

London Borough of Tower Hamlets

Interim Value for Money Report

Year ended 31 March 2025

16 November 2025

Private and Confidential
Audit Committee
London Borough of Tower Hamlets
Town Hall
160 Whitechapel Road E11BJ

16 November 2025

Dear Audit Committee Members

In our 2023/24 Audit Results Report, presented to the Audit Committee in February 2025, we concluded that the Council did not have proper arrangements in place to produce reliable and timely statutory financial reporting, nor to assess risk and obtain assurance over the effective operation of internal controls. We also identified significant weaknesses in the Council's procurement and contract management arrangements. In relation to these matters, we issued Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014. Additionally, we reported a significant weakness in the Council's arrangements for governance and for securing economy, efficiency, and effectiveness. This conclusion was informed by the findings of the Best Value Inspection, which led to the issuance of Ministerial Directions in January 2025.

This report sets out our observations on the Council's arrangements to secure value for money and manage risks for the period 1 April 2024 to 31 March 2025. Where emerging issues have arisen after 1 April 2025 that, in our view, demonstrate further weaknesses, we are required to report these on a timely basis.

We first issued this report to management at the end of August 2025. A written response was received in September 2025, which informed a revised version of the report issued later that month. Additional written responses were received throughout October 2025 from multiple individuals at different times. We considered these submissions and issued a further draft in early November 2025. Discussions with management have taken place throughout September, October, and November 2025. In many cases, management has provided written updates on actions taken to address our findings and conclusions. However, the majority of these actions have occurred after 1 April 2025, with some taking place since the first issue of this draft report in August 2025. Where relevant to our reporting, we have reflected this additional information in the final version of this report. While we have made factual corrections and incorporated additional context where appropriate, the core conclusions and reporting matters remain largely unchanged from the version issued to management in August 2025.

As part of our 2025/26 value for money procedures we will consider actions to address weaknesses in arrangements and statutory recommendations as set out in our 2024/25 value for money reporting, as well as any other matters that come to our attention and will need to be provided with robust evidence that corroborates the statements of management. Actions need to be taken and embedded in the organisation on a timely basis to demonstrate improved arrangements have been in place for a sufficient proportion of the financial year being evaluated. This will be important in our determination as to whether significant weaknesses continue to exist in the Council's arrangements in 2025/26 and whether our recommendations have been satisfactorily addressed throughout the financial year, and not just for a portion of it.

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

Yours faithfully



Stephen Reid

Partner, for and on behalf of Ernst & Young LLP



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2024/25 Value for Money update

Value for Money

The Authority's responsibilities 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 National Audit Office (NAO) Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

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

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

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

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

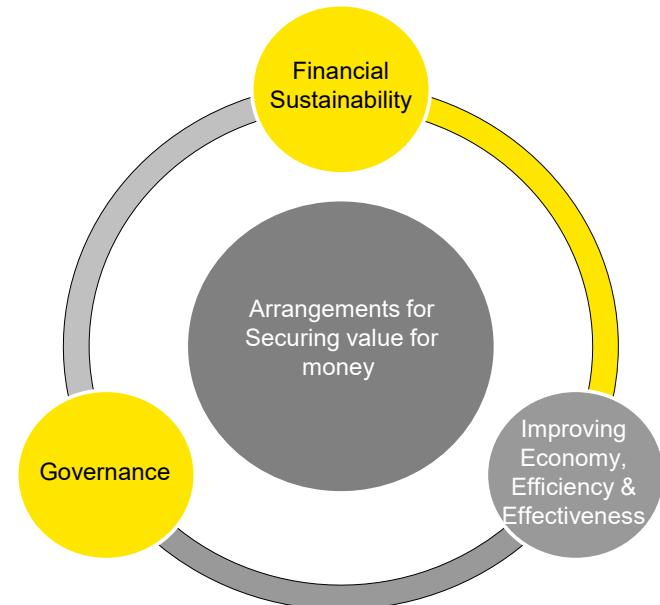
In our Audit Planning Report presented to the Audit Committee on 28 July 2025 we reported that we had identified seven risks of significant weakness arising from our risk assessment procedures. In relation to those seven risks, we identified five significant weaknesses in the Council's arrangements for securing value for money for 2024/25 and confirmed in our Audit Planning Report that four of these would be significant weaknesses, along with three statutory recommendations. As we have undertaken our Value for Money procedures, we have identified a further five significant weaknesses and an additional draft Statutory Recommendation. As a result, we are reporting ten significant weaknesses and four statutory recommendations in this report, based on our work to date.

