

London Borough of Hillingdon

Audit Results Report

Year ended 31 March 2025

3 February 2026



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Audit Committee
London Borough of Hillingdon
Hillingdon Civic Centre
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3 February 2026

Dear Audit Committee members

2024/25 Audit Results Report

We attach our Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 10 February 2026 on further progress to that date and explain the remaining steps to the issue of our final opinion.

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 the London Borough of Hillingdon'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.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 10 February 2026.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Reid', with a horizontal line underneath.

Stephen Reid
Partner, For and on behalf of Ernst & Young LLP
Enc

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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 the London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of the London Borough of Hillingdon 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 the London Borough of Hillingdon 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 the 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;
- a lack of auditors and 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.

The Ministry for Housing, Communities and Local Government (MHCLG) has worked collaboratively with the Financial Reporting Council (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. This has now been delivered.
- 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. This process of rebuilding assurance will take several years to achieve. The National Audit Office (NAO), supported by the MHCLG and the FRC, are responsible for issuing guidance and have been liaising with audit firms to understand the complexities involved and to seek to ensure a more consistent approach for restoring assurance for disclaimed periods. The NAO has now published its Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06 setting out considerations for rebuilding assurance following the issue of disclaimed audit opinions under the backstop arrangements. The guidance predominantly focuses on the rebuilding of assurance over reserves, where it is more difficult to obtain assurance because of the way in which they accumulate over successive years. It also continues to recognise that the approach needed to rebuild assurance will differ authority to authority and will need to be considered in the context of both inherent risk factors which all authorities subject to recently disclaimed opinions will share, and factors specific to each individual authority's system of internal control and financial reporting. We will continue to consider the impact of this on our audit approach. In 2024/25 we have continued to focus our audit on the closing balance sheet and in-year transactions, which allows the build back of assurances over a large number of balances within the financial statements where audit procedures can be completed for successive years.
- Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our 18 March 2025 Audit Results Report, 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 audit opinion on the Council's 2022/23 financial statements was also disclaimed. In 2024/25, we have continued to focus our audit on the closing balance sheet and in-year transactions. Although the level of assurance gained has increased, we have been unable to complete all of our planned audit procedures over the balance sheet as at 31 March 2025 or the income and expenditure during 2024/25. We have not therefore obtained sufficient evidence to have reasonable assurance over all in-year movements and closing balances. As a result of the disclaimer of opinion on the 2023/24 financial statements, we also do not have assurance over some brought forward balances from 2023/24 where we did not gain assurance (the opening balances). This means we do not have assurance over all 2024/25 in-year movements and the comparative prior year movements. We also do not have assurance over all the 2023/24 comparative balances disclosed in the 2024/25 financial statements. Taken together with the requirement to conclude our work by the 2024/25 backstop date, 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.

Appendix A sets out the current position of the London Borough of Hillingdon in rebuilding to return to a position of full assurance on its financial statements as compared with the timeline envisaged by the NAO's LARRIG 01. 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.

Executive Summary

Scope update

In our Provisional Audit Planning Report presented at the 28 August 2025 Audit Committee meeting, we provided 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:

- Commencement of our year-end audit fieldwork was delayed as a result of the Council not publishing its draft Statement of Accounts until 22 September 2025, nearly three months after the statutory deadline for commencement of the public inspection period of 1 July 2025. Due to the impact of this on the available time to complete our audit procedures ahead of the backstop date, and capacity considerations within both the Council's finance team and the audit team up to this date, there was an increased risk at the point we commenced our audit fieldwork that not all planned procedures would be completed and that this could impact the assurance over balances at 31 March 2025 which is able to be obtained and carried forward for the 2025/26 audit. Following discussions with management, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. This was agreed as the valuation of land and buildings is a complex area which requires significant effort from both the Council and audit to test, but is an area where there are steps the Council can take in 2025/26 to mitigate the impact on the timeline for rebuilding of assurance in future years. This allowed the audit and finance team's effort to be focused for 2024/25 on those areas where it is more difficult to rebuild assurance, and hence those areas which will ultimately be of most benefit in supporting future audit opinions.
- In our Provisional Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £12.6 million. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £14.4 million (Provisional Audit Planning Report – £12.6 million). This results in updated performance materiality, at 50% of overall materiality, of £7.2 million, and an updated threshold for reporting misstatements of £720,000.
- In our Provisional Audit Planning Report, we communicated that we had completed our initial value for money (VFM) risk assessment for planning purposes and had identified three risks of significant weakness regarding the Council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources:
 - financial sustainability;
 - quality of Council Information (inc. impact on ability to support the external audit); and
 - capacity of the Finance Team

We also reported that our VFM risk assessment is an iterative process and would be updated throughout the audit. Our Provisional Audit Planning Report noted "At this time, we do not consider it necessary to identify a separate risk of significant weakness in relation to the Oracle system upgrade as it is considered as part of the risks over the quality of Council information and capacity of the Finance Team, however we are alert to the potential for value for money observations (as well as financial statement impacts) to arise from the arrangements around the implementation of this new system itself and will keep this under review as we execute our audit procedures over the systems upgrade". We have subsequently identified the implementation of Oracle Fusion and Oracle as an additional, discreet, risk of significant weakness. Further details in relation to these risks, including our response to the identified risks and our conclusions on whether the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources are set out in Section 3.

In addition, we have encountered difficulty in performing our audit procedures due to delays in the provision of working papers and supporting information by the Council, including where such information is held outside of the Council's finance team, and capacity limitations within the Council's finance team. Due to the implementation of the backstop date of 27 February 2026 for the completion of the audit, during the execution of our audit we have worked with management where progress was not satisfactory to prioritise the Council's and audit resources on those account areas which contribute the most towards the rebuilding of assurance following previous disclaimed audit reports and/or there was the highest probability of being able to complete our planned audit procedures by the backstop date. Consequently, we have not been able to complete all of our planned procedures and have not obtained sufficient assurance to enable conclusion, notwithstanding the lack of assurance over the brought forward balances from 2023/24, to enable conclusion on whether the Council's 2024/25 financial statements are free from material misstatement. A summary of the assurances we have gained from our 2024/25 audit procedures, along with those areas where we have not been able to gain the planned assurance, is set out at Appendix B. We therefore anticipate issuing a disclaimed 2024/25 audit opinion.

Executive Summary

Status of the audit

As set out on the previous page, we have not been able to complete all of our planned procedures and have prioritised completion of audit procedures over those account areas which contribute the most towards the rebuilding of assurance following prior year disclaimed audit report and/or there was the highest probability of being able to complete our planned audit procedures by the backstop date. Our audit work in respect of prioritised areas is substantially complete. Further details on those account areas where we have been able to complete our audit procedures, including internal review procedures, and those account areas where we have not been able to complete our audit procedures are set out in Appendix B.

In addition, the following items relating to the completion of our audit are outstanding at the date of this report:

- Receipt of the final Statement of Accounts, including updated Annual Governance Statement, and performance of final audit checks thereon. Our expectation is that both the Annual Governance Statement and going concern narrative is updated to reflect the outcome of MHCLG's consideration of the Council's request for exceptional financial support, confirmation of which the Council is still awaiting from MHCLG.
- Finalisation of the wording of our audit report, including the basis for disclaiming our audit opinion on the 2024/25 financial statements and the reporting of the significant weaknesses in the Council's arrangements set out in Section 3.
- Receipt of the signed management Letter of Representation.
- Subsequent events procedures up to the date of signing.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence our final audit opinion.

Value for money (VFM)

In our Provisional Audit Planning Report dated 24 July 2025, we reported that we had completed our VFM risk assessment and we had identified three risks of significant weakness in respect of financial sustainability, the quality of Council information and the capacity of the finance team. During the course of our audit we identified an additional risk of significant weakness in relation to the implementation of Oracle Fusion and Oracle EPM.

Having updated and completed the planned procedures in these areas we have identified a significant weakness in the Council's arrangements in relation to each of these risks. On 27 November 2025, we issued our Auditor's Annual Report which set out further details of the observations leading us to our conclusion that a significant weakness existed in the Council's arrangements in relation to each of these risks. We note that our Auditor's Annual Report is included on the agenda for the same Audit Committee meeting as this report. Given the significance and pervasive nature of the matters reported in our Auditor's Annual Report, we would have expected the Audit Committee to have had opportunity to consider this report before now. We do not repeat the detail contained within our Auditor's Annual Report within this report, however a summary of our work in this area is provided in Section 3.

Audit differences

Due to the fact we have not been able to complete all of our planned audit procedures, we are unlikely to have a complete picture of misstatements which exist, or may exist, within the Council's financial statements and we are not able to conclude that the financial statements are free from material misstatement. Where the procedures we have been able to perform have confirmed the existence of a misstatement, we provide details in Section 5.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have asked management to update the Annual Governance Statement commentary to reflect our value for money findings, as set out in Section 3, and the Council's application to MHCLG for exceptional financial support, but otherwise have no additional material matters to report as a result of this work.

Areas of audit focus

In our Provisional 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 Section 2 of this report and summarised below.

