income in the current financial year.

We identified that we would focus on the testing of journals that increase these account balances.

What are our conclusions?

We have been unable to complete all planned procedures in relation to this risk.

Our response to the key areas of challenge and professional judgement

We have:

- Performed overall analytical review procedures to identify any unusual movements or trends for further investigation.
- Utilised our data analytics tools to identify and then test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those manual entries that increase income. We focused our testing on months 11 and 12 of the financial year due to the risk being more likely to occur close to the year end.
- Undertaken a monthly trend analysis using our data analytics tools to identify any unusual movements in relevant balances for further analysis and testing.
- Performed a month-by-month trend analysis on rentals from dwellings income and performing a reconciliation between the dwelling rental income recognised and the rental system.

Areas of Audit Focus (cont'd)

Significant Risk

Valuation of land and property

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

Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We specifically focus on assets where a higher degree of estimation uncertainty exists:

- Depreciated Replacement Cost (specialised operational assets for which an active market does not exist);
- Fair Value (surplus assets valued at the price that would be received to sell an asset); and
- Existing Use Value (operational assets for which there is an active market to provide comparable evidence).

The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that fixed assets may be under/overstated impacting on their valuation in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying estimates.

What are our conclusions?

The Council engages external property valuation specialists to determine asset valuations. Small changes in assumptions when valuing these assets can have a material impact on the financial statements. In 2023/24 we queried with management and their valuation specialists several observations on the methodology and assumptions used to calculate the valuations. Due to the magnitude and quantum of queries, these were unable to be resolved in the time available prior to the backstop date.

In our 2024/25 planning discussions, we set out our expectations that management would need to challenge the report from their valuation specialists and provide assurance that prior year issues had been resolved before we could commence our audit testing. Following this review, management confirmed that the issues identified in the prior year had not been resolved. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.

Management has engaged a new external specialist to provide valuations from 2025/26.

Areas of Audit Focus (cont'd)

Significant Risk

IFRS 16 Implementation

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

IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. It has been adopted, interpreted and adapted in the 2024/24 CIPFA Code of Practice on Local Authority Accounting which sets out the financial reporting framework for the Council's 2024/25 accounts.

IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short-term leases. Where the Council is lessee, these are now recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

We were unable to gain assurance over the Council's implementation and readiness assessment in the 2023/24 audit.

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

In addition, in respect of the PFI schemes the Council was required to remeasure the lease liability from 1 April 2024 and subsequently where there are changes to the capital elements of the underlying PFI payment profiles.

What are our conclusions?

We commenced our procedures in relation to IFRS 16 but due to the matters identified on pages 9 and 11 and page 15 in relation to property valuations we have been unable to complete all planned procedures in relation to this risk.

However, based on the procedures performed we have identified the following:

- The Council has not included a note in the financial statements explaining the accounting policy changes as a result of the implementation of IFRS 16, along with the impact of the new standard on each account balance.
- Right of use assets were not separately identified in the balance sheet.
- The draft financial statements incorrectly included a "third" balance sheet to show the impact of the standard.
- The financial statements have not disclosed the impact of IFRS 16 implementation in the Movement in Reserves Statement.

We have included a recommendation in Section 6 of this report regarding the Council's approach to implementation of accounting standards.

Areas of Audit Focus (cont'd)

Other area of focus

Preparation of Group financial statements

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

The Council has material group undertakings for its subsidiary King George's Field, Mile End, and also consolidates, based on control, its interests in Tower Hamlets Education Partnership and Tower Hamlets Homes Limited, the services of which, were brought back in-house awaiting final dissolution of the company.

Under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom the Authority is required to prepare group financial statements as its interests are material in aggregate.

What are our conclusions?

We reviewed the Council's group boundary assessment, which concluded that King George's Field was the only material subsidiary for consolidation into the group financial statements.

Due to the matters identified on pages 9, 11 and 15, in relation to property valuations, we have been unable to complete all planned procedures in relation to this risk.

Areas of Audit Focus (cont'd)

Other area of focus

Transfer of planning powers

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

Since 1 October 2012, LLDC became Local Planning Authority (LPA) for its Mayoral Development Area, with Town Planning Powers over the Park and extended boundaries covering parts of Tower Hamlets and other areas of London. On 1 December 2024, LLDC's local planning powers returned to the four local boroughs, including those areas of Tower Hamlets that were previously covered by this arrangement - Bromley-by-Bow and Fish Island.

Balances and transactions associated with this transfer will need to be correctly accounted for and disclosed in the financial statements.

What are our conclusions?

We have not identified any matters to be reported to the Audit Committee in relation to the financial statements.

Our response to the key areas of challenge and professional judgement

We have understood and documented management's process for receiving back the planning powers and capturing the associated transactions.

We have understood the value of transactions occurring around the transfer date to assess the risk of material misstatement. The Council received £14.8 million relating to Community Infrastructure Levy (CIL) and s106 for developments dating back over the last 12 years. We have performed substantive testing to agree funds provided back to agreements to verify that the Council has the rights and obligations associated with the funds.

We identified that income transactions associated with the acquired balances and schemes were immaterial and did not require any further testing. The limited transactions to recognise income in the remainder of the financial year was consistent with the age and stage of the schemes.

Areas of Audit Focus (cont'd)

Other area of focus

Pension asset/liability valuation

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

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £178.5 million. The information disclosed is based on the IAS 19 report issued to the Council by its actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Previous audit opinions were qualified due to errors identified in membership data used to calculate the pension liability. Although some errors had been corrected; the volume of member records involved meant that the former auditor was unable to determine whether any further adjustments to these amounts were necessary.

What are our conclusions?

Management are yet to finalise their work to reconcile the membership data and the financial statements do not present a materially correct position.

As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.

Areas of Audit Focus (cont'd)

Areas of management judgement

Minimum Revenue Provision (MRP)	Our assessment
<p>In 2024/25, the Council amended its Minimum Revenue Provision policy to the annuity method for supported and unsupported borrowing following advice from external specialists. In the prior year, the Council adopted a reducing balance approach on supported borrowing and a straight-line method on unsupported borrowing.</p> <p>Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended] affords councils flexibility in how they calculate MRP, providing the calculation is 'prudent'.</p>	<p>In undertaking our audit procedures, we have sought to understand how the Council has determined that the MRP policy results in a prudent MRP charge.</p> <p>The key decision to amend the policy includes the impact on the general fund in the short term, with a saving of £7.8 million in 2024/25 and a projected £52.2 million of undiscounted savings over the next 10 years. A key consideration in assessing the prudence of the policy is whether the policy excessively defers repayment or creates potential affordability risks.</p> <p>Given the level of reserves reported in the 2025-2028 MTFS, the policy change results in a material impact on the reserves position, and without the change, reserves would be significantly lower. The nature of MRP means that whilst the Council has the ability to profile the timing of the transactions that fund MRP, the payments can not be avoided. This means that whilst there is a savings impact in the medium term, there will be higher payments in the latter period of the existing 50-year repayment term.</p> <p>We have received an initial response from management on why the Council considers the policy to be prudent. However, we have been unable to gain sufficient assurance prior to signing the 2024/25 audit to conclude on the MRP charge in the current year given the material impact to the Council's reserve position.</p> <p>We recommend that the Council ensures there is sufficient evidence to support the prudence of the policy adopted in advance of the 2025/26 audit.</p>

Areas of Audit Focus (cont'd)

Non-compliance with laws and regulations

As external auditor we have specific responsibilities to consider the implications of any suspected or actual non-compliance with laws and regulations. During 2024/25, there have been several potential instances of non-compliance with laws and regulations. We have been unable to conclude our audit procedures in relation to four matters, of which two were also unresolved at the time of signing the 2023/24 audit opinion in February 2025.