Our work in relation to Value for Money remains ongoing. We will update the audit committee if we identify any further risks of significant weakness or actual significant weakness.

Our findings for 2024/25 continue to highlight significant weaknesses in the Council's oversight and governance arrangements. While some steps have been taken, we remain concerned that the pace and urgency of the response have not matched the scale of the challenges. As a result, the Council remains exposed to further risks in relation to its best value duties, internal control environment, risk management, compliance with laws and regulations, and the potential for fraud or unethical behaviour.

Management has provided statements outlining actions taken since 1 April 2025. These will need to be supported by clear and robust evidence to demonstrate that they have been effectively implemented and embedded across the organisation.

In line with our responsibilities, we will assess the Council's progress as part of our 2025/26 audit. Should material concerns remain, we will consider whether further reporting or escalation is required in line with our statutory responsibilities.



Value for Money (cont'd)

In our Audit Planning Report presented to the Audit Committee in July 2025 we communicated that we had identified seven risks of significant weakness arising from our risk assessment procedures. We have summarised our findings to date in relation to these risks below. This has resulted in the identification of five significant weaknesses along with the three associated Statutory Recommendations issued in February 2025.

VFM Risk	Area impacted	Status
Arrangements for reliable and timely statutory financial reporting	Governance	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. We reported on this in our Audit Planning Report in July 2025, however, further information is provided on page 7 of this report.
Arrangements to manage risks effectively and maintain a sound system of internal control	Governance	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. We reported on this in our Audit Planning Report in July 2025, however, further information is provided on page 8 of this report. In addition to the matters identified in our February 2025 Audit Results Report, we have identified four further matters, that were not previously identified as risks of significant weakness in the Audit Planning Report, which we have set out in the table on the next page in relation to: the effectiveness of the internal audit function; the Annual Governance Statement; the capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council; and the Audit Committee effectiveness. Where we have identified weaknesses in these areas we have reported these in this report.
Contract Management and Procurement	Governance	Significant weakness identified. The significant weakness and Statutory Recommendation identified and reported in February 2025 in relation to the 2023/24 audit remain for 2024/25. We reported on this in our Audit Planning Report to the Audit Committee in July 2025, however, further information has been provided on page 16 of this report.
	Improving economy, efficiency and effectiveness	In addition to the matters identified in our February 2025 Audit Results Report, we identified an additional matter and recommendations relating to procurement waivers that contribute to this significant weakness in 2024/25. This is set out on page 17 of this report. Whilst not identified as a risk of significant weakness in our Audit Planning Report, in undertaking our audit procedures we identified a further significant weakness and draft Statutory Recommendation in relation to the effectiveness of the Council's process for conducting internal investigations. We have summarised this in the table on the next page.
Best Value Inspection	Governance	Significant weakness identified. The significant weakness identified and reported in February 2025 in relation to the 2023/24 audit remains for 2024/25. We reported on this in our Audit Planning Report in July 2025, however, further information is provided on page 20 of this report.
Improving economy, efficiency and effectiveness		
Transfer of Planning Powers	Governance	Our procedures are in progress. We will report on this risk of significant weakness in future reporting to the Audit Committee.
Housing	Governance	Significant weakness identified. We have identified a significant weakness in 2024/25 following the outcome of an inspection performed by the Regulator of Social Housing. Further information, including recommendations have been set out on page 21 of this report.
Medium Term Financial planning and pressures	Financial Sustainability	Our procedures are in progress. We will report on this risk of significant weakness in future reporting to the Audit Committee.

Value for Money (cont'd)

The below matters were not identified as risks of significant weakness in our Audit Planning Report in July 2025. As we have undertaken our value for money procedures, including in relation to the identified risks on the previous page, we have identified five further significant weaknesses and an additional Statutory Recommendation.