Risk	Status of our work
Misstatements due to fraud or error	We have completed some of our specific procedures to address this risk however we have not completed all of our audit procedures and are therefore unable to conclude on whether the financial statements are materially misstated as a result of fraud or error. We have no observations to report from the procedures we have been able to complete.
Inappropriate capitalisation of revenue expenditure or use of capital reserves	We have completed some of our specific procedures to address this risk however we have not completed all of our audit procedures and are therefore unable to conclude on whether the financial statements are materially misstated as a result of inappropriate capitalisation of revenue expenditure or use of capital reserves. We have no observations to report from the procedures we have been able to complete.
Valuation of land and buildings, including surplus assets	As explained on page 6, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. We have therefore not completed our specific procedures to address this risk and are unable to conclude on whether the financial statements are materially misstated as a result of inappropriate valuations of land and buildings.
Implementation of the new finance system (Oracle Fusion)	<p>We have completed our specific procedures to address risks of misstatement arising from the transfer of financial records from the previous Oracle R12 system to the Oracle Fusion system, including procedures performed by our IT audit specialists, and are able to conclude that the financial statements are not materially misstated as a result of errors arising from the initial system implementation.</p> <p>As we have not completed all of wider planned audit procedures, we are unable to conclude on whether the financial statements may be materially misstated as a result of issues with Oracle Fusion following the initial implementation. We also note that our observations in performing our audit procedures to address this risk led to the recognition of a specific risk of significant weakness in the Council's arrangements to secure value for money with regards to the implementation of Oracle Fusion and Oracle EPM, further details of which are provided in Section 3.</p>

Executive Summary

Risk	Status of our work
Valuation of council dwellings	As explained on page 6, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. We have therefore not completed our specific procedures to address this risk and are unable to conclude on whether the financial statements are materially misstated as a result of inappropriate valuations of council dwellings.
Net pension valuation	We have completed our specific procedures to address risks of misstatement arising from the valuation of pension assets and liabilities as at 31 March 2025 and are able to conclude that these balances are not materially misstated. As we were not able to obtain assurances over balances as at 31 March 2024 as part of the prior year's audit, we are unable to conclude on whether in-year movements in these balances are materially misstated.

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.

Control observations

During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls, which are set out within Section 6 of this report. We have made recommendations in relation to:

- performance of reconciliations; and
- resolution of reconciling differences within reconciliations.

In addition, we made 10 recommendations to address specific observations and control weaknesses identified in relation to the implementation of Oracle Fusion and Oracle EPM within our Auditor's Annual Report issued on 27 November 2025. Further details are provided within that report.

Independence

Please refer to Section 8 for our update on independence.

Executive Summary

Non-compliance with laws and regulations

During the course of our audit, we became aware of the following instances of potential non-compliance with laws and regulations which have required us to perform additional considerations of the implications for our audit:

- The emergence of significant overspends against the Council's 2025/26 budget, set during 2024/25, as early as period 2 of the 2025/26 financial year, coupled with much lower actual reserves as at 31 March 2025 than the Council had assumed in setting its 2025/26 budget together raise questions over the reliability of the Council's 2025/26 budget. These concerns were highlighted by the Council's Section 151 Officer themselves in their Section 25 report on the 2025/26 budget, and leave us unable to conclude that the Council is compliant with its statutory duty to set a balanced budget in respect of the 2025/26 financial year, as required under the Local Government Finance Act 1988. A recommendation that the Council reassesses whether the assumptions and forecasts underpinning its 2025/26 budget were sufficiently robust to support the conclusion that the Council has set a balanced budget for the 2025/26 financial year was included within our Draft Auditor's Annual Report issued on 27 November 2025.
- As detailed on pages 6 and 40, the Council did not comply with the statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 and its notice published in lieu of doing so did not contain the required explanation of reasons why the Council had not complied with this requirement.
- We received correspondence during the course of our audit which raised concerns that the Council may not be complying with the requirements for Disclosure and Barring Service (DBS) checks for individuals working in the Council's maintained schools. Following consideration, we concluded that these concerns arose from a misunderstanding of the Council's reporting of actions required to achieve compliance with a newly introduced internal Council policy which contained tighter restrictions than those placed on the Council by external requirements, and that no non-compliance with laws and regulations had occurred.

Executive Summary

Factors impacting the execution of the audit

Management, and the Audit Committee as the Council's body charged with governance, have an essential role in supporting the delivery of an efficient and effective audit. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. The table below sets out our views on the effectiveness of the Council's arrangements to support the external financial audit across a range of relevant measures. Where we have been unable to undertake all planned procedures this is likely to extend the timetable to recover assurance on the Council's financial statements. See Appendices A and B for further details.

Area	Status			Explanation	Further detail
	R	A	G		
Timeliness of the draft financial statements	Ineffective			The financial statements were published on 22 September 2025, nearly three months after the statutory deadline for commencement of the public inspection period of 1 July 2025.	We consider this further in our VFM reporting, see Section 3.
Quality and completeness of the draft financial statements	Requires improvement			<p>Ensuring the quality of the draft financial statements was one of management's reasons for the delayed publication of the draft financial statements. Compared to 2023/24, the draft financial statements were of a noticeably better quality with significantly fewer internal inconsistencies or typographical and arithmetic errors, although our checks did identify a small number of such points.</p> <p>We did however note a number of incorrect restatements of the prior period comparatives within the draft financial statements which management has agreed to revert in the final statements.</p>	We consider this further in our VFM reporting, see Section 3.
Delivery of working papers in accordance with agreed client assistance schedule	Ineffective			<p>The original timetable agreed with management for the delivery of supporting working papers was predicated on the Council having draft financial statements prepared by 30 June 2025. The delays in finalising the draft financial statements also resulted in delays providing the supporting working papers for audit.</p> <p>Against revised timelines agreed with management, the delivery of working papers was better than in 2023/24 however we continued to encounter delays in relation to certain account areas. There were a small number of areas, in particular in relation to information held by schools, where appropriate supporting working papers were not able to be provided resulting in associated account areas being deprioritised by management.</p>	We consider this further in our VFM reporting, see Section 3.

Executive Summary

Area	Status			Explanation	Further detail
	R	A	G		
Quality of working papers and supporting evidence	Requires Improvement			As with the timeliness of working papers, we noticed improvements compared to our experience during the 2023/24 audit however the quality of supporting working papers remains mixed. In particular, the Council can struggle to provide data in formats or to the level of granularity required to support the execution of audit procedures (for example individual transaction or balance breakdowns rather than summarised totals).	We consider this further in our VFM reporting, see Section 3.
Timeliness and quality of evidence supporting key accounting estimates	Ineffective			<p>Supporting models for the Council's bad debt provisions were provided in a timely manner, however they are large complex documents which we found difficult to follow or reconcile to the financial statements or understand how previous audit recommendations to review supporting assumptions had been addressed. We were unable to arrange time with the relevant officers to obtain an understanding of these models, and therefore have been unable to form a view on whether the Council's bad debt provisions are reasonable.</p> <p>Evidence supporting the Council's defined benefit pension balances was provided in a timely manner and was of good quality.</p> <p>A management-imposed limitation of scope over the valuations of the Council's land and buildings was agreed with management prior to the execution of audit procedures, therefore we did not obtain detailed evidence supporting these estimates.</p>	N/A
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires Improvement			<p>We encountered difficulty obtaining access to individuals responsible for a small number of areas, including the Oracle implementation and bad debt provisions. Outside of these areas, officers have engaged proactively with the audit process and offered good availability.</p> <p>Due to the significance of some of the matters considered as part of the audit, in particular those summarised within Section 3 of this report and set out in more detail within our Auditor's Annual Report, we have had more cause to interact with senior officers, including the Council's statutory officers, than we would normally expect. Senior officers have also engaged positively with the audit team.</p>	N/A

Executive Summary

Area	Status			Explanation	Further detail
	R	A	G		
Volume and value of identified misstatements	Ineffective			<p>Through our audit procedures we identified one material misstatement of the Statement of Cash Flows and two further misstatements, relating to cut-off of income and classification of liabilities, which are individually larger than our performance materiality. A number of smaller misstatements have also been identified, further details of which can be found in Section 5.</p> <p>Management have agreed to amend the final statements to correct known misstatements. We note the effect of corrected audit differences was to reduce the Council's reserves by £3.3 million and remaining uncorrected audit differences would further decrease reserves by £0.1 million. These amounts, whilst not material, are significant in the context of the Council's limited reserves balance at 31 March 2025.</p> <p>As noted on page 11, we also noted a number of incorrect restatements of the prior period comparatives within the draft financial statements which management have agreed to revert in the final statements.</p> <p>As we have not been able to complete our audit procedures for all account areas (see Appendix B), there may be further misstatements of which we have not become aware.</p>	We consider this further in our VFM reporting, see Section 3.
Volume of misstatements in disclosure	Effective (see commentary)			<p>We have only identified a small number of misstatements within disclosures.</p> <p>We do however note that due to the focus of our audit effort being on on those account areas which contribute the most towards the rebuilding of assurance following previous disclaimed audit reports, our audit effort was primarily directed towards financial statement balances rather than disclosures and we have only been able to complete our audit procedures over a relatively small number of disclosures. Further details are provided in Appendix B.</p>	N/A



02 Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

▲ Fraud risk

▲ Significant Risk

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.

What are our conclusions?

We have not been able to complete our specific procedures to address this risk nor have we completed all of our audit procedures over the financial statements and are therefore unable to conclude on whether the financial statements are materially misstated as a result of fraud or error.

We have no observations to report from the procedures we have been able to complete.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements due to fraud or error by:

- Identifying fraud risks during the planning stages;
- Inquiring of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions);
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud;
- Considering the effectiveness of management's controls designed to address the risk of fraud; and
- Determining an appropriate strategy to address those identified risks of fraud.

Through these procedures we concluded that there was a specific fraud risk around inappropriate capitalisation of revenue expenditure or use of capital reserves. Further details of our response to these identified risks are provided on the next page.

In addition, we planned the following procedures to respond to this risk:

- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements;
- Undertaking procedures to identify significant unusual transactions; and
- Considering whether management bias was present in the key accounting estimates and judgments in the financial statements.

We have only partially been able to complete our testing of journal entries, including risk assessment to identify unusual journal entries for further investigation, and other adjustments made in the preparation of the financial statements.