In relation to three of the four matters, including the two unresolved matters from the prior year, we have been limited in our ability to undertake our procedures as management has not yet concluded their internal investigations and procedures. We reported our findings in relation to these matters in our interim Value for Money Report presented to the Audit Committee on 3 December 2025 where we reported a significant weakness and made a statutory recommendation.

The fourth outstanding matter has recently been notified to us by the Council and there is insufficient information to conclude on the matter at this time.

As a result, we will include reference in our audit opinion to these matters remaining in progress.

Fraud Risk Assessment

We have performed a review of the Council's Fraud Risk Assessment. The timing of this review has coincided with the implementation of the Economic Crime and Corporate Transparency Act 2023 ("ECCTA") from 1 September 2025. The ECCTA creates a new offence of failure to prevent fraud, which creates a possible criminal liability for organisations, including Councils, if there aren't reasonable fraud procedures in place.

The Council's risk assessment and register are documented. There are some omissions that the Council should consider for best practice:

- The assessment does not cover all back office functions of the Council including CEO Directorate and Legal
- It is not clear within the methodology how mitigating controls are tested, nor how risk descriptions have been tailored to actual frauds experienced by the Council
- The methodology does not articulate incentives or pressures that are a key part of fraud risk identification
- Whilst the assessment includes suppliers, there is not specific reference to agent or intermediaries
- It is unclear however how instances of actual fraud are communicated; furthermore, is not apparent from either the FRA or the FRA methodology how 'top level commitment' will be incorporated into controls.

The Fraud Risk Assessment Methodology has been updated following the ECCTA legislation coming into force, however, one of the key changes posed by the new legislation relates to fraudulent financial and non-financial misreporting perpetrated by the Council; currently the FRA does not include this.

Areas of Audit Focus (cont'd)

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Scope of the consolidation, including any exclusion criteria applied to non-consolidated entities if any and whether they are in accordance with the financial reporting framework;
- Significant difficulties, if any, encountered during the audit;
- Significant matters, if any, arising from the audit that were discussed with management;
- Matters regarding management's process for identifying and responding to the risks of fraud in the entity;
- Disagreements with management, if any arising during the audit;
- Other matters if any, significant to the oversight of the financial reporting process, including the strengths and weaknesses of the finance function and the quality of the financial statement preparation process;
- Related parties;
- Going concern;
- External confirmations;
- Consideration of laws and regulations;
- Group audits; and
- Use of auditor's external specialists.

We have no further matters, other than those identified elsewhere in this report, to bring to your attention.



03

Value for Money

Value for Money

The Authority's responsibility for Value for Money (VFM)

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

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

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, and to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

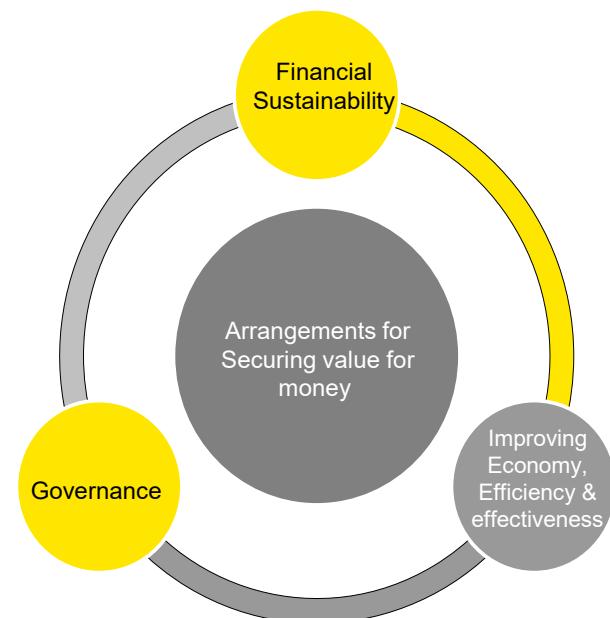
We provide a commentary on the Council arrangements against three reporting criteria:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In our Audit Planning Report presented to the Audit Committee on 28 July 2025 we reported that we had identified seven risks of significant weakness arising from our risk assessment procedures. In relation to those seven risks, we identified five significant weaknesses in the Council's arrangements for securing value for money for 2024/25. As we have undertaken our Value for Money procedures, we identified a further five significant weaknesses and made an additional Statutory Recommendation. As a result, we are reporting ten significant weaknesses and an additional statutory recommendation in relation to our 2024/25 audit.

Our findings for 2024/25 continue to highlight significant weaknesses in the Council's oversight and governance arrangements. While some steps have been taken, we remain concerned that the pace and urgency of the response have not matched the scale of the challenges. As a result, the Council remains exposed to further risks in relation to its best value duties, internal control environment, risk management, compliance with laws and regulations, and the potential for fraud or unethical behaviour. Management has provided statements outlining actions taken since 1 April 2025. These will need to be supported by clear and robust evidence to demonstrate that they have been effectively implemented and embedded across the organisation. In line with our responsibilities, we will assess the Council's progress as part of our 2025/26 audit. Should material concerns remain, we will consider whether further reporting or escalation is required in line with our statutory responsibilities.

We reported our detailed findings to the Audit Committee in our Interim Value for Money Report on 3 December 2025. As such we have not repeated those findings in this report.



Value for Money risks of significant weakness

Risk of significant weakness in VFM arrangements		
Risks of significant weaknesses in arrangements identified?	Reporting criteria	Actual significant weaknesses in arrangements identified?
Arrangements for reliable and timely statutory financial reporting	Governance	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Arrangements to manage risks effectively and maintain a sound system of internal control	Governance	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Contract Management and Procurement	Governance and Improving economy, efficiency and effectiveness	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Best Value Inspection	Governance and Improving economy, efficiency and effectiveness	Significant weakness identified. The significant weakness identified and reported in February 2025 in relation to the 2023/24 audit remains for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Transfer of Planning Powers	Governance	No significant weakness identified. Work performed in relation to this risk including associated recommendations is set out in this report.
Housing	Governance	Significant weakness identified. We identified a significant weakness in 2024/25 following the outcome of an inspection performed by the Regulator of Social Housing. Our findings are set out within our Interim Value for Money report and are not repeated in this draft report.
Medium Term Financial planning and pressures	Financial Sustainability	No significant weakness identified. Work performed in relation to this risk including associated recommendations is set out in this report.
Effectiveness of the internal audit function	Governance	Significant weakness identified for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Annual Governance Statement	Governance	Significant weakness identified for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council	Governance	Significant weakness identified for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Audit Committee effectiveness	Governance	Significant weakness identified for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.
Effectiveness of the Council's process for conducting internal investigations	Governance	Significant weakness and draft Statutory Recommendation identified for 2024/25. Our findings were set out within our Interim Value for Money report and are not repeated in this draft report.

Value for Money risks of significant weakness (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Transfer of Planning Powers

Since 1 October 2012, the London Legacy Development Corporation Group (LLDC) became the Local Planning Authority (LPA) for its Mayoral Development Area, with Town Planning Powers over the Park and extended boundaries covering parts of Tower Hamlets and other areas of London. On 1 December 2024, LLDC's local planning powers returned to the four local boroughs, including those areas of Tower Hamlets that were previously covered by this arrangement - Bromley-by-Bow and Fish Island.

There will be an increase in the level of work and resources associated with taking on these powers and Council systems and processes will need to be updated to ensure not just a smooth transition, but that residents and other stakeholders are given clear communication on which authority was responsible at the relevant time.

What arrangements did this impact?

Governance & Improving economy, efficiency and effectiveness

We have:

- Understood the process that has been undertaken to transfer the responsibilities back to the Council and any additional workload or resources associated with the transfer;
- Reviewed the process that the Council has undertaken to ensure all liabilities have transferred appropriately;
- Reviewed any transitional arrangement protocols established between LLDC and the Council; and
- Reviewed the systems and process, and any communications to the relevant stakeholders, that have been updated in relation to the transfer.