Identified VfM significant weakness	Area impacted	Status
Effectiveness of the internal audit function	Governance	Significant weakness identified for 2024/25. Our findings and recommendations are set out on page 10 of this report.
Annual Governance Statement	Governance	Significant weakness identified for 2024/25. Our findings and recommendations are set out on page 12 of this report.
Capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council	Governance	Significant weakness identified for 2024/25. This is in relation to the capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council (comprised of the three statutory officers - the Chief Executive, the section 151 Officer and the Monitoring Officer). Our findings and recommendations are set out on page 13 of this report.
Audit Committee effectiveness	Governance	Significant weakness identified for 2024/25. Our findings and recommendations are set out on page 14 of this report.
Effectiveness of the Council's process for conducting internal investigations	Governance	Significant weakness and draft Statutory Recommendation identified for 2024/25. Our findings and recommendations are set out on page 18 of this report.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Arrangements for reliable and timely statutory financial reporting</p> <p>The Council has not received an unmodified audit opinion since 2017/18, with qualifications or exception reporting being issued in relation to the Council's arrangements for achieving Value for Money in each of those years.</p> <p>As set out in the basis for our disclaimed audit opinion in 2023/24, the Council was not able to provide timely, sufficient and appropriate audit evidence in relation to several areas of the 2023/24 financial statements because of significant control deficiencies. This was reported as a significant weakness in proper arrangements for supporting the statutory financial reporting requirements of the Council, effective processes and systems for accurate and timely financial information.</p> <p>We also issued Statutory Recommendations in response to this significant weakness.</p>	Governance	<ol style="list-style-type: none">1. Evaluated management's action plan that has been put in place to respond to recommendations.2. Understood the steps taken by management to improve processes to obtain the required information to prepare financial statements.3. Noted management's updates against our statutory recommendations.

Findings

The 2023/24 audit opinion was disclaimed due to the Council not being able to provide timely, sufficient and appropriate audit evidence in relation to several areas of the financial statements due to significant control deficiencies. We concluded that there was a weakness in proper arrangements for supporting the statutory financial reporting requirements of the Council, effective processes and systems for accurate and timely financial information. In our reporting for 2023/24 in February 2025 we issued the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

To meet its objectives and the requirements of the Audit and Accounts Regulations the Council should:

- ▶ continue to re-assess roles, responsibilities and resource requirements for financial reporting;
- ▶ take action to ensure that sufficient and appropriate audit evidence is available in relation to transactions in the financial statements; and
- ▶ respond to audit recommendations and findings and implement corrective actions plans in a timely manner.

This area of weakness was reported in February 2025. As action to address the significant weakness and statutory recommendations commenced after this date, and given the proximity to 31 March 2025, the Council is unable to demonstrate that arrangements were in place for the period 1 April 2024 to 31 March 2025. As a result, for 2024/25 there remains a significant weakness in the proper arrangements that the Council does not have effective processes and systems to support its statutory financial reporting requirement.

Management has presented action plans and progress updates to the Audit Committee meetings held to date in 2025/26. The working relationship between management, the finance function and EY remains constructive, and we have observed steps being taken to improve the Council's readiness for the financial statement preparation and audit processes. While there have been some improvements in the quality of working papers and the timeliness of responses, the completion of the 2024/25 audit remains challenging – consistent with the experience in 2023/24. As of the end of August 2025, over 75% of the audit hours budgeted had been incurred, yet only three financial statement line items had all planned procedures completed. Further detail on the 2024/25 financial statement audit will be set out in our Audit Results Report, which is scheduled to be presented to the Audit Committee on 10 December 2025.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Arrangements to manage risks effectively and maintain a sound system of internal control</p> <p>An external review of the Council's risk management arrangements in 2024 identified the risk management processes as lacking maturity, with a risk strategy that was severely out of date and in need of review. The Council commenced refreshing its strategy in 2024/25.</p> <p>In 2023/24 we identified pervasive weaknesses in the control environment, which led us to issue Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014.</p> <p>Through the performance of our 2024/25 value for money risk assessment we have noted a range of factors impacting the preparation of the annual governance statement including changes in key governance roles within the Council.</p>	Governance	<p>In addition to performing a review of progress against our 2023/24 recommendations above, we have:</p> <ul style="list-style-type: none">Reviewed internal audit reports relating to the period, and the overall Head of Internal Audit opinion;Considered the effectiveness of the investigations team based on observations from procedures in relation to non-compliance with laws and regulations;Reviewed the Annual Governance Statement for identification and disclosure of significant governance issues;Considered any impact of changes in key governance roles within the Council; andConsidered findings arising from the financial statement audit to inform our view of the control environment.