We have also only been able to consider whether accounting estimates are free from material bias in relation to those accounting estimates where we have been able to complete our audit procedures. Similarly, we have only been able to perform a review for unusual transactions where we have been able to complete our audit procedures over the underlying transactions. See Appendix B for a summary of the assurances we have gained from our audit procedures.

We have no material observations to report from the procedures we have been able to complete.

Areas of Audit Focus

Inappropriate capitalisation of revenue expenditure or use of capital reserves

△ Fraud risk

△ Significant Risk

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

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 or inappropriate adjustments between usable reserves and unusable capital reserves.

What are our conclusions?

We have completed some of our planned procedures and have not identified any material inappropriate capitalisation of revenue expenditure or use of capital reserves. We have however not been able to complete all of our planned procedures, therefore we are not able to conclude whether material incorrect capitalisation of revenue expenditure or use of capital reserves has occurred.

We have no observations to report from these procedures.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements due to inappropriate capitalisation of revenue expenditure or use of capital reserves by:

- Testing Revenue Expenditure Funded by Capital Under Statute (REFCUS) to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources; and
- Testing adjustments made between usable reserves and unusable capital reserves for appropriateness and to ensure they are made at the correct amount.

We have been able to confirm that adjustments made between usable and unusable capital reserves are consistent with other balances presented within the financial statements, for example capital additions and capital grant income. As we have not however been able to conclude all of our audit procedures over these underlying balances, we are unable to conclude on whether these adjustments are appropriate. We were also not able to complete our planned procedures over the calculation of the Council's Minimum Revenue Provision (MRP).

We have no other observations to report from these procedures.

In addition, we planned the following procedures to respond to this risk:

- Testing of Property, Plant and Equipment (PPE) to ensure that the expenditure incurred and capitalised is clearly capital in nature;
- Assessing whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred;
- Considering whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use; and
- Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes or from unusable capital reserves to usable reserves on the general ledger at the end of the year.

We have not been able to complete these planned procedures.

Areas of Audit Focus

Valuation of land and buildings, including surplus assets

 significant risk

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

We have disaggregated land and building assets to identify those where we think the significant risk lies. We have associated the risk to land and building assets that are valued using the Depreciated Replacement Cost (DRC) and Existing Use Value (EUV) valuation methods, as well as surplus assets which are valued at fair value.

The DRC, EUV and fair value valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, and for which the Council uses external specialists.

These estimates heighten the risk of material error.

What are our conclusions?

We have not been able to complete our planned procedures nor do we have opening balances assurance in relation to assets not revalued in the current period, therefore we are not able to conclude whether land and buildings as a whole are free of material misstatement.

Our response to the key areas of challenge and professional judgement

We planned the following procedures to respond to this risk:

- Understanding the Council's approach to valuation of land and buildings, including surplus assets;
- Determining the impact of revaluations on the financial statements;
- Considering the use of management's specialists – the external valuers - including the scope of work and the professional competencies of the specialist;
- Challenging the assumptions made by management and their specialists, with input from EY real estates (EY specialists) where appropriate;
- Sample testing key asset information used by management's specialists. We will consider if there are any specific changes to assets and whether they have been appropriately communicated;
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code (or annually for surplus assets);
- Reviewing assets not subject to valuation in 2024/25 to assess that the remaining asset base is not materially misstated;
- Considering changes to useful economic lives as a result of the most recent valuation; and
- Testing that accounting entries have been correctly processed in the financial statements.

As set out on page 6, due to the impact of delays in publication of the Council's draft financial statements and the commencement of the audit on the available time to complete our audit procedures ahead of the backstop date, and capacity considerations within both the Council's finance team and the audit team up to this date, there was an increased risk at the point we commenced our audit fieldwork that not all planned procedures would be completed and that this could impact the assurance over balances at 31 March 2025 which is able to be obtained and carried forward for the 2025/26 audit. Following discussions with management, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. This was agreed as the valuation of land and buildings is a complex area which requires significant effort from both the Council and audit to test, but is an area where there are steps the Council can take in 2025/26 to mitigate the impact on the timeline for rebuilding of assurance in future years. This allowed the audit and finance team's effort to be focused for 2024/25 on those areas where it is more difficult to rebuild assurance, and hence those areas which will ultimately be of most benefit in supporting future audit opinions.

Consequently, we have not performed the planned procedures to respond to this risk.

Areas of Audit Focus

Implementation of the new finance system (Oracle Fusion)



significant risk

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

The Council upgraded its finance system in May 2024. Major changes to the finance system give rise to a risk that financial data is lost or changed during migration. The Council also continued to use the old system for finalisation of its 2023/24 financial statements after the main data migration occurred and therefore had to manually replicate all transactions recorded after this date in the new system which increases the risk of error / omission.

The implementation of the new system has not gone smoothly, therefore there is also an increased risk of misstatements arising from subsequent use of the new system because of challenges encountered in the implementation of the new system.

Given the pervasive nature of these risks, we consider that they pose a risk of material misstatement.

What are our conclusions?

We were able to conclude that opening balances migrated from Oracle R12 to Oracle Fusion are materially correct at the financial statement level.

We are however unable to conclude that detailed accounting records were correctly migrated at the transaction level. In addition, we have identified a number of ongoing internal control weaknesses which increase the risk that inappropriate accounting entries may have been recorded in Oracle Fusion post-migration or could be recorded in future periods.

We are therefore unable to conclude on whether the financial statements may be materially misstated for reasons linked to the implementation of the new finance system. Within Section 3 we also report a significant weakness in the Council's arrangements to secure value for money in relation to the implementation of Oracle Fusion.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements arising from the implementation of the new finance system, Oracle Fusion, by:

- understanding the governance processes around the new system implementation and the assurances obtained by the Council's own processes, including with regards to completeness of data migration and any subsequent issues with using the new system; and
- with support from our own IT audit specialists, designing and executing procedures which respond to the specific risks identified in the Council's implementation of the new system.

Our inspection of the Council's Data Migration Strategy identified unresolved comments which mean we have been unable to conclude on whether the strategy was finalised prior to being implemented.

Reconciliation of the Council's financial information from the previous system, Oracle R12, to the new system, Oracle Fusion, was complicated by the fact the Council had previously maintained combined accounting records for 4 separate entities (the Council, Hillingdon Pension Fund, Hillingdon First Limited and the Mayor of Hillingdon's Charitable Trust) within the same general ledger. These have been more appropriately separated within Oracle Fusion, however it made like-for-like comparison of financial records more challenging.

Management completed reconciliations of Oracle Fusion to Oracle R12 post-migration, however supporting data reports were not retained therefore we have been unable to verify the completeness or accuracy of information used to perform these checks and, therefore, whether these reconciliations were properly performed. We also noted that these reconciliations were not reviewed by the Corporate Director of Finance, as we would have expected.

Using our IT audit specialists, we performed our own reconciliations of Oracle R12 to Oracle Fusion. We identified a number of differences at the account code level which we have not been able to resolve, however we have been able to demonstrate that opening balances within Oracle Fusion are materially consistent with the closing balances within the published 2023/24 financial statements.

We are therefore able to conclude that opening balances within Oracle Fusion are materially correct at the financial statement level, however we are unable to conclude on whether more granular data has been properly migrated. Errors in the migration of detailed financial records may result in misstatements over time, for example where opening balances are correct in aggregate but incorrectly attributed to individual balances impacting subsequent movements in these balances.

Our procedures over the implementation of Oracle Fusion, as well as the Oracle EPM reporting suite implemented as part of the same project, also identified significant governance failings and ongoing weaknesses in internal controls which increase the risk of incorrect accounting entries arising post-migration or in the future. Further details are provided in Section 3.

Areas of Audit Focus

Valuation of council dwellings

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

The carrying amount of Council dwellings represents a significant balance in the Council's financial statements and is subject to revaluation changes on an annual basis. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet.

What are our conclusions?

We have not been able to complete our planned procedures therefore we are not able to conclude whether council dwellings are free of material misstatement.

Our response to the key areas of challenge and professional judgement

We planned the following procedures to respond to this risk:

- Considering the use of management's specialists – the external valuers - including the scope of work and the professional competencies of the specialists;
- Sample testing key asset information used by the specialists in performing their valuations (e.g. nature and number of beacons, valuations of units within beacons);
- Considering if there are any specific changes to assets/beacons that have occurred and that these have been communicated to the valuer;
- Considering the appropriateness of management's consideration of estimation uncertainty;
- Testing that accounting entries have been correctly processed in the financial statements; and
- Checking whether in-year additions have been valued using the social housing discount factor.

As set out on page 6, due to the impact of delays in publication of the Council's draft financial statements and the commencement of the audit on the available time to complete our audit procedures ahead of the backstop date, and capacity considerations within both the Council's finance team and the audit team up to this date, there was an increased risk at the point we commenced our audit fieldwork that not all planned procedures would be completed and that this could impact the assurance over balances at 31 March 2025 which is able to be obtained and carried forward for the 2025/26 audit. Following discussions with management, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. This was agreed as the valuation of land and buildings is a complex area which requires significant effort from both the Council and audit to test but is an area where there are steps the Council can take in 2025/26 to mitigate the impact on the timeline for rebuilding of assurance in future years. This allowed the audit and finance team's effort to be focused for 2024/25 on those areas where it is more difficult to rebuild assurance, and hence those areas which will ultimately be of most benefit in supporting future audit opinions.

Consequently, we have not performed the planned procedures to respond to this risk.

Areas of Audit Focus

Net pension valuation

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

The Local Authority Accounting Code of Practice and IAS 19 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 CIPFA Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024, this totalled £183 million.

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.

The information disclosed is based on the IAS 19 report issued to the Council by its actuary.

What are our conclusions?

We have been able to conclude that pension assets and liabilities at 31 March 2025 are materially correct.