Findings

We have not identified any significant weaknesses in arrangements. However, we have identified the following recommendation.

Recommendation

In respect of the transfer of planning powers back to the Council from the London Legacy Development Corporation, we have not been provided with evidence that the Council sought assurance on the balances transferred to the Council to ensure their accuracy. The Council should ensure that due diligence is undertaken, along with retaining the associated evidence.

Value for Money risks of significant weakness (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Medium Term Financial planning and pressures, such as homelessness

The Council is currently facing significant on-going pressures due to high levels of homelessness in the borough and across London. Through assessment of the Council's outturn, we have noted adverse budgetary movements in relation to homelessness.

While we note that this may be cushioned in the short term with other budgetary savings, we have assessed that there is a financial sustainability risk in the medium term over how the Council will continue to maintain financial balances on a recurrent basis, whilst managing ongoing homelessness and other service pressures.

What arrangements did this impact? What did we do?

Financial Sustainability

We have:

- Gained an understanding of management's process for preparing the budget, management reporting and risk/pressure analysis and mitigations, as well as how these are reported to committee.
- Understood the level of savings required in the medium term and the work undertaken to identify savings and mitigations.
- Considered how the Council considers pressures that arise during the year and manages these within its budget envelope.
- Understood the balance of recurrent and non-recurrent funding and pressures that are built into financial forecasts.

Findings

Based on the work performed, the Council had proper arrangements in place in 2024/25 to make informed decisions and properly manage its risks.

However, the current operating environment presents significant financial challenges and risks for the Council. Continued overspends without effective mitigation, coupled with reliance on reserves to balance the budget, creates an unsustainable financial position in the short term. Achieving transformational change that delivers recurring savings and reduces the Council's overall cost base is essential to securing financial sustainability.

In both 2024/25 and 2025/26, the Council reported a significant overspend when comparing the budget position to the quarter 1 monitoring position. These overspends were attributed to what the Council describes as "Nationally Recognised Demand Pressures," namely homelessness, adult social care, and SEND. While the 2025/26 budget-setting papers acknowledge the financial risks arising from these pressures, neither the 2024/25 nor 2025/26 budget reports include any scenario analysis to illustrate their potential impact.

Recommendation

In both 2024/25 and 2025/26, the Council reported a significant overspend when comparing the budget position to the quarter 1 monitoring position. These overspends were attributed to what the Council describes as "Nationally Recognised Demand Pressures," namely homelessness, adult social care, and SEND. While the 2025/26 budget-setting papers acknowledge the financial risks arising from these pressures, neither the 2024/25 nor 2025/26 budget reports include any scenario analysis to illustrate their potential impact.

The Council's budget and Medium-Term Financial Strategy (MTFS) should identify and quantify reasonably possible financial risks from external, demand-led factors. Incorporating scenario analysis would enable tracking against varying risk levels and demonstrate that management has fully considered the extent of the Council's exposure. The Council should systematically incorporate scenario modelling into both annual budget-setting and the Medium-Term Financial Strategy (MTFS). This should include:

- Best-case, mid-case, and worst-case projections for demand-led pressures (e.g., homelessness, adult social care, SEND).
- Sensitivity testing of key assumptions such as inflation, pay awards, and service demand growth.
- Impact mapping of external shocks (e.g., policy changes, economic downturns) on reserves and service delivery.
- Scenario analysis should be used not only for planning but also for ongoing monitoring, enabling proactive adjustments and transparent reporting to Members.

The Council should publish a reserves utilisation strategy that:

- Distinguishes between unrestricted and restricted reserves.
- Aligns reserve drawdowns with specific budget pressures and transformation investments.
- Include a forecast of reserve depletion under different scenarios, highlighting sustainability risks.



04 Audit Report

Audit Report

Draft audit report

As a result of the 2023/24 disclaimed audit report, we do not have assurance over the brought forward balances from that year (the opening balances). This means we do not have assurance over 2024/25 in-year movements and some closing balances. We also do not have assurance over comparative amounts disclosed in the financial statements and did not plan to rebuild assurance in our 2024/25 audit.

As set out within this report we have also not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over closing balances and in-year transactions. The lack of evidence over these movements and balances mean we are unable to conclude that the 2024/25 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2024/25 audit opinion. [This includes reporting by exception in relation to the Annual governance Statement and the identified significant weaknesses and statutory recommendations.](#)

The form and content of the Audit Report will be shared with the Section 151 officer to enable you to formally authorise the 2024/25 financial statements for issue.



05

Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have no misstatements exceeding £3.5 million to highlight which have been corrected by management that were identified during the course of our audit.

We have outlined in this report observations on the quality of the draft financial statements. Examples of areas where disclosure issues were noted based on the procedures performed relate to debtors, creditors, exit packages, officer's remuneration, the HRA and IFRS 16.

In our testing of unrecorded liabilities, we identified a transaction that demonstrated that business rates income in the collection fund was overstated by £795,000. The impact on the Council's financial statements, which recognise 30% of the income from business rates (70% apportioned to Central Government and the Greater London Authority). [This difference was previously reported as unadjusted, however, subsequent to the draft version of this report being submitted for inclusion within audit committee papers, management have amended the financial statements in respect of this.](#)

Following the original draft of this report, management amended most differences that had been previously reported as unadjusted. The schedule of these differences, that have since been adjusted, is shown on the next page.

Within our assessment challenging the Council's position not to recognise any investment properties, we identified that one asset that was, according to the Council's definition, a surplus asset and was incorrectly classified as operational Land and Buildings. This asset was valued at £1,786,000. Management have amended this subsequent to the draft version of this report.

Audit Differences (cont'd)

Summary of adjusted differences

Uncorrected misstatements 31 March 2025 (Currency'000)	Effect on the current period		Net assets (Decrease)/Increase			
	OCI	Income statement	Assets current	Assets non- current	Liabilities current	Liabilities non- current
Errors	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Known differences:						
Omission of a capital creditor identified in our search for unrecorded liabilities				855	(855)	
Understatement of HRA Tenants Bad Debt Provision Charge for the year		432	(432)			
Duplicated posting between Debtors and Creditors			(2,733)		2,733	
Overstatement of Apprenticeship levy creditor		(373)			373	
Housing Benefit debtors to be written off:						
Dr CIES and Bad Debt Provision		193	592			
Cr Gross Debtors			(785)			
Understatement of Service Charges Bad Debt Provision		1,298	(1,298)			
Payments in advance that were not paid until April 2025			(851)		851	
Judgemental differences:						
Accumulated variance between Ledger and CT and NNDR revenue system		(967)	967			
Extrapolated differences:						
Overestimate of insurance payout		842	(842)			

Audit Differences (cont'd)

Summary of unadjusted differences

Below we highlight the following misstatements which were not corrected by management. We ask that the Audit Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation.

Uncorrected misstatements 31 March 2025 (Currency'000)	Effect on the current period		Net assets (Decrease)/Increase			
	OCI	Income statement	Assets current	Assets non- current	Liabilities current	Liabilities non- current
Errors	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Extrapolated differences:						
Internal Recharge incorrectly included in income (£240)		1,017	(1,221)		204	
Balance sheet totals			(1,221)		-	204
Cumulative effect of uncorrected misstatements before turnaround effect		1,017				
Turnaround effect. See Note 1 below.		(6,956)				
Cumulative effect of uncorrected misstatements, after turnaround effect		(5,939)				

Note 1

In the prior year we reported the following misstatements that increased expenditure that should have been recognised in 2023/24. As these errors remained uncorrected, they turn around into 2024/25 reducing the 2024/25 expenditure:

- Expenditure not accrued for within the financial statements - £2,531,000
- Incorrect depreciation charge - £1,973,000
- Understatement of Service Charges Bad Debt Provision - £1,324,000
- Impairment of long-term debtor - £646,000

In our testing of HRA Supervision & Management Expenditure in 2024/25, we identified a transaction spanning 2023/24 and 2024/25 which was incorrectly recognised in full, in 2024/25. The value of expenditure that should have been accrued into 2023/24 was £482,000.