Findings

In 2023/24 we identified pervasive weaknesses in the control environment, with a high volume of outstanding recommendations from audit and external agencies, arising from limited assurance reports or significant control deficiencies. Due to the pervasiveness of the internal control environment findings, we raised the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

- The Council should develop an action plan with clear actions, responsible owners and timescales to address recommendations raised by internal and external audit, as well as other external agencies.
- The action plan should be owned by the Corporate Leadership Team with a view to embedding a culture of continuous improvement and the importance of addressing findings in the control environment.
- Progress should be regularly reported to and monitored by the Corporate Leadership Team before being presented to each meeting of the Audit Committee.
- The Audit Committee should ensure that they apply appropriate governance and oversight to the arrangements in place by management to address control findings, as well as considering the adequacy of the arrangements implemented to address findings.

Included in the significant weakness identified in 2023/24 was the Council's risk management arrangements. Whilst these were identified as part of the significant weakness identified in 2023/24, we did not consider that element of the significant weakness to require Statutory Recommendations. However, we did raise recommendations in relation to the identified significant weakness in February 2025 in relation to risk management that:

- The Council should update the risk management strategy and take action to ensure that risk management processes are embedded throughout the Council.
- An action plan to address the recommendations arising from the external review of risk management should be implemented, regularly reviewed and reported to the Audit Committee.
- The Audit Committee should consider annually whether the risk management strategy remains fit for purpose and ensure appropriate arrangements by officers to embed risk management appropriately across the Council.

The significant weaknesses and statutory recommendations were reported in February 2025. As action to address the significant weakness and statutory recommendations commenced after this date, and given the proximity to 31 March 2025, the Council is unable to demonstrate that arrangements were in place for the period 1 April 2024 to 31 March 2025. As a result, for 2024/25 there remains a significant weakness in the proper arrangements that the Council does not have effective arrangements to manage risks effectively and maintain a sound system of internal control.

Continued overleaf...

Value for Money (cont'd)

Findings continued

We note that the Council has been progressing an action plan to address the significant weakness and statutory recommendations in 2025/26.

Following receipt of this report, management provided a response in September 2025 that informed us that since 1 April 2025 (the 2025/26 reporting year):

- ▶ The Council commissioned the Good Governance Institute (GGI) to undertake an independent stocktake of governance arrangements in June and July 2025. This work was scoped collaboratively with the Ministerial Envoys and the Transformation Assurance Board (TAB) Lead for Governance, ensuring alignment with the Council's wider improvement programme. We have been informed that the GGI report recognised that the Council has laid strong foundations for improvement but emphasised the need to mature the structures and internal capacity that support governance and risk management. Management confirmed that the findings were being incorporated into the next iteration of the Continuous Improvement Plan (CIP), particularly within the Governance, Political Culture and Decision-Making programme. We understand that these comments may have been made as a verbal update to the Transformation Assurance Board as we have not seen a report that supports these statements from the GGI.
- ▶ Following the Zurich risk review, a refreshed corporate risk strategy is being developed. A draft of the revised risk strategy was shared with members of the audit committee in August 2025.
- ▶ Since February 2025, progress is being made in the tracking and resolution of recommendations by internal audit and progress is reported quarterly to the Corporate Management Team. Specifically, management has confirmed the following:
 - ▶ *'For 2023-24, 75 recommendations were reviewed. Of these, 30 (40%) have been fully implemented, with the remainder either partially or not implemented. Given the historic nature of these recommendations and the substantial corporate changes that have taken place since their issuance, there is limited value in continuing to review this period. The Head of Internal Audit has confirmed that all significant risks have been sufficiently mitigated by management and recommended that no further follow-up will be undertaken for this period.'*
 - ▶ *'In relation to 2024-25, 108 management actions were reviewed, with 58 (54%) fully implemented. This reflects ongoing improvement, and directorates are working closely with the Internal Audit team to understand and proactively address any outstanding matters.'*

As part of our 2025/26 value for money procedures we will consider the above updates as well as any other matters that come to our attention and we will require evidence that corroborates these statements.