As we were however unable to conclude on pension balances at 31 March 2024 as part of the prior year's audit, we do not have assurance over opening balances and hence we are unable to conclude on whether in-year movements in pension balances are materially correct.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements of the net pension valuation by:

- Liaising with the auditor of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessing the work of the Pension Fund actuary including the assumptions they used by relying on the work of PWC as Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by our own EY Pensions specialists;
- Evaluating the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

Our review of the valuation of pension assets and liabilities at 31 March 2025, including the application of the asset ceiling to the net pension balance, found balances to be materially correct. However, as we were unable to conclude on pension balances at 31 March 2024 as part of the prior year's audit, we do not have assurance over opening balances and hence we are unable to conclude on whether in-year movements in pension balances are materially correct.

An immaterial understatement of pension assets of £2.5 million was identified as the Council's share of misstatements in the valuation of total Pension Fund assets reported to the scheme actuary by the Hillingdon Pension Fund.

Following audit challenge, management agreed to include a disclosure which highlights the ongoing uncertainty as to whether the principles, and resulting financial implications, established by the 'Virgin Media v NTL Pension Trustees' legal case are applicable to the Local Government Pension Scheme.

We have no other material observations to report from our procedures.

Areas of Audit Focus

Going concern

The provisions of the CIPFA Code of Practice on Local Authority Accounting in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that local authorities cannot be created or dissolved without statutory prescription and that they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community, are themselves revenue-raising bodies and the financial reporting framework presumes the continuation of service provision. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. Under the auditing standard in relation to going concern (ISA570), the Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

As summarised within Section 3 and reported on in more detail within our Auditor's Annual Report issued on 27 November 2025, the Council's financial position deteriorated significantly during 2024/25 and has continued to deteriorate during 2025/26. The Council forecast as early as July 2025, based on its assessment of its financial position as at 31 May 2025, that the Council would not have sufficient reserves to support itself through to the end of the 2025/26 financial year and sought exceptional financial support from MHCLG. The Council is still waiting to learn of the MHCLG response to its request for exceptional financial support.

Due to the statutory standing of the Council and the presumptions within the CIPFA Code of Practice on Local Authority Accounting that local authorities will be a going concern, the Council's challenging financial position does not prevent management from concluding that the Council is a going concern. The going concern disclosures should however reflect the severity of the Council's financial position and the outcome of MHCLG's response to the Council's request for exceptional financial support. We expect these disclosures to be updated by management once the Council learns the outcome of its application for exceptional financial support from MHCLG and will need to review the updated disclosures before we can conclude our audit.

As we anticipate issuing a disclaimed audit opinion on the Council's 2024/25 financial statements, we are not required to perform procedures to enable an audit conclusion on the appropriateness of management's going concern assessment or the overall conclusions reached. Our audit report will not refer to the going concern status of the Council, as it would if a clean audit opinion were to be issued.



03 Value for Money

Value for Money

The Council'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 Council 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

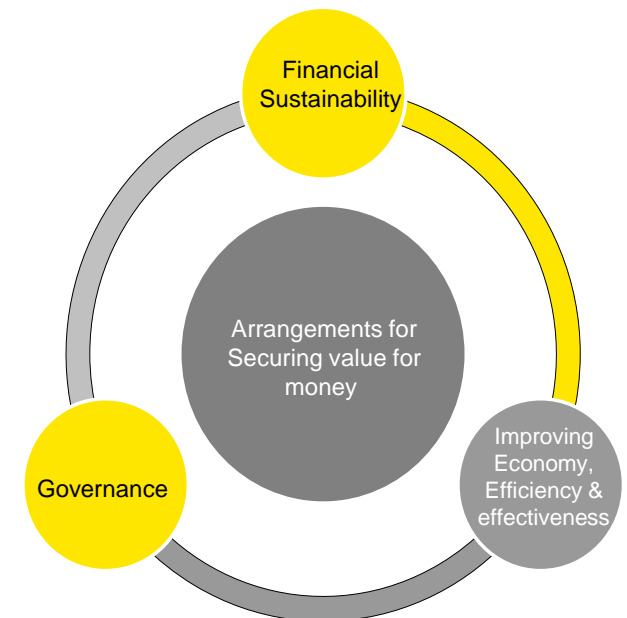
We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

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, 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 will 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; and
- 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.

We have completed our detailed VFM work and identified four risks of significant weaknesses in arrangements as set out on the following page.



Value for Money

Risks of significant weaknesses in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Financial sustainability</p> <p>The Council has seen a reduction in its available reserves, and growth of its Dedicated Schools Grant (DSG) deficit, over recent years and was only able to report a balanced outturn for 2023/24 due to the application of two significant one-off accounting adjustments.</p> <p>A significant weakness in arrangements was reported in 2023/24 as we concluded that the Council did not have proper arrangements in place to manage risks to its financial resilience. There is a risk this significant weakness remains during 2024/25.</p>	<p>Financial sustainability</p> <p><i>How the Council plans and manages its resources to ensure it can continue to deliver its services</i></p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▪ Enquiring of management as to the actions taken during 2024/25 to improve financial management; ▪ Reviewing the results of the financial management review the Council commissioned from CIPFA; ▪ Assessing the financial resilience of the Council against external benchmarks; ▪ Reviewing the Council's financial outturn and management against budget for 2024/25; and ▪ Reviewing the Council's financial projections and plans for the period 2025/26 to 2029/30.
<p>Quality of Council Information (inc. impact on ability to support the external audit)</p> <p>We encountered difficulty in performing our audit procedures as part of the 2023/24 audit due to a combination of poor-quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team. The Council's internal auditor also raised concerns over the quality of the Council's information and the impact of this upon the Council.</p> <p>A significant weakness in arrangements was reported in 2023/24 as we concluded that the Council did not have proper arrangements in place due to the impact of poor-quality data on the Council.</p> <p>In addition, the Council implemented Oracle EPM as its primary budgeting and financial monitoring system in May 2024 and has experienced significant challenges with the implementation of this system which impacted on the ability of the Council to effectively monitor its financial position.</p> <p>There is therefore a risk this significant weakness remains during 2024/25.</p>	<p>Governance</p> <p><i>How the Council ensures that it makes informed decisions and properly manages its risks</i></p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▪ Enquiring of management as to the actions taken during 2024/25 to address issues noted during 2023/24; ▪ Enquiring of management as to the nature and impact of challenges encountered with the implementation of Oracle EPM, and review any associated reporting on these challenges the Council has produced; ▪ Review the reports of internal audit to assess whether the quality of Council data continues to be noted as an area of concern; ▪ Considering our experience in executing audit procedures as part of our 2024/25 audit and whether similar difficulties as in 2023/24 are encountered.

Value for Money

Risks of significant weaknesses in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Capacity of the finance team</p> <p>We encountered difficulty in performing our audit procedures as part of the 2023/24 audit due to a combination of poor-quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team.</p> <p>A significant weakness in arrangements was reported in 2023/24 as we concluded that the Council did not have proper arrangements in place due to the impact of poor-quality data on the Council, however we also highlighted capacity constraints within the Council's Finance Team as a contributory factor towards the weakness.</p> <p>During 2024/25, the Council has experienced significant turnover in senior finance positions, including in the Section 151 Officer post. The challenges experienced with the implementation of Oracle EPM have also necessitated greater levels of finance support to budget holders, increasing workload on the Council's Finance Team.</p> <p>For 2024/25, we recognise the capacity of the Council's Finance Team as a separate risk to the quality of the Council's data as the actions taken by the Council to address the prior year's observations differ from those taken to address the observations over the quality of the Council's data.</p>	<p>Governance</p> <p><i>How the Council ensures that it makes informed decisions and properly manages its risks</i></p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▪ Enquiring of management as to the actions taken during 2024/25 to address issues noted during 2023/24; ▪ Review the reports of internal audit to assess whether any reviews were performed which provide insight into the timeliness of actions by the Council's Finance Team, or the operation of financial controls; ▪ Considering our experience in executing audit procedures as part of our 2024/25 audit and whether similar difficulties as in 2023/24 are encountered.

Value for Money

Risks of significant weaknesses in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Implementation of Oracle Fusion and Oracle EPM</p> <p>The Council implemented a systems upgrade to its main finance system in May 2024, upgrading its previous server-based Oracle R12 system to the cloud-based Oracle Fusion system. As part of the same project, the Council also implemented the Oracle EPM reporting suite to enhance the financial reporting capabilities of the Council.</p> <p>Implementation of a major new finance system comes with risks around the migration of data from the old system to the new which the Council must manage, as well as a need to ensure continuity of key business processes during the transition.</p> <p>Internal control and operational processes are also likely to require updating, both to ensure continued effectiveness with a different financial system and to ensure the Council is able to realise the benefits of any additional or improved functionality offered by the new system.</p> <p>The Council's own reporting has identified difficulties with the implementation of these systems, in particular Oracle EPM, as having significant impact upon the Council.</p> <p>In our Audit Planning Report we did not identify the implementation of Oracle Fusion and Oracle EPM as a risk of significant weakness but noted <i>"At this time, we do not consider it necessary to identify a separate risk of significant weakness in relation to the Oracle system upgrade as it is considered as part of the risks over the quality of Council information and capacity of the Finance Team, however we are alert to the potential for value for money observations (as well as financial statement impacts) to arise from the arrangements around the implementation of this new system itself and will keep this under review as we execute our audit procedures over the systems upgrade"</i>.</p> <p>Based on our observations responding to the significant risk over the implementation of the new finance system, as set out on page 18, we have subsequently identified this as a discreet risk of significant weakness.</p>	<p>Governance</p> <p><i>How the Council ensures that it makes informed decisions and properly manages its risks</i></p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▪ Understanding the governance processes around the new system implementation, including reporting to and decision making by the Programme Review Board; ▪ With support from our own IT audit specialists, reviewing documentation and making enquiries of management to understand how management: <ul style="list-style-type: none"> ○ Monitored the costs and timelines of the implementation project and evaluated whether it was being delivered to plan; ○ Monitored and evaluated the benefits of the system implementation to assess whether the expected benefits were being realised; ○ Ensured key system processes were working as intended, both before and after implementation; ○ Ensured that interfaces between the new finance system and other IT systems were operating effectively; and ○ Ensured that information obtained from the new systems, in particular where used to support business decision making, was complete and accurate.