Uncorrected disclosure misstatements

- The Council has disclosed in Note 16 - Financial Instruments, that there is a gain of £6.318m on Financial Assets measured at Fair Value through Profit and Loss, however this is dividend income and should be shown as dividend/interest income on Financial Assets measured at amortised cost. This amount would also be shown in a different line in Note 11 - Financing and Investment Income and Expenditure, where it is currently shown in Net (gains)/losses on financial assets at fair value through profit and loss, and should be included within Interest receivable and similar income.



06

Assessment of Control Environment

Assessment of Control Environment

Financial controls					High	Moderate	Low	Total
As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control including group-wide or at components.		Open from PY 2023/24			5	5	2	12
The matters reported in this section are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.		Closed during FY 2024/25			(2)	(3)	(1)	(6)
The adjacent table provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2024/25 audit.		New points raised in FY 2024/25			1	8	4	13
		Open for 2024/25			4	10	5	19
Key:								
 A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.								
 Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.								
 Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.								
Summary of control observations and recommendations								
Control observation and impact	Grading	Recommendation	Management Response					
<p>The financial statements were published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations.</p> <p>There were several internal inconsistencies, typographical and arithmetic errors in the draft financial statements, including the omission of the exit packages note.</p> <p>Representation of the debtors and creditors notes were also required, as supporting working papers were not of the required format and quality to enable audit testing.</p> <p>This led to planned procedures in respect of debtors and creditors being executed later than anticipated</p> <p>We also raised a significant number of comments on the narrative report and Annual Governance Statement.</p> <p>In our view, a thorough internal quality review by the Council prior to publication would have detected a number of these issues.</p>	H M L	<p>In preparing the financial statements, quality assurance controls should be implemented.</p> <p>The Council should also complete the CIPFA disclosure checklist to ensure that required disclosures have been included.</p> <p>Working papers should be prepared alongside the account disclosures, ensuring supporting schedules meet audit requirements.</p>	<p>The Exit Packages disclosure was not included in the published version due to a system issue during the consolidation of disclosures into the master document. The disclosure and supporting working papers were promptly provided to audit once the issue was identified. To strengthen the process, management will introduce a disclosure checklist review against the master document as part of the close process to help prevent similar occurrences.</p> <p>The original format of the debtors and creditors disclosures and supporting working papers was consistent with the requirements of the Council's previous auditor and aligned with the Code. No concerns were raised in prior audits, and had EY requested this format previously, it would have been adopted at that time. To accommodate EY's specific requirements and facilitate their sampling approach, management allocated additional resources to re-present the note. This revised format will now be adopted for all future audits to ensure consistency and improve efficiency going forward.</p> <p>The AGS was provided in draft form with the draft accounts. At the July Audit Committee, it was agreed that an updated AGS would be presented at the next meeting, incorporating EY's feedback. The Narrative Report followed the established format from previous years, including Deloitte audits. This year, enhancements were made in response to EY's feedback.</p> <p>Quality assurance checks are undertaken as part of the Closure of Accounts process. These will be enhanced based on learning from the FY24-25 audit.</p>					

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading	Recommendation	Management Response
We identified omissions in the Council's disclosures in relation to the implementation to IFRS 16.	M	In preparing the financial statements the Council should complete the CIPFA disclosure checklist to ensure that required disclosures have been included.	IFRS 16 Leases is a complex accounting standard impacting multiple disclosures in the Accounts. FY24-25 was the first year of adoption. Management engaged positively with EY on the queries raised and adopted all appropriate presentational revisions to the disclosures. The Council will maintain these disclosure formats going forward.
We identified errors in the application of amendments made to the Council's policy in respect of MRP.	M	When accounting policies are amended, an appropriate process should be in place to confirm that the changes are suitable and align with applicable guidance.	The error identified relates to the MRP Policy in FY24-25. The Council has already corrected this in the FY25-26 MRP Policy, which was presented to full Council in February 2025. Management will continue to ensure future policy changes are clearly documented in line with relevant guidance.
Management has not been able to provide the requested support for our testing of significant contracts for 2023/24 and 2024/25. For three contracts, no evidence was provided, and two contracts remain unsigned. Furthermore, for several contracts, the requested details (such as key contractual terms) were not initially provided, resulting in follow-up queries. Proper retention of key contractual information is essential to ensure that contractual terms can be enforced.	M	Management should assess whether the missing information indicates gaps in the Council's records and determine if additional controls are required to safeguard the integrity of contractual data.	Management notes challenges experienced by both parties in specifying and gathering evidence for significant contracts. During the audit, a substantial volume of contractual documentation was retrieved and reviewed, including large contracts spanning hundreds of pages stored in physical archives. The Council will prioritise collection of evidence relating to significant contracts in future audits. To support this process, management requests that EY provide the complete contract testing matrix, enabling a detailed review of any gaps in the required information.

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading	Recommendation	Management Response
			H M L
As part of transitioning approximately 200 employees from Greenwich Leisure Limited (GLL) to LBTH systems when bringing leisure services in-house, we identified deficiencies in some employee data entered into the system.	M	Data integrity checks should be undertaken by the Council to ensure that employee data stored in the Council's systems is accurate and complete.	EY requested P45s to confirm start dates of GLL TUPE staff. The Council was not able to provide two P45s from a total of eight GLL samples. Subsequently, significant resource was deployed from HR to locate alternative evidence, specifically reviewing over 1,000 archived emails to retrieve timesheet data from the time of the transfer. These issues were specific to the GLL transfer, which was concluded with the EY engagement team as part of the FY24-25 audit. This exercise specifically related to FY24-25, as this was the financial year when the TUPE transfer occurred.
Our testing identified instances where the payroll team was not promptly informed when a Councillor became eligible for a Special Responsibility Allowance (SRA). This delay can result in overpayments or underpayments of the SRA.	M	The Council should ensure that processes for promptly notifying changes are robust and consistently followed.	Management will review the underlying process by which SRAs relating to new appointments are notified to Payroll.
During our testing, we identified errors in the Officers' Remuneration disclosure, where information provided by one school in our sample was inaccurate, resulting in additional testing being required.	M	The Council should provide training to all schools in relation to the importance of accurate payroll data and staff numbers, so that the Officers' Remuneration note is accurate. Controls should be implemented by the Council to confirm the quality of the information provided in preparation of the financial statements.	EY selected 52 samples from the Officer's Remuneration disclosure. This included samples derived from independent returns produced by 13 off-payroll schools. Errors were identified in the return from one school. These errors were confirmed to be isolated to the applicable school and corrected through a revised return. Management will incorporate the findings from the FY24-25 audit into the year-end Schools returns process and enhance control checks and training to Schools staff to ensure requirements are understood. We conduct closure of accounts training every year to support schools.
In the 2023/24 audit, we noted an error in the calculation of the Service Charges Bad Debt Provision. We have continued to identify this error in the 2024/25 Service Charges Bad Debt Provision.	M	The Council should ensure that action is taken to address misstatements and associated controls and processes to prevent recurrence.	This was a clerical error in the formula used to calculate the provision. Management will incorporate enhanced review checks on the Service Charges Bad Debt Provision working papers as part of future closedowns.