Whilst our assessment of the actions taken by management in 2025/26 has not yet commenced, we do draw attention to two matters relating to management's update set out above:

- ▶ In relation to the Zurich review, we note that the findings were reported to the Audit Committee in October 2024. Our understanding was that the actions to address the findings were set a target date of 30 June 2025, which has passed. Whilst management provided a draft refreshed strategy to the Audit Committee in August 2025, we do not consider the progress made to be timely, given that one year from the findings being presented to the Audit Committee, the Council continues to not have a revised strategy approved and in operation. This report was commissioned by the Head of Internal Audit; to safeguard the independence of internal audit, responsibility for risk management should lie elsewhere within the management structure of the Authority. This view of good governance is supported in guidance to authorities provided by the Local Government Association.
- ▶ In relation to the progress made with the 2023/24 recommendations and the recommendation to cease any further action in relation to the remaining 60% of the recommendations not confirmed as being fully implemented, we commented in the second iteration of this report issued to management at the end of September 2025 that we would require further information to demonstrate the decision-making process by management and the assurance and approval the Audit Committee with consideration to the impact on the Council's control environment. We raised concerns that the determination of 2023/24 as 'historic' and that no further work was required was unusual. We further indicated that we would expect the Council to continue to ensure that recommendations were sufficiently addressed. There is a risk that the changes the Council has been undertaking to improve the importance and accountability of resolving recommendations across the organisation are undermined by adopting this approach.

Following the inclusion of the approach to the 2023/24 recommendation and our observations above in a subsequent version of this report shared in September 2025, a further response from management was received confirming that a decision was made at the October CMT that 2023/24 recommendations should continue to be actively monitored alongside 2024/25.

In conducting our procedures for 2024/25 we have considered the additional matters set out on the pages that follow. This has resulted in us identifying four further significant weaknesses in the Council's governance arrangements to manage risks effectively and maintain a sound system of internal control for the period 1 April 2024 to 31 March 2025, unless specified otherwise.

Value for Money (cont'd)

Effectiveness of the Internal audit function

Whilst we did not identify a specific risk of significant weakness in relation to the effectiveness of the internal audit function in our audit planning report, as our value for money procedures have progressed we have concluded that, in our view, there is a significant weakness in arrangements that needs to be brought to the Audit Committee's attention.

At the Audit Committee meeting on 28 July 2025, the Council's Head of Internal Audit (HoIA) presented the Head of Internal Audit Opinion, which provided a 'reasonable' level of assurance for 2024/25 based on evidence collated from four sources:

- ▶ Anti-fraud and fraud investigations.
- ▶ The Council's governance and risk management framework.
- ▶ The results of Inspections and external reviews, including the work of the external auditor.
- ▶ Management's implementation of Internal Audit's recommendations.

The HoIA opinion states that internal audit reviews undertaken in the 2024/25 financial year have yielded 53% of reports achieving 'substantial' or 'reasonable' assurance. The HoIA 'reasonable' assurance opinion draws out the need for continued improvement in the Council's internal control environment.

We have considered the overall 'reasonable' assurance provided against the results of assurance reviews performed in the period and other factors across the organisation that we are aware of that we would have expected to have also been taken into account when forming the opinion. From our observations over the same period (1 April 2024 to 31 March 2025), we highlight the following that have already been reported to the Audit Committee, either by ourselves or other parties, that in our view are not currently reflected in the evidence sources:

- ▶ Project NextWage, which relates to alleged inappropriate procurement and approval of services and payments involving undeclared conflicts of interest, has potentially led to the Council suffering significant loss due to an ineffective control environment. This incident was not identified following proactive, or reactive work by the Council, it was however, brought to the organisation's attention following a police investigation. We have made other observations in relation to this investigation later in this report.
- ▶ Project Winter/Autumn where, in relation to the Homecare contract, it has been identified that there were insufficient controls resulting in a material value of unreconciled payments being made that subsequently required further investigation.
- ▶ In February 2025, the Council's fraud investigation team had a significant workload consisting of 222 potential cases of fraud across the organisation, where the Council has potentially suffered a degree of loss, most frequently as a result of housing fraud. Whilst many of these relate to more routine investigations that we see across our portfolio of local government organisations, in our view the Council has a higher degree of 'other' investigations related to Council employees or members than other local authorities within our portfolio. This level of workload can be symptomatic of a weak control environment that fails to deter or prevent incidences of fraud.
- ▶ In 2024/25 the Council received the findings of a report from Best Value Inspectors which reported concerns in five areas which included governance. This has led to the issuing of Ministerial Directions and the deployment of Ministerial Envoys.
- ▶ The HoIA commissioned a report from Zurich, the Council's liability insurer, in August 2024, raising several recommendations in relation to the Council's risk management framework.
- ▶ Our reporting issued in February 2025, identified significant weaknesses in four areas, including the issuance of statutory recommendations in three of those areas.
- ▶ At the time of originally drafting this report in August 2025, management's implementation of Internal Audit recommendations showed modest improvement between 2023/24 and 2024/25, with 46% of actions confirmed as implemented compared to 40% the previous year. While this represents progress, it still indicates that further engagement across the organisation is needed to reach a more acceptable level of implementation. However, as highlighted on page 9 of this report, we have concerns regarding the decision to recommend that 60% of the 2023/24 recommendations – which are not yet confirmed as fully implemented – be removed from further monitoring on the basis that the period is now considered 'historic'. Due to delays in finalising this report, we have been informed that as of October 2025, the reported implementation rate has increased to 63% for 2023/24 and 56% for 2024/25. These updated figures will be considered as part of our ongoing assessment.
- ▶ We have considered 'reasonable assurance' HoIA opinions for 2024/25 across a population of our local government portfolio and note that the Council has the lowest attainment of at least 'reasonable' assurance for individual reviews. With the inclusion of schools this moves to 60% which would still be the lowest within the population assessed.