Value for Money

Findings

We have concluded that:

In relation to financial sustainability

- The Council did not have proper arrangements in place to identify and manage risks to its financial sustainability.

We have reached this conclusion based on a number of factors, including:

- The findings of external reviews of the Council's financial management commissioned from Grant Thornton and CIPFA, which both raised significant observations and highlighted the need for urgent action to improve financial management at the Council.
- The Council reported a significant overspend of £31.5 million (11.1% of its net budget) for 2024/25. This consisted of a £17.4 million overspend against the planned budget for 2024/25 and £14.1 million of one-off impacts arising from a balance sheet review performed as part of the Council's Financial Modernisation Programme.
- The closing reserves of the Council at 31 March 2025 were just £6.7 million*, which represents only 20.9% of the minimum level of reserves determined as necessary by the Council's Section 151 Officer.
- The Council's Dedicated Schools Grant (DSG) deficit increased by £18.1 million during 2024/25, to a cumulative deficit of £65.6 million. This balance is almost ten times the remaining reserves of the Council, and is likely to continue to increase as the Council does not have plans to balance its schools budget until 2027/28.
- The emergence of significant overspends against the Council's 2025/26 budget, set during 2024/25, as early as period 2 of the 2025/26 financial year, coupled with much lower actual reserves as at 31 March 2025 than the Council had assumed in setting its 2025/26 budget, which together raise questions over the reliability of the Council's 2025/26 budget. These concerns were highlighted by the Council's Section 151 Officer themselves in their Section 25 report upon the 2025/26 budget, and leave us unable to conclude that the Council is compliant with its statutory duty to set a balanced budget in respect of the 2025/26 financial year, as required under the Local Government Finance Act 1988.

* For the purposes of reporting its reserves balances in the context of its budgetary reporting the Council reports on its 'available reserves', which consist of its General Fund balance and those Earmarked Reserves which have not already been committed. For this reason, the reserves total as stated in the Council's budgetary reporting is not directly stated within the Council's financial statements.

Value for Money

Findings

We have concluded that:

In relation to governance

- The Council did not have proper arrangements in place to ensure the quality of Council information;
- The Council did not have proper arrangements in place to ensure the capacity of its finance team is sufficient to support the level of activity required of it; and
- The Council did not have proper arrangements in place to oversee and manage the implementation of Oracle Fusion and Oracle EPM.

We note that there is heavy inter-dependency between these significant weaknesses in the Council's arrangements, with the absence of proper arrangements in respect of each of the above risks having knock-on effects to the effectiveness of arrangements in other regards.

We have reached these conclusions based on a number of factors, including:

- The Council being unable to demonstrate that full information on the unresolved risks, actions, issues and decisions (RAID) log were reported to the Programme Review Board at the point the decision to 'go-live' with implementation of Oracle Fusion was made, or that those risks, actions, issues and decisions had been appropriately mitigated whether or not those mitigations were reported to the Programme Review Board.
- The Council being unable to demonstrate approval for 'go-live' of Oracle EPM by the Programme Review Board, or the criteria against which the 'go-live' decision was made.
- The Council being unable to provide evidence of an agreed budget for the Oracle implementation, nor evidence that the actual costs incurred were being reported to the Programme Review Board or being tracked against the budget to assess whether the project was on-track financially.
- The findings of a review by internal audit into budget monitoring following the implementation of Oracle EPM, which found a number of significant issues arising from the use of Oracle EPM which were having a significant impact on the Council's financial management including inaccurate user lists within EPM, frequent issues with the completeness and accuracy of budget information provided to budget holders and licensing issues impacting the completeness of information available to users.
- Explanations by officers that due to issues with the completeness and accuracy of information obtained through Oracle EPM, high levels of manual intervention by finance staff was required placing significant pressure on the Council's finance team and leading to a pervasive lack of confidence across the organisation amongst budget holders in their ability to manage budgets without direct support.
- An overwhelming focus amongst the Council's senior management on managing the financial position, in the context of significant month-on-month volatility and a lack of confidence in financial information, highlighted by internal audit as resulting in "*increased uncertainty around forward planning, weakened oversight controls due to limited capacity at a senior level, and significantly reduced focus on core areas of governance*".
- The Annual Report of the Head of Internal Audit, which was able to offer no assurance "*over the internal control, risk management and governance arrangements in place during 2024/25*" whilst also noting "*common themes arising from the Internal Audit findings raised in 2024/25 include poor data quality and poor oversight controls, often due to limited capacity at a senior management level due to the increased focus on Council-wide transformation*".

In relation to improving economy, efficiency and effectiveness

We did not identify any additional risks of significant weakness in relation to this sub-criteria, however we note the significant weaknesses reported in respect of the other value for money sub-criteria above and on the previous page have implications for the effectiveness of arrangements under this criteria.

Value for Money

Issuance of statutory recommendations

As part of our 2023/24 audit, we reported that we had identified two significant weaknesses in the Council's arrangements to secure value for money in its use of resources in relation to financial sustainability and the quality of Council information and issued seven value for money recommendations to the Council, four in relation to financial sustainability and three in relation to the quality of Council information.

On 24 July 2025, we escalated the four value for money recommendations made in relation to financial sustainability to statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 as we were not satisfied that the pace of improvement was sufficient to address the systemic weaknesses which existed within the Council's financial management and governance. We also made 3 further recommendations to the Council, also as statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014.

Further details of our observations leading to the issuance of statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 are set out in our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' issued on 24 July 2025.

Other observations to bring to the attention of the Audit Committee

As highlighted in our value for money commentary included within our Auditor's Annual Report issued on 27 November 2025, the Council has experienced significant turnover in senior financial positions during 2024/25. The Council's permanent Section 151 Officer at the commencement of 2024/25 left the Council in August 2024 and the Council appointed an Interim Section 151 Officer in September 2024. This interim appointment ended in April 2025, with the Council's Deputy Section 151 Officer assuming the role of Section 151 Officer on a temporary basis. The Council has subsequently appointed a permanent Section 151 Officer, meaning the Council has had four Section 151 Officers within a period of little more than 12 months. This turnover has occurred against a backdrop of a deteriorating financial position and significant organisational focus on improving financial governance.

Both the former permanent Section 151 Officer and Interim Section 151 Officer left the Council without working a notice period, and received contractual payments equivalent to three months' salary as payment in lieu of notice. In addition, the former permanent Section 151 Officer received an additional negotiated ex-gratia payment equivalent to a further three months' salary as part of a negotiated exit from the Council which was subject to approval by the Council's Chief Executive and the Council Leader.



04 Audit Report

Audit Report

Expected modification to the audit report

Disclaimer of opinion

As reported in our March 2025 Audit Results Report for the 2023/24 audit, we issued a disclaimed audit report on the Authority's 2023/24 financial statements under the Government's legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" and Local Authority Reset and Recovery Implementation Guidance). The reasons for the 2023/24 disclaimed audit report were set out in the aforementioned 2023/24 Audit Results Report.

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

As set out within Section 1 of this report, we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances. As we have explained, the Council was significantly delayed in publishing its draft financial statements and we have encountered difficulty in performing our audit procedures due to delays in the provision of working papers and supporting information by the Council.

There is now insufficient time available to complete the outstanding procedures on your audit before the 2024/25 backstop date. Insufficient support to the audit meaning that it takes significantly longer than should be necessary is one example of the factors that led to the audit backlog in the first place, and why the legislative backstop was introduced.

Taken together, and alongside the requirement to conclude the 2024/25 audit by the legislative backstop date of the 27 February 2026, 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.

The number of account areas where we have not been able to complete our audit procedures is sufficient that the overall impact on our opinion, notwithstanding the impact on opening balance assurances of the disclaimed 2023/24 audit opinion, is pervasive. We therefore anticipate issuing a disclaimed 2024/25 audit opinion.

Appendix B of this report sets out the level of assurance we have been able to gain from the procedures that we have completed.

Appendix A sets out the current position of the Council in rebuilding to return to a position of full assurance on its financial statements as compared with the timeline envisaged by the NAO's LARRIG 01.

Value for money

Our audit report will include the reporting by exception of the four significant weaknesses in the Council's arrangements to secure value for money its use of resources reported in Section 3 of this report. It will also refer to the issuance of statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 on 25 July 2025 in relation to the significant weakness in arrangements to secure financial sustainability.

Exceptional financial support

As noted on page 21 of this report, the Council expects to learn of the MHCLG response to its request for exceptional financial support prior to issuance of its 2024/25 financial statements. We expect the going concern disclosures to be updated by management once the Council learns the outcome of its application for exceptional financial support from MHCLG.

We are still considering whether it is necessary and appropriate to highlight these disclosures within our audit report to draw them to the attention of readers of the financial statements, given their significance to the readers' ability to understand the overall financial position of the Council.



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 highlight the following misstatements greater than £720,000 which management have advised will be corrected in the final financial statements that were identified during the course of our audit. The impact of these adjustments on the Statement of Comprehensive Income and Expenditure, whilst not material, are significant in the context of the Council's limited reserves balance at 31 March 2025.