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading	Recommendation	Management Response
The Council's Exit Packages disclosure did not include Pension Strain costs for 3 out of 6 samples where these costs should have been included. The disclosure also included several individuals, in error, who departed under agreements that did not require disclosure.	M	Training should be provided to ensure accounting personnel understand the requirements of the reporting framework.	<p>The draft Exit Package disclosure was prepared and included the pension strain expense. However, sample testing in this area found that the pension strain expense data was incomplete. Additional supplementary checks will be undertaken on top of source reports to ensure the completeness of this data moving forwards.</p> <p>It was also identified that some individuals retiring on ill-health grounds had been incorrectly included in the disclosure. A comprehensive review was undertaken and the disclosure revised accordingly, which will be maintained moving forwards.</p>
Testing of the bad debt provision identified provisions for debts that have been outstanding for an extended period before the debts are written off.	L	The Council should consider whether historic debts remain recoverable in preparing the bad debt provision, and where appropriate debt write offs should be processed.	<p>Management notes that an appropriate bad debt provision is maintained in the Accounts for historic debtors. This ensures the net reported debtor position is correct.</p> <p>The Council needs to be satisfied that all debt recovery processes have been exhausted before writing off debts. A review will be undertaken for FY25-26 and, where debts are deemed non-recoverable, adjustments will be actioned accordingly.</p>

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading	Recommendation	Management Response
In section 05 we have reported differences arising where CTAX and NNDR income and debtors have been omitted from the financial statements, and the error has not been identified through the system reconciliation. Management intended to clear these balances in 2024/25 but did not have enough time and intend complete it in 2025/26.	L	Management should identify why the reconciliation process did not identify the omissions and put controls in place to ensure all transactions from the subledger are captured in the financial statements.	As part of the FY25-26 Collection Fund reconciliation work, management will make necessary adjustments to address this recommendation.
Our audit testing of creditor balances identified historic balances that the Council had either not reviewed or had reviewed but received no response from the creditor without follow up.	L	The Council should undertake a review of historic liabilities and determine if the liability remains due.	The council is reviewing aged credit balances in FY25-26, including follow-ups to counterparties where possible, and action any necessary adjustments accordingly.
Our audit testing identified two instances where related parties had not been disclosed on the register of interests by members. We note that there were no associated transactions identified from our review of the ledger.	L	Members should be reminded of their responsibilities to report all of their interests.	TBC

Assessment of Control Environment (cont'd)

Status of previous year's recommendations			2024/25 update		
Financial Statement Area	2023/24 observation and recommendation	Grading			2024/25 update
		H	M	L	
Audit Preparedness	<p>As noted in our reporting; we have experienced delays in the provision of the receipt of timely, accurate audit evidence. This has contributed to an inability to gain full assurance in a number of areas across the 2023/24 financial statements. In order to rebuild assurance in future years, management will need to take action to address the quality and timeliness of working papers, together with reviewing the capacity within the finance team to support the delivery of high-quality audited financial statements supported by sufficient and appropriate audit evidence.</p>	H			<p>Recommendation remains open.</p> <p>Our current year observations have been set out on page 9 of this report.</p>
Property, Plant and Equipment (PPE) Valuations	<p>Our testing identified a significant volume of differences where our view differs from management's specialists. Management and their specialist have also been unable to provide adequate support for some assumptions included in their work.</p> <p>Management should ensure that they thoroughly review and evaluate the work of their specialists and provide sufficient challenge to ensure that the valuations are conducted appropriately, in line with the Code, and ensure that they present a materially correct position in the draft unaudited financial statements.</p>	H			<p>Recommendation remains open.</p> <p>Our planning discussions we set out our expectations that management would need to challenge the report from their valuation specialists and provide assurance that prior year issues had been resolved before we can commence our audit testing.</p> <p>Following this review, management confirmed that the issues identified in the prior year had not been resolved. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.</p> <p>Management have engaged a new external specialist to provide valuations from 2025/26.</p>
Cash receipting	<p>We have been unable to complete testing in relation to debtors and income. One of the more significant reasons relates to the Council's cash receipting system, where management has been unable to provide a suitable audit trail demonstrating that cash has been received for income and debtors.</p> <p>Management should identify a solution to this ahead of the 2024/25 audit or set aside sufficient resource to enable those staff who can access the required information to do so on a timely basis.</p>	H			<p>Recommendation closed.</p>

Assessment of Control Environment (cont'd)

Status of previous year's recommendations			
Financial Statement Area	Recommendation	Grading	Update
		H M L	
PPE	<p>The fixed asset register includes a number of fully depreciated assets (where the gross book value is disclosed in the financial statements) but the Council does not have a specific process to identify whether these are in use or not and / or remove them from the fixed asset register.</p> <p>Management should identify and review all assets with nil net book value to assess if they remain in use or should be removed from the Fixed Asset Register.</p>	H	<p>Recommendation closed.</p> <p>Management identified zero value assets to write-off and performed this exercise in 2024/25 with £20.4m derecognised. As set out in appendix B we have not obtained assurance over PPE.</p>
General Ledger Controls	<p>Our work on journals identified 15 entries where the approval audit trail could not be obtained as no journal workflow was available. During 2023/24 the Council moved to a new two-step journal system requiring an 'inputter' and 'authoriser'. This move was not complete, and some journals were input using a single step process requiring no authorisation.</p> <p>Evidence of approval was not retained. Where evidence of approval is not held within the ledger management should ensure that, that there is a process in place to clearly document how the approval has been obtained, and that this evidence is retained consistently.</p>	H	<p>Recommendation remains open.</p> <p>As we have been unable to conclude our procedures on journals in the current year we are unable to conclude on whether this recommendation has been addressed.</p>
Minimum Revenue Provision	<p>We identified errors in the Council's MRP policy.</p> <p>Management should ensure that its MRP policy does not contain clauses in respect of Housing Revenue Account assets and any amendments to the policy are appropriately approved in advance.</p>	M	<p>Recommendation closed.</p> <p>Whilst this recommendation has been closed, we have raised new observations and recommendations on the Council's MRP policy in the current year.</p>
Investment Properties	Management should periodically assess their asset portfolio for whether income generating assets should be classified as investment properties and ensure there is robust evidence and rationale to support the classification.	M	<p>Recommendation remains open.</p> <p>As we have been unable to conclude our procedures on PPE in the current year we are unable to conclude on whether this recommendation has been addressed.</p>
PPE - Highways Infrastructure Assets	In respect of Highways Infrastructure Assets, there is currently an amendment to the CIPFA Code which applies from the financial year 2021/22 to the financial year 2024/25. This means that for the current and subsequent financial year, the Council do not need to disclose Gross Book Value and Accumulated Depreciation, which would require management information on an asset-by-asset basis; however, to be prepared for the expiration of this amendment, management should be planning how they will meet disclosure requirements should there be an expectation that both GBV and Accumulated Depreciation is needed.	M	<p>Recommendation remains open.</p> <p>No progress has been made on this in the period and as such this remains as open recommendation.</p>

Assessment of Control Environment (cont'd)

Status of previous year's recommendations					
Financial Statement Area	Recommendation	Grading			Update
		H	M	L	
Bank reconciliation - Rents Direct Debits	The Council did not perform a bank reconciliation for the Rents direct debits bank account. The reconciliation must be performed in timely basis in future periods.		M		Recommendation closed.
PPE	PPE disposals included derecognition of an asset owned by Transport for London which the Council had failed to dispose of previously. Management should conduct regular reviews to ensure they have the rights to all assets.		M		Recommendation closed.
Housing rents reconciliation	The Council only reconcile the housing rents bank account and Northgate system once a year at year-end. Management should perform reconciliations more regularly.		L		<p>Recommendation closed.</p> <p>In our walkthrough of the housing rents system, we have obtained and inspected a monthly reconciliation.</p>
PPE	The Council currently manages its PPE using Microsoft Excel. Management should consider whether a purpose-built fixed asset register would carry additional benefits in relation to improved management information, enhanced reporting functionality and increased confidence in the integrity of the data held.		L		<p>Recommendation remains open.</p> <p>The Council has initiated a project to implement a Civica based system for 2025/26.</p>



07

Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2024/25 Statement of Accounts with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Following our review of the draft financial statements and annual governance statement we provided a significant level of comments to the Council for their consideration. [We understood that management reviewed our comments to provide a revised set of financial statements and Annual Governance Statement. All required amendments have not been made to the Annual Governance Statement. Therefore, we will be reporting by exception in our audit opinion.](#)

In our interim Value for Money report presented to the 3 December 2025 Audit Committee, we reported a significant value for money weakness in relation to the preparation of the Annual Governance Statement.