Value for Money (cont'd)

Effectiveness of the Internal audit function (continued)

- ▶ In response to our standard written enquiries at the planning stage of the audit, the Head of Internal Audit (HoIA) highlighted an elevated risk of fraud at the Council, citing factors such as management turnover and weaknesses in the compliance culture. These observations point to broader concerns about the control environment. We note that these risks, as described, may not appear fully aligned with the assurance opinion provided. We recognise that assurance opinions are based on a range of factors and professional judgement, but in this instance, the Audit Committee should seek clarity on how the opinion was reached and seek clarity on how the opinion was reached and the extent that the various issues set out above were taken into account in arriving at that opinion.

In our professional view, there is additional evidence relating to 2024/25 – including the findings set out in this report – that we believe should be considered in forming the final assurance opinion issued by the Head of Internal Audit. We have also identified matters that raise questions about the robustness of internal audit's independence in fulfilling its responsibilities. These include internal audit's involvement in commissioning external risk management reports and their role in the preparation of key governance documents, such as the Annual Governance Statement. We recognise that internal audit operates within a complex organisational context, and our observations are intended to support the strengthening of assurance arrangements going forward.

We have concluded that there is a significant weakness in proper arrangements for Governance: how the body ensures that it makes informed decisions and properly manages its risks. We recommend that:

- ▶ We recommend that the Council and Audit Committee critically assess the assurance level provided in the Head of Internal Audit's opinion to ensure it appropriately reflects the issues faced throughout 2024/25 and the progress made during that period.
- ▶ While the Council received an external review of the internal audit function in 2024, which concluded that the service 'Generally Conforms' with professional standards, we recommend that a further independent external review be commissioned. This review should have a broader and more comprehensive scope to provide assurance over the function's effectiveness, independence, and alignment with the Council's current risk profile.

Value for Money (cont'd)

Annual Governance Statement

Whilst we did not identify a specific risk of significant weakness in relation to the Annual Governance Statement (AGS) at the planning stage of the audit, our value for money procedures have since identified a significant weakness in arrangements that we consider important to bring to the Audit Committee's attention.

The AGS for 2024/25 was drafted by the Head of Internal Audit (HoIA). Under the revised CIPFA guidance Delivering Good Governance in Local Government: Framework (applicable from 2025/26), it is advised that the HoIA should not draft the AGS to avoid impairments to professional independence. This guidance was presented to the Audit Committee in July 2025, where it was acknowledged that drafting the AGS by the HoIA could impair independence unless additional safeguards were implemented. Despite this, the HoIA indicated a willingness to continue drafting the AGS. In our view, this is not an appropriate approach and does not align with good governance practice.

Management has since informed us that arrangements for the preparation of the 2025/26 AGS have been amended following the July 2025 Audit Committee. However, we recommend that the Council and Audit Committee reflect on how such matters are presented in public forums and ensure that decisions and communications consistently demonstrate good governance principles.

In our view, the draft AGS for 2024/25 – alongside the HoIA's assurance opinion – presented a more positive view of the Council than is supported by the evidence. While the AGS referenced areas where the Council received challenging external