31 March 2025		Statement of Financial Position				
All amounts in £'000	Statement of Comprehensive Income and Expenditure Debit/(Credit)	Assets - Non-current Debit/(Credit)	Assets - Current Debit/(Credit)	Liabilities - Current Debit/(Credit)	Liabilities - Non-current Debit/(Credit)	Reserves Debit/(Credit)
► Misclassification of borrowings between current and non-current	-	-	-	(11,657)	11,657	-
► Incorrect revaluation of council dwellings to £nil prior to disposal * Includes £4,592,000 to deficit on provision of services and £998,000 to Revaluation Reserve	Revaluation Loss*: 5,590 Loss on Disposal: (5,590)	-	-	-	-	-
► Incorrect recognition of dividend from Hillingdon First Limited	2,000	-	(2,000)	-	-	-
► Non-recording of payments and receipts from school bank accounts close to year-end	-	-	(1,488)	1,488	-	-
► Incorrect posting of non-HRA rent rebates expenditure as income	Expenditure: 1,322 Income: (1,322)	-	-	-	-	-
► Omission of Housing Benefit expenditure above amount recoverable from DWP	1,278	-	-	(1,278)	-	-
► Unrecorded cash payments at year-end	-	-	(786)	786	-	-
Totals	3,278	-	(4,274)	(10,661)	11,657	-

Audit Differences

Summary of adjusted differences (continued)

In addition, we highlight the following misstatements of the Statement of Cash Flows and disclosures which management has advised will be corrected in the final financial statements that were identified during the course of our audit:

- The Statement of Cash Flows included incorrect adjustments to move £17.4 million of Revenue Expenditure Funded by Capital Under Statute (REFCUS) from operating cashflows to investing cashflows. REFCUS is a reserves adjustment only, and should not impact the Statement of Cash Flows.
- The Statement of Cash Flows presented net increases in investments of £0.6 million as investing activities. Purchases and disposals of investments should not be presented net, with the correct disclosure being £1.0 million of purchases of new investments and £0.4 million of sales of existing investments.
- Within the disclosure of senior officer remuneration, contracted salary paid to Andy Evans was disclosed as £135,657. There were a number of errors in how this amount, which related only to the period 1 April 2024 to 31 July 2024, had been calculated and the correct disclosure is £63,741. The salary amount paid to Richard Ennis, which relates to the period 1 August 2024 to 31 March 2025, was also incorrectly stated as £235,456 due to the inclusion of agency fees not payable to the individual. The correct disclosure is £209,875.

Summary of unadjusted differences

We highlight the following misstatements greater than £720,000 which were identified during the course of the audit and that management has, at the time of drafting this report, chosen not to adjust in the financial statements:

31 March 2025		Statement of Financial Position				
	Statement of Comprehensive Income and Expenditure Debit/(Credit)	Assets – Non-current Debit/(Credit)	Assets - Current Debit/(Credit)	Liabilities - Current Debit/(Credit)	Liabilities - Non-current Debit/(Credit)	Reserves Debit/(Credit)
All amounts in £'000						
Factual differences						
► Impact on Council pension balances of misstatements in pension asset valuations reported to the scheme actuary	(2,546)	-	-	-	2,546	-
► Incorrect recognition of Northgate income for the period 1 April 2025 to 6 April 2025	873	-	(873)	-	-	-
Judgemental differences						
► Extrapolated impact of unsupported accrual balances	(731)	-	-	731	-	-
Totals (before turnaround effect)	(2,404)	-	(873)	731	2,546	-

Audit Differences

Turnaround effect

When concluding on the overall presentation of the financial statements we consider the impact on amounts for the current period of audit differences reported in the prior period and audit differences identified during the current period which relate to the prior period. Amounts below were reported as part of the prior year's audit unless stated otherwise.

The aggregate impact on the current year of audit differences relating to the prior year would be to increase total comprehensive expenditure for the period by £4.2 million.

31 March 2024	
All amounts in £'000	Statement of Comprehensive Income and Expenditure Debit/(Credit)
Known differences	
▶ Incorrect deferral of Public Sector Decarbonisation Grant income from 2023/24 into 2024/25 (identified during current year's audit, not previously reported)	7,480
▶ Recording of 2023/24 payments in 2024/25	(2,140)
Judgemental differences	
▶ Incorrect deferral of grant income at 31 March 2024	2,911
▶ Incorrect recording of year-end debtors at 31 March 2024	(2,159)
▶ Non-allowance for impact of Goodwin legal case in defined benefit pension liability valuations# (impacts other comprehensive income only)	(1,872)
Total (turnaround effect)	4,220
Total (before turnaround effect – from previous page)	(2,404)
Total (after turnaround effect)	1,816

Audit Differences

Other observations

As set out in Section 1, we have not been able to complete all of our planned audit procedures. As a result, we have not obtained the assurances required to enable us to conclude that the financial statements are free of material misstatement and there is an increased risk that additional misstatements to those reported on the previous pages may exist within the financial statement.

In the performance of our audit procedures we have identified the following matters which indicate that a misstatement is likely to exist but we have not been able to complete the procedures necessary to confirm the existence of misstatement and/or determine the size of the misstatement:

- The financial statements include £9.0 million of debtor balances relating to overpaid Housing Benefits. Our initial testing of three items from this population found two were incorrectly recognised as debtors, and management were not able to provide support to enable conclusion on whether the third sample item was correctly recognised. Given the small initial sample size, we would ordinarily perform additional testing of the population to provide more information on the most likely level of error within the population however for the reasons set out in Section 1 we have not been able to complete these procedures.
- The financial statements include £13.9 million of income, excluding the main government grants, relating to the Council's schools. Our testing of four items from this population found one item had been incorrectly recorded, however as this was the largest item tested the extrapolation of this finding estimates an overstatement of schools income of £8.5 million. We would ordinarily perform additional testing of the population to provide more information on the most likely level of error within the population, however for the reasons set out in Section 1 we have not been able to complete these procedures.



06 Assessment of Control Environment

Assessment of Control Environment




Financial controls

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.

The table below provides an overview of the ‘high’, ‘moderate’ and ‘low’ rated observations we have from the 2025 audit (including IT controls).

	High	Moderate	Low	Total
Open at 31 March 2024	2	5	-	7
Closed during 2024/25	(1)	(2)	-	(3)
New recommendation for 2024/25	1	-	-	1
Total open points as at 31 March 2025	2	3	-	5

Key:

-  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.
-  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.
-  A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6–12 months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

As we have not been able to complete all of our planned audit procedures, we have not been able to assess whether all of the previously reported recommendations have been addressed by management. Where we have not been able to assess whether a control recommendation previously reported has been appropriately implemented, we have kept the recommendation open and state this in the update on the following pages.

Assessment of Control Environment

Summary of control observations and recommendations					
Control observation and impact	Grading			Recommendation	Management Response
	H	M	L		
<p>Performance of Reconciliations</p> <p>During the course of our audit, we identified a number of instances where reconciliations performed to ensure the accuracy of financial records were not performed as expected, including:</p> <ul style="list-style-type: none">▪ Monthly bank reconciliations for the Council's main bank account were not performed between August 2024 and March 2025, although management performed retrospective reconciliations for each month as part of the year-end accounts preparation.▪ Monthly reconciliations of the borrowings and investment sub-ledgers to the main General ledger were not performed during 2024/25.▪ Monthly reconciliations of the capital expenditure module to the general ledger were performed, however there are unreconciled differences which have persisted for a number of months and remained unresolved as at 31 March 2025. <p>It is our understanding that the difficulties experienced with the implementation of Oracle Fusion are a factor in why reconciliations were not performed as expected.</p>	X			We recommend that management review processes around key account reconciliations to ensure that reconciliations are performed on a timely basis and reconciling items investigated and resolved promptly.	Resource was commissioned from GT to review existing reconciliation processes at month 6 of 2025/26 and identify gaps in order for the Council to move to quarterly balance sheet monitoring. Part of this includes rectification of Oracle system issues blocking the automation of the bank reconciliation process - which requires a system fix. This will lead to a package of reconciliations, which will be signed off on a monthly/quarterly basis by the Deputy 151 Officer from the 2026/27 financial year. Work is now starting on the implementation of these processes for Quarter 3 of the 2025/26 financial year to ensure the Council can work through the reconciliations of as many accounts as possible before year end in order to speed up the 2025/26 closure process and delivery of the draft 2025/26 Accounts by the 30th June.