Whole of Government Accounts

We have not yet performed the procedures required by the NAO on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete, and the NAO has confirmed no further procedure are required.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

We did not identify any issues which required us to issue a report in the public interest, however, as a result of identifying matters reported in our interim Value for Money report, presented to the 3 December Audit Committee, we have issued statutory recommendations under Schedule 7.



08

Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Relationships

There are no relationships from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

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

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

A breakdown of our fees is shown in the table to the right.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statements opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment
- The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular, the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. A narrative summary of the areas where we expect to raise scale fee variations for the audit of the Council are set out in the fee analysis on this page.

	Current Year £m	Prior Year £m
Scale Fee - Code Work	539,410	505,893
Proposed scale fee variation	Note 2	Note 1
Total fees	TBC	TBC

All fees exclude VAT

(1) As set in our 2023/24 Audit Results Report and Auditor's Annual Report a scale fee variation was submitted to PSAA. At the date of this report that scale fee variation has not yet been determined.

(2) We propose to submit a scale fee variation to PSAA for additional 2024/25 work covering the following areas:

- Close Monitoring designation
- Extensive use of forensics specialists in the audit
- Procedures performed in relation to multiple NOCLAR matters
- Procedures, including use of experts, to review the Council's MRP policy
- IFRS 16 implementation
- Areas such as exit packages and officer's remuneration, HRA, debtors, creditors, capital commitments, significant contracts and income and expenditure where additional time has been incurred.
- Group, including assessment of the group boundary
- Increased risks identified in relation to VfM, including issuing statutory recommendations and exception reporting
- Increased risk assessment (fraud risks)
- Quality of workpapers and responses
- Impact of risk assessment resulting in lower levels of materiality



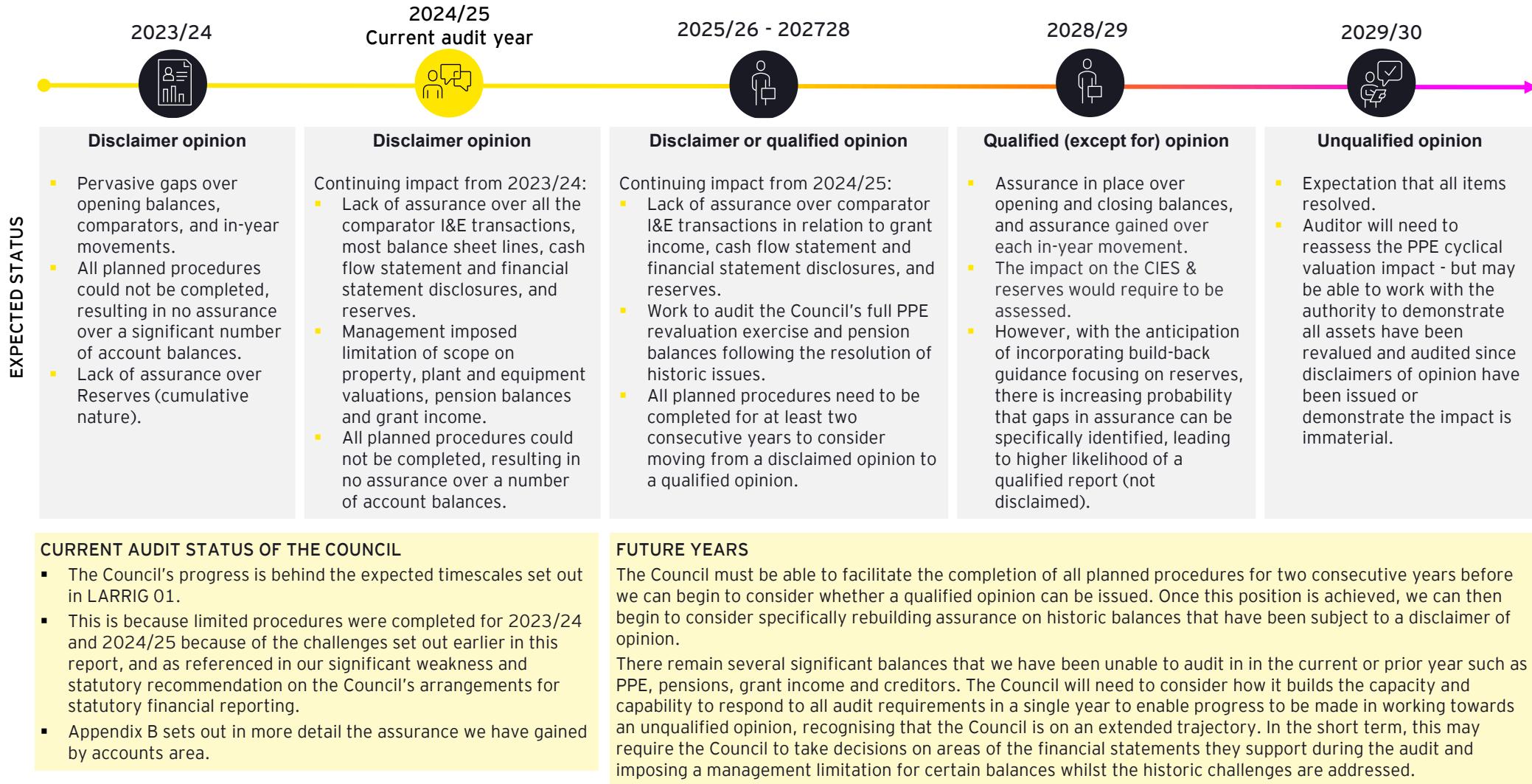
09

Appendices

Appendix A – Progress to full assurance

Progress to full assurance

The NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01 has set out an indicative timetable for Councils to receive an unqualified audit opinion by the 2026/27 financial year. Set out below is the illustrative timescale for the Council based on actual progress against that timescale to date. We have included reasons for where the Council is on this timetable and what still needs to be done to successfully rebuild assurance.



Appendix B – Updated summary of assurances

Summary of Assurances

The table below summarises the audit work we have completed on the 2023/24 and 2024/25 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit. The assurance rating shown for 2024/25 is the rating we anticipate obtaining. However, as our audit procedures, including review, remain in progress, these ratings may be subject to change.