Assessment of Control Environment

Status of previous year's recommendations				
Recommendation	Grading			Update
	H	M	L	
<p>Exercise of the public inspection period</p> <p>We recommend that the Council ensures that it fully understands the requirements for the public inspection period as set out within the Accounts and Audit Regulations 2015 and ensures that it has processes to meet these requirements.</p>	X			<p>As reported in Section 1, the Council did not comply with the statutory deadline for commencement of the public inspection period of its 2024/25 financial statements as it published its draft Statement of Account nearly three months after this date.</p> <p>Where a local authority is unable to comply with this deadline, it is required to publish a notice stating that it has not been able to commence the period for the exercise of public rights and explain the reason(s) why. The Council did publish this notice, however it only stated that the public inspection period would be delayed and did not contain an explanation of the reasons why the Council had not commenced the public inspection period as required by the Accounts and Audit Regulations 2015.</p> <p><i>Status: Open</i></p>
<p>Implementation of IFRS 16</p> <p>We recommend that the Council reassesses its implementation plan for IFRS 16 to ensure that all appropriate leases will have been identified, assessed and recorded in accordance with the new standard in time for inclusion within the Council's draft 2024/25 financial statements.</p>	X			<p>The Council has implemented IFRS 16 within its 2024/25 financial statements, reporting that balances recognised under this new accounting standard are immaterial.</p> <p>We note that this is consistent with previous reporting by the Council in previous years of the value of leases held by the Council as lessee, however as we have not completed all of our planned audit procedures we are unable to conclude on whether the Council has identified and appropriately accounted for all leases which should be accounted for under IFRS 16.</p> <p>On the basis that the Council has now implemented IFRS 16 and reported associated balances as immaterial, we close this control recommendation however we note the completeness of balances will need to be confirmed as part of subsequent audits.</p> <p><i>Status: Closed</i></p>

Assessment of Control Environment

Status of previous year's recommendations (continued)

Recommendation	Grading			Update
	H	M	L	
<p>Provisions for impairment of non-domestic rates debtors</p> <p>We recommend that the Council reviews its calculation of the non-domestic rates impairment to ensure that it can fully support the impairment rates applied and is applying those rates to an appropriate gross balance.</p>			X	<p>The Council has reassessed its Collection Fund bad debt provisions, including provisions in respect of non-domestic rates balances, for 2024/25 resulting in a significant increase in the amounts provided for.</p> <p>We have been unable to complete our audit procedures over the Council's bad debt provisions as we were unable to arrange time with the relevant officers to obtain an understanding of these models. We have therefore been unable to form a view on whether the Council's revised bad debt provisions are reasonable.</p> <p><i>Status: Open</i></p>
<p>Access to information held by schools</p> <p>We recommend that the Council reviews the processes through which it collates information from maintained schools to ensure that information necessary to support financial statements disclosures is available to the Council and can be provided for audit.</p>			X	<p>We have continued, as part of the 2024/25 audit, to encounter difficulty obtaining the necessary supporting workings and detailed accounting records to support the execution of audit procedures over schools-related balances and disclosures. Due to this, we have not been able to complete our audit procedures over the majority of schools-related income, expenditure, balance sheet balances or disclosures.</p> <p><i>Status: Open</i></p>
<p>Assessment of funding grant terms</p> <p>We recommend that management review the process by which grants received are assessed for performance related conditions and ensures that amounts are released to revenue at the correct point in time.</p>			X	<p>As set out in Section 5, we identified £7.5 million of grant income recognised in 2024/25 which had been incorrectly deferred at 31 March 2024 and should have been recognised in income in the prior year. We note however that the decision to defer this income occurred in 2023/24.</p> <p>We have been able to complete our planned audit procedures over both grant income and deferred grants as at 31 March 2025 and have not identified further material incorrect recognition of grant income in the current period or incorrect deferral at 31 March 2025, therefore we are content to close this recommendation.</p> <p><i>Status: Closed</i></p>

Assessment of Control Environment

Status of previous year's recommendations (continued)				
Recommendation	Grading			Update
	H	M	L	
Accruals for temporary accommodation costs We recommend that the Council review the processes for recording temporary accommodation expenditure to ensure that the Council only recognises accruals in relation to amounts for which there may be a future outflow.		X		We have been able to complete our planned audit procedures over accrual balances at 31 March 2025 and have not identified any incorrectly recognised accruals in relation to temporary accommodation costs. <i>Status: Closed</i>
Review of externally provided asset valuations We recommend that the Council review its processes to ensure that relevant changes in assets are communicated to its external valuer, and that the valuations provided by the external valuer are subject to appropriate review by the Council, including for consistency with the Council's knowledge of its assets, prior to inclusion within the financial statements.		X		As explained in Section 1, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. We have not therefore performed audit procedures over the Council's asset valuations which would inform our update on this recommendation, and therefore we are not able to provide an update against this recommendation. <i>Status: Open</i>



07 Other Reporting Issues

Other Reporting Issues

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

We would ordinarily be required to give an opinion on the consistency of the financial and non-financial information in the Council's Hillingdon Statement of Accounts 2024/25 with the audited financial statements.

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

As explained within Section 1, we anticipate issuing a disclaimed 2024/25 audit opinion. A disclaimed opinion does not include reporting on the consistency of the other information with the audited financial statements. However we have reviewed the consistency of the other information contained within the draft Statement of Accounts for consistency with the draft financial statements as part of our checks on the overall quality of the draft Statement of Accounts. We have no observations to report from these procedures.

We have reviewed the draft Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. The Annual Governance Statement is however to be updated to reflect the outcome of MHCLG's consideration of the Council's request for exceptional financial support, as well as our own conclusions on value for money reported within Section 3. We have not yet received this updated Annual Governance Statement from management.

Whole of government accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO.

We have performed the procedures required by the NAO on the Whole of Government Accounts submission. We have no issues to draw to your attention. We cannot issue our Audit Certificate until the NAO has confirmed no further procedures 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.

On 24 July 2025, we issued seven statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 to the Council as we were not satisfied that the pace of improvement was sufficient to address the systemic weaknesses which existed within the Council's financial management and governance. Further details of our observations leading to the issuance of statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 are set out in our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' issued on 24 July 2025.

An additional recommendation, not issued as a recommendation under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014, was issued to the Council on 27 November 2025 as part of our Draft Auditor's Annual Report. Details of this recommendation are provided on page 10.



08 Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, 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.

Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non-audit services and the FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers, managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

We confirm that the independence threats created by the level of the audit fees are at an acceptable level.

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

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 Provisional 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;
- The Council has an effective control environment; and
- 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	Prior Year
	£	£
Scale fee – Council	433,673	403,723
Scale fee – Pension Fund	92,572	81,688
Scale fee variation – Council (1) (2)	TBC	TBC
Scale fee variation – Pension Fund (3) (4)	TBC	TBC
Total audit fees	TBC	TBC
Non-audit work – Housing Benefit certification (5)	N/A	TBC
Total non-audit services fees	-	TBC
Total fees	TBC	TBC

See notes overleaf

Independence

Notes

- (1) As highlighted within this report, we have encountered difficulty in performing our audit procedures due to delays in the provision of working papers and supporting information by the Council and capacity limitations within the Council's finance team. During the execution of our audit, we have deployed the level of resource with which we would have expected to be able to complete your audit and for which the scale fee is reflective. In addition, we have incurred additional costs in two areas:
- We have engaged our IT audit specialists to review the Council's implementation of Oracle Fusion and perform procedures to provide assurance over the migration of financial information from the old Oracle R12 system into Oracle Fusion. A cost for this work of £68,392 was agreed with management prior to commencement of this work, however delays in receipt of information and the need to respond to findings from this work increased the required effort over that envisaged. The final fee impact of this work agreed with management is £78,079.
 - During the course of our audit we have identified, responded to and performed additional auditor reporting around four separate significant weaknesses in the Council's arrangements to secure value for money in its use of resources, including the issuance of statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014. In addition, we have performed additional procedures to respond to governance concerns raised to us in correspondence by several parties which either linked to our reported significant weaknesses in the Council's arrangements or did not ultimately give rise to matters we considered it necessary to report upon. This work, due its complexity and nature, had to be performed by the most senior members of the audit team. This work will remain ongoing up to the completion of our audit, including as it impacts upon the final form of our audit report. We anticipate the fee impact of this work to be in the range £120,000 to £140,000, however we will provide management with our full assessment once the audit is concluded and make submission to PSAA for a variation to the scale fee.
- Total additional audit fees are therefore expected to be in the range £198,079 to £218,079. Notwithstanding any agreement with management, the final additional audit fees are determined by PSAA.
- (2) As reported within our Audit Results Report on the 2023/24 audit, the audit resources expended in seeking to maximise the assurance obtained in light of difficulty performing our audit procedures due to a combination of poor-quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team exceeded those with which we would have expected to be able to complete your audit. A proposed fee variation of £104,319 has been submitted to PSAA in relation to this additional effort.
- (3) Additional fees of £6,674 have been agreed with management for incremental work by our IT audit specialists to provide assurance over the migration of financial records of the Hillingdon Pension Fund from Oracle R12 to Oracle Fusion alongside the work performed as part of the Council's audit for 2024/25. This amount is subject to final determination by PSAA.
- (4) As reported within our Audit Results Report on the 2023/24 audit, our 2023/24 audit of the Pension Fund identified a number of in-year risks which required additional audit effort. A proposed fee variation of £9,048 has been submitted to PSAA in relation to this additional effort.
- (5) Our work in relation to the Council's 2023/24 Housing Benefit return is in progress. As a result of findings in prior periods, the Department for Work and Pensions (DWP) guidance requires us to perform more extensive testing than would otherwise be the case. The minimum fees expected for this work are £88,200, however this may increase if additional findings arise as part of the 2023/24 work and require further procedures to be performed. We have agreed with management that we will not be performing the assurance work in relation to the Council's 2024/25 Housing Benefit return.

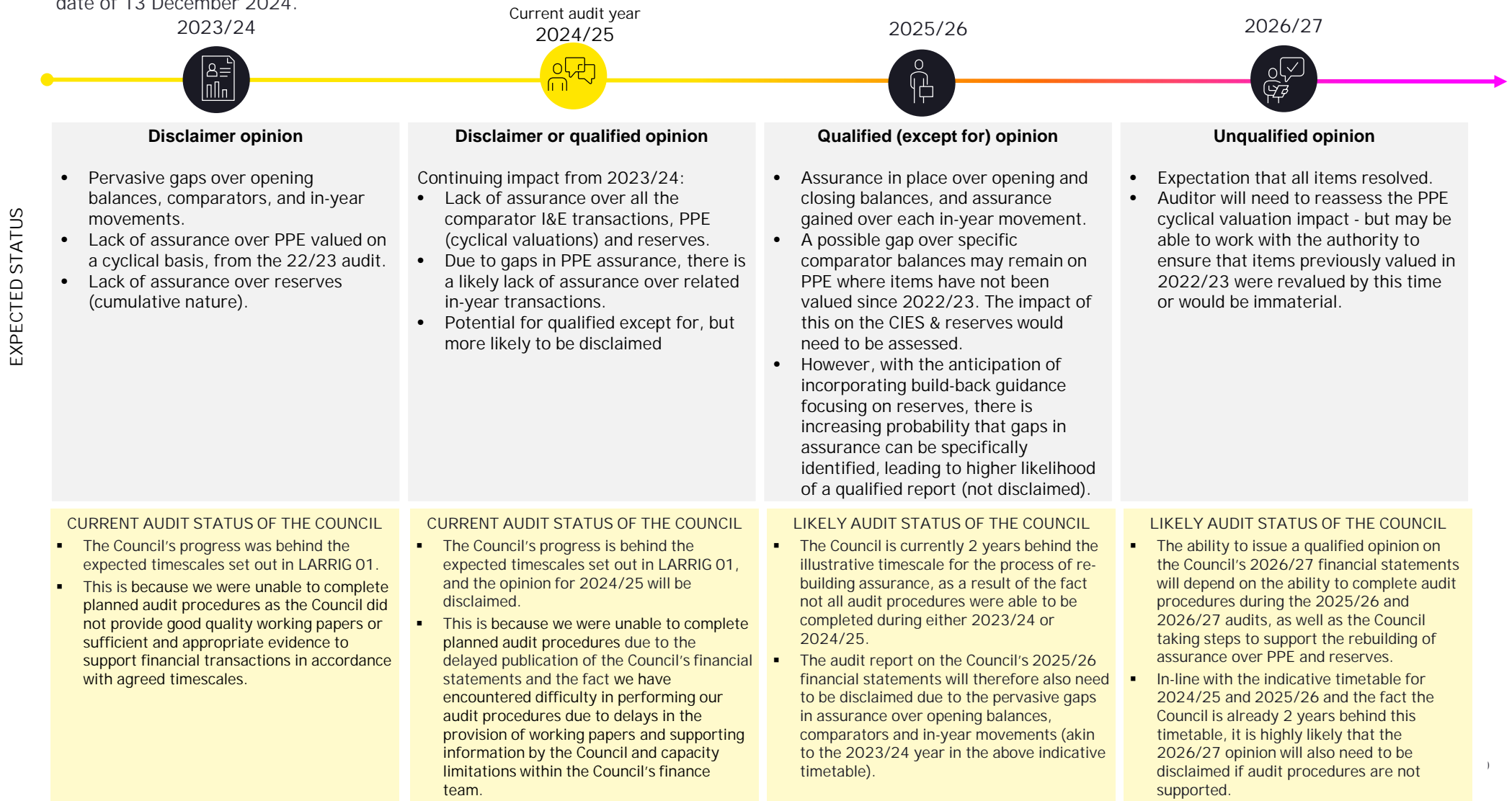


09 Appendices

Appendix A – Progress to Full Assurance

Progress to full assurance

Set out below is the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that and what still needs to be done to successfully rebuild assurance. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.



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.

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Property, plant and equipment – additions (1)			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these movements for the year ended 31 March 2025.
Property, plant and equipment – disposals (1)			We have completed our planned audit procedures in this area and have obtained assurance over the derecognition of assets for the year ended 31 March 2025. However, as we do not have assurance over the opening balances of PPE we are not able to obtain full assurance over the accuracy of those movements and the associated gains or losses.
Property, plant and equipment – land and buildings			As noted on page 6, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. Consequently, we do not have assurance over these balances as at 31 March 2025.
Property, plant and equipment – council dwellings			As noted on page 6, we agreed a management-imposed limitation of scope to our audit to exclude the valuations of the Council's land and building assets from our work over the closing balance sheet for 2024/25. Consequently, we do not have assurance over these balances as at 31 March 2025.
Property, plant and equipment – other balances			We have completed our audit procedures over the existence and classification of assets under construction at 31 March 2025, transfers of completed assets from assets under construction to other categories during the period and depreciation charges for the period. However, as we do not have assurance over the opening balances of PPE nor the in-year additions (see above) we are not able to obtain full assurance over balances as at 31 March 2025.
Infrastructure assets			We have completed our audit procedures over the depreciation of infrastructure assets for the period and to ensure that infrastructure assets are being accounted for and presented in accordance with the temporary relief provided by the Update to the CIPFA Code and Specifications for Future Codes for Infrastructure Assets (November 2022). However, as we do not have assurance over the opening balance infrastructure assets nor the in-year additions (see above) we are not able to obtain full assurance over balances as at 31 March 2025.
Investments			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025.
Debtors – Housing Benefit overpayments (gross) (2)			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the closing balance at 31 March 2025.

(1) These account areas were presented in aggregate in the prior year.

Appendix B – Updated Summary of Assurances

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Debtors – Other than Housing Benefit overpayments (gross) (2)			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025.
Debtors – bad debt provisions (2)			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the closing balance at 31 March 2025.
Cash and cash equivalents			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025.
Creditors – capital grants received in advance			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the closing balance at 31 March 2025.
Creditors – accumulated absences (3)			We have completed our planned audit procedures in this area in relation to non-school employees and have obtained assurance over the closing balance at 31 March 2025. However, we were unable to complete our planned audit procedures in relation to school employees and have not therefore obtained assurance over the full closing balance at 31 March 2025.
Creditors – other (3)			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025. This excludes the completeness of balances (see row below).
Creditors – unrecorded liabilities (completeness)			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the completeness of closing balances at 31 March 2025.
Borrowings			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025.
Defined-benefit pensions			We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2025. However, as we do not have assurance over the opening balances we are not able to obtain full assurance over the accuracy of the associated in-year movements.
Revenue Expenditure Funded from Capital Under Statute (REFCUS)			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.

(2) These account areas were presented in aggregate in the prior year.

(3) These account areas were presented in aggregate in the prior year.

Appendix B – Updated Summary of Assurances

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Reserves			We have completed our planned audit procedures to agree adjustments to reserve balances during 2024/25 to other movements presented within the financial statements. However, as we have not completed all of our planned audit procedures over other account areas we are unable to conclude on whether all of these adjustments are materially correct. In addition, 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. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2025/26 Audit Planning Report.
Taxation and non-specific grant income			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Grant income			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Other income			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2024/25.
Schools income and expenditure			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2024/25.
Housing Benefits income and expenditure			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Financing and investment income and expenditure			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Employee costs			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25 in relation to non-school employees. However, we were unable to complete our planned procedures in relation to school employees and have not therefore obtained assurance over all employee costs.
Other expenditure			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2024/25.
Statement of Cash Flows			We have completed our planned audit procedures to agree movements in the Statement of Cash Flows for 2024/25 to other movements presented within the financial statements. However, as we have not completed all of our planned audit procedures over other account areas we are unable to conclude on whether all of these movements are materially correct.

Appendix B – Updated Summary of Assurances

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Housing Revenue Account - Income			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Housing Revenue Account - Expenditure			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Collection Fund - Income			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Collection Fund - Expenditure			We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2024/25.
Journal entry testing			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2024/25.
Remuneration disclosures - Senior officer remuneration			We have completed our planned audit procedures in this area and have obtained assurance over the disclosures presented for 2024/25.
Remuneration disclosures - Individuals earning >£50k			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the disclosures presented for 2024/25.
Remuneration disclosures - exit packages			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the disclosures presented for 2024/25.
Remuneration disclosures - members allowances			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the disclosures presented for 2024/25.
Segmental reporting - the Expenditure and Funding Analysis			We have completed our planned audit procedures to confirm that segmental reporting disclosures are consistent with the underlying accounting records. However, as we have not completed all of our planned audit procedures over income and expenditure we are unable to conclude on whether these amounts are materially correct.
IFRS 16: Leases	N/A	N/A	Management have assessed the impact of adopting the new accounting standard for leases, IFRS 16, on the financial statements as immaterial. As there are no material lease balances within the financial statements, we designated this account as insignificant and did not plan detailed audit procedures over those leases identified and accounted for by management. As we have not been able to complete our planned audit procedures over other account areas, we are unable to conclude on whether management have correctly identified all leases which require accounting for under IFRS 16 and hence whether the immaterial lease balances are materially complete.

Appendix B – Updated Summary of Assurances

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Accounting policies			We have reviewed the disclosed accounting policies and confirmed they are consistent with the external reporting framework. As we have not completed all of our procedures over financial statement balances we are however unable to conclude on whether the accounting policies accurately describe the underlying accounting treatments adopted by the Council.
Going concern			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures. We would also highlight observations on the Council's financial standing within our value for money commentary which should be highlighted within the going concern disclosures.
Group boundary assessment			We have completed our planned audit procedures in this area and have obtained assurance over these disclosures.
Related parties			We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the disclosures presented for 2024/25.
All other disclosures not separately identified			We have been able to complete our planned audit procedures in respect of investment property and heritage assets. However, as we have not been able to complete our planned audit procedures over other disclosures we have therefore not obtained assurance over all other disclosures presented for 2024/25.

Appendix C – 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:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Statement of Responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Provisional Audit Planning Report (July 2025)
Planning and audit approach	<p>Communication of:</p> <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 <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Provisional Audit 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 Results Report (this report)
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 (this report)

Appendix C – Required Communications With Those Charged With Governance

		Our Reporting to you
Required communications	What is reported?	When and where
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 (this report)
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 (this report)
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 (this report)

Appendix C – Required Communications With Those Charged With Governance

		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>	Provisional Audit Planning Report (July 2025) Audit Results Report (this report)
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 (this report)
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 (this report)
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 (this report)
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▪ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report (this report)

Appendix C – Required Communications With Those Charged With Governance

		Our Reporting to you
Required communications	What is reported?	When and where
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 (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<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 (this report)
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report (this report)

Appendix D – 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 E – Management Representation Letter

Management representation letter

A copy of our proposed management letter is provided alongside this report.

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