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Property, Plant and Equipment ('PPE')	None	None	We have been unable to obtain assurance over PPE balances. Management confirmed that the issues identified in the 2023/24 audit had not been resolved. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope. Management have engaged a new external specialist to provide valuations from 2025/26.
Heritage assets	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Investments (short and long term)	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Short Term Debtors	None	None	We incurred significant resource in auditing this financial statement balance and completed our testing over a large proportion of the balance as at 31 March 2025. However, we were unable to complete all planned work in this area.
Cash and Cash equivalents	None	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Creditors	None	None	We have incurred significant resource in auditing this financial statement balance, including the testing of unrecorded liabilities. However, due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this balance as at 31 March 2025.
Borrowings (short and long term)	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Provisions (short and long term)	None	None	We completed our testing over a large proportion of the balance as at 31 March 2025. However, we were unable to complete all planned work in this area due to the issues outlined on pages 9 and 11.
Capital grants received in advance	None	None	As set out on page 11, management determined areas of the financial statements that they felt they would be unable to provide adequate audit evidence in the time available to support the balances in the financial statements. One of the areas subject to a management-imposed limitation of scope is grant income. As a result, we have been unable to complete all planned procedures in relation to this balance as at 31 March 2025.
Deferred liabilities - Leases and PFI	None	None	As set out on page 16, we have been unable to complete all planned procedures in relation to IFRS 16. Whilst we have undertaken procedures over the Council's PFI schemes and lease liabilities, the lack of assurance on the impact of IFRS 16 has resulted in us being unable to complete all planned procedures in relation to this balance as at 31 March 2025.

Appendix B – Updated summary of assurances

Summary of Assurances (continued)

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Local Government Pension Scheme Liability	None	None	We have been unable to obtain assurance over pension balances. Management are yet to finalise their work to reconcile the membership data, and the financial statements do not present a materially correct position. As management could not provide the evidence to allow our audit procedures to be undertaken this has resulted in a management-imposed limitation of scope.
Collection Fund	None	Partial	We have completed our planned audit procedures in this area, however, do not have assurance on the opening years that have been subject to disclaimers of opinion.
Comprehensive Income and Expenditure Statement (including the Housing Revenue Account income and expenditure but excluding grant income and staff costs)	None	None	We completed our testing over a large proportion of the balances. However, we were unable to complete all planned work in this area.
Comprehensive Income and Expenditure Statement - Grant income	None	None	As set out on page 11, management determined areas of the financial statements that they felt they would be unable to provide adequate audit evidence in the time available to support the balances in the financial statements. One of the areas subject to a management-imposed limitation of scope is grant income. As a result, we have been unable to complete all planned procedures in relation to these balances.
Comprehensive Income and Expenditure Statement - staff costs	Substantial	None	We have been unable to gain assurance on staff costs due to substantive analytical review procedures resulting in variances outside of an acceptable range that could not be corroborated. Due to the issues outlined on pages 9 and 11, there has been insufficient time to undertake alternative procedures to gain assurance in this area in 2024/25. We have been able to complete our procedures to gain assurance over agency costs and starters and leavers.
Reserves	None	None	Until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements.
Group financial statements and consolidation	None	None	We reviewed the Council's group boundary assessment, which concluded that King George's Field was the only material subsidiary for consolidation into the group financial statements. Due to the matters identified on pages 9 and 11, the number of areas where we have not been able to complete planned procedures and page 15 in relation to property valuations, we have been unable to complete all planned procedures to obtain assurance over the group financial statements and consolidation.
Housing Revenue Account	None	None	Whilst we have undertaken a substantial volume of testing in relation to HRA income and expenditure, we have been unable to complete planned procedures in relation to the HRA in its entirety, including the disclosures due to a lack of assurance over associated balances such as reserves, balance sheet movements and PPE.
All other disclosures	None	None	We have completed planned procedures in relation to intangible assets, exit packages, members allowances and related parties. However, we have been unable to complete our procedures on all other disclosures, including the EFA and cash flow statement.

Appendix C – Summary of communications

Summary of communications

Date	Nature	Summary
21 January 2025	Meeting	Recurring meeting between LBTH and EY with Julie Lorraine and Stephen Halsey in attendance.
21 February 2025	Meeting	Recurring meeting between LBTH and EY with Julie Lorraine in attendance.
13 March 2025	Meeting	Recurring meeting between LBTH and EY with Julie Lorraine, Abdulrazak Kassim and David Dobbs (HoIA) in attendance.
9 May 2025	Meeting	Recurring meeting between LBTH and EY with Abdulrazak Kassim and Stephen Halsey in attendance.
12 June 2025	Meeting	Recurring meeting between LBTH and EY with Abdulrazak Kassim in attendance.
14 July 2025	Meeting	Recurring meeting between LBTH and EY with Abdulrazak Kassim, with Ahsan Khan in attendance.
11 August 2025	Meeting	Recurring meeting between LBTH and EY with Abdulrazak Kassim, Ahsan Khan, Neilesh Kakad in attendance.
25 September 2025	Meeting	Liaison meeting between LBTH and EY with Abdulrazak Kassim, Stephen Halsey, Jonathan Lloyd, Shupriya Iqbal and Ahsan Khan in attendance.
14 November 2025	Meeting	Liaison meeting between LBTH and EY with Abdulrazak Kassim, Stephen Halsey, Jonathan Lloyd, Shupriya Iqbal and Ahsan Khan in attendance.
18 November 2025	Meeting	Recurring meeting between LBTH and EY with Abdulrazak Kassim in attendance.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix D – Required communications with those charged with governance

Required communications with those charged with governance

There are certain communications that we must provide to those charged with governance. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.		The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.		Audit planning report - July 2025
Planning and audit approach	Communication of: <ul style="list-style-type: none">▪ The planned scope and timing of the audit▪ Any limitations on the planned work to be undertaken▪ The planned use of internal audit▪ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.		Audit planning report - July 2025
Significant findings from the audit	<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 the audit▪ Significant matters, if any, arising from the audit that were discussed with management▪ Written representations that we are seeking▪ Expected modifications to the audit report▪ Other matters if any, significant to the oversight of the financial reporting process		Audit planning report - July 2025
Misstatements	<ul style="list-style-type: none">▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation▪ The effect of uncorrected misstatements related to prior periods▪ A request that any uncorrected misstatement be corrected▪ Material misstatements corrected by management		Audit results report - December 2025

Appendix D – Required communications with those charged with governance (cont'd)

Our Reporting to you		
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others where the fraud results in a material misstatement in the financial statements. ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report - December 2025
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements 	Audit results report - December 2025
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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 ▪ Difficulty in identifying the party that ultimately controls the entity 	Audit results report - December 2025
External confirmations	<ul style="list-style-type: none"> ▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report - December 2025

Appendix D – Required communications with those charged with governance (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report - July 2025 and Audit Results Report - December 2025
Consideration of laws and regulations	<ul style="list-style-type: none"> ▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report - December 2025
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▪ Significant deficiencies in internal controls identified during the audit. 	Audit results report - December 2025
Written representations	<ul style="list-style-type: none"> ▪ Written representations we are requesting from management and/or those charged with governance 	Audit results report - December 2025
System of quality management	<ul style="list-style-type: none"> ▪ How the system of quality management (SQM) supports the consistent performance of a quality audit 	Audit results report - December 2025
Material inconsistencies or misstatements of fact	<ul style="list-style-type: none"> ▪ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report - December 2025
Auditors report	<ul style="list-style-type: none"> ▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - December 2025

Appendix E – Regulatory update

The English Devolution and Community Empowerment Bill - Audit Measures

Background

On 16 December 2024, the Government published the English Devolution White Paper. The White Paper outlines how England is one of the most centralised countries in the world and contends that over-centralisation is holding back the prosperity of the regions. As a result, there is an intention from Government to widen and deepen devolution to local areas across England. The English Devolution and Community Empowerment Bill (the Bill) is intended to provide the legislative framework to do this by setting out a standardised framework of devolved powers, duties and functions. The bill is in six parts:

- Part 1 introduces the new devolution architecture for England, centred around the new category of "strategic authorities" (SAs). These are organisations designated by Government to have responsibility for strategy development and programme delivery over larger functional economic areas.
- Part 2 outlines the powers and duties which existing and future SAs will have, and the new process by which new powers and duties can be conferred on SAs by Government in the future.
- Part 3 is focused on measures designed to strengthen local government and communities.
- Part 4 is intended to strengthen the accountability of the local government sector by reforming the local audit system, including the establishment of the Local Audit Office (LAO) as the body responsible for overseeing local audit.
- Part 5 concerns the banning of upwards only rent review clauses for commercial leases to prevent vacant shops and regenerate high streets in communities across England.
- Part 6 contains the technical sections related to the Bill, including on regulations, commencement and extent.

The draft legislation can be found in full at [English Devolution and Community Empowerment Bill](#).

Part 4 of the Bill - Reforming local audit

The Bill is intended to overhaul the local audit system as is part of the wider measures to address the backlog in local government audit previously considered by this report. Specifically:

- The LAO will be established with the aim of radically simplifying the current audit system and bringing functions together under a single organisation with a clear remit. The LAO will be responsible for coordinating the system, standard setting, contracting, quality oversight and reporting. It will also support and enable wider measures to address pressing challenges, including reforms to financial reporting; strengthening audit capacity and capability; and establishing public provision of audit to support the private market.
- The LAO will be responsible for audit quality and the regulation of audit providers. Regulatory powers can be delegated.
- The LAO will be responsible for auditor appointment to all local audits other than for NHS bodies, will set indicative fees, publish those fees and make final determinations on the fees to be paid. The ability of local authorities to appoint their own auditors is removed.
- Audit firms will be required to nominate 'lead individuals' and have pre-approval of their own eligibility criteria.
- The responsibility for production of the Code of Audit Practice passes from the NAO to LAO. The LAO is also able to determine technical standards that auditors must follow.
- Statutory guidance for Audit Committees will be developed by LAO in conjunction with the Local Government Association, CIPFA and other relevant bodies.

We will continue to keep you updated as these arrangements develop.

Appendix F – Draft management representation letter

Management representation letter

Ernst & Young
1 More London Place
London
SE1 2AF

This letter of representations is provided in connection with your audit of the consolidated and parent Council financial statements of the London Borough of Tower Hamlets ("the Group and Council") for the year ended 31 March 2025. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Council financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Council financial position of the London Borough of Tower Hamlets as of 31 March 2025 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and the Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

We understand that the purpose of your audit of our consolidated and parent Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the parent Council, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and parent Council financial statements. We believe the consolidated and parent Council financial statements referred to above give a true and fair view of the financial position,

financial performance (or results of operations) and cash flows of the Group and parent Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The material accounting policy information adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 for the Group and the Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent Council financial statements taken as a whole. We have not corrected these differences because we have deemed them immaterial to the financial statements.
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and parent Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance

Appendix F – Draft management representation letter

Management representation letter

matters:

- Involving financial improprieties
- Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Council financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the consolidated and parent Council financial statements, but compliance with which may be fundamental to the operations of the Group and Council's business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent Council financial statements
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period from 1 April 2024 to the most recent meeting on the following date:
 - Cabinet - 26 November 2025
 - Council - 19 November 2025
 - Overview and Scrutiny Committee - 25 November 2025
 - Audit Committee - 10 December 2025.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and parent Council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter, dated 28 February 2025, through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material effect on the consolidated and parent Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 42 to the consolidated and parent Council financial statements all guarantees that we have given to third parties.

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E. Going Concern

1. Note 1 to the consolidated and parent Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Council financial statements or notes thereto.

G. Group Audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Council, subsidiary undertakings and associated undertakings.

H. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report, the Statement of Responsibilities, the Glossary and Abbreviations, and the Annual Governance Statement.
2. We confirm that the Annual Governance Statement for 2024/25 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2024/25 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.
3. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and parent financial

statements.

2. The key assumptions used in preparing the consolidated and parent financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, aligned with the statements we have made in the other information or other public communications made by us.

J. Ownership of Assets

1. Except for assets recognised as right-of use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and parent Council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, including for right of use assets net pension liabilities, financial instrument investments, minimum revenue provision, insurance provision and NNDR appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates - Property Plant and Equipment (including right of use assets), Net Pension Liabilities, NNDR Appeals Provisions and Heritage Assets Estimates

Appendix F – Draft management representation letter

Management representation letter

1. We confirm that the significant judgments made in making accounting estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent Council financial statements.

M. Retirement Benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

N. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and parent Council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and parent Council financial statements).
2. Other than those specifically communicated to you, we are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

O. Right to Offset Assets and Liabilities

1. We confirm that, although we have the right to offset our bank accounts and overdraft, it is not our intention to do so. As such we are satisfied with our disclosure of the Council's overdraft within current liabilities, or accrued in the consolidated and parent Council financial statements).

Yours faithfully,

Stephen Halsey - Chief Executive

Date: _____

Abdulrazak Kassim - Acting Corporate Director of Resources (s151 Officer)

Date: _____

Barry Quirk - Chair of the Audit Committee

Date: _____

Appendix G – Non-Compliance with Laws and Regulation (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations.

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- Suspected or known fraud or bribery
- Health and Safety incident
- Payment of an unlawful dividend
- Loss of personal data (including a cyber incident or ransomware attack)
- Allegation of discrimination in dismissal
- HMRC, PRA, FCA or other regulatory investigation
- Deliberate journal mis-posting or allegations of financial impropriety
- Transacting business with sanctioned individuals

Implication

- Potential fraud/breach of anti-bribery legislation
- Potential breach of section 2 of the Health and Safety at Work Act 1974
- Potential breach of Companies Act 2006
- Potential GDPR breach
- Potential non-compliance with employment laws
- Suspicion of non-compliance with laws/regulations
- Potential fraud / breach of Companies Act 2006
- Potential breach of sanctions regulations

Appendix G – Non-Compliance with Laws and Regulation (NOCLAR) (continued)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit teams.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of EY's audit over the past 3 years

Actions required by management:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with EY audit teams

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

EY response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other audit teams within the group or regulators

Appendix G – Non-Compliance with Laws and Regulation (NOCLAR) (continued)

Practical examples of NOCLAR events

The key message is that management alone should not judge the materiality of a NOCLAR event. Auditing standards are stricter in this area, hence management must promptly notify EY of NOCLAR events and work with them to determine materiality and next steps. The list below includes some examples of NOCLAR incidents EY have seen in the past but is not limited to these types of events. If you are unsure if a matter needs to be reported, please discuss with your local EY contact.

Examples of matters where EY need to be informed immediately (within a couple of days of becoming aware of the incident)

- Cyber incident or ransomware attack
- All incidents of suspected or confirmed fraud involving a member of management; this also includes where there is evidence of manipulation of figures reported and non-compliance or fraud investigation by a regulatory authority
- Any allegations of bribery and conflicts of interest (including from whistleblowers, short seller reports and adverse mainstream media)
- Any matters which involve local Police or regulatory or other law enforcement (including raids of Company sites)
- Lawsuits or court cases involving external legal counsel or external forensics experts
- Loss or theft of sensitive, personal data (including customer or supplier data)
- Serious health and safety incidents involving employees or customers
- Any matters that constitute an imminent breach of law or regulation that would cause substantial harm to investors, creditors, employees or general public
- Significant environmental incidents
- Any transactions with sanctioned individuals or countries
- Allegations or evidence of insider trading

Examples of matters which can be discussed with EY as part of standard regular audit enquiries

- Theft of stock from a warehouse by an employee
- Theft or misuse of company equipment or assets
- Cash lost by the business making a payment to a fraudulent supplier (failed supplier due diligence, phishing attack)
- Falsifying of expenses by employees or mischarging of overtime
- Copyright infringements
- Evidence of incidents of unauthorised discounts or free samples being offered to customers
- Product recalls
- Any new matters involving tax authorities (notification of potential non-compliance or outstanding liability)
- Whistleblowing claims which relate to allegations of bullying and harassment
- Litigation being launched by the company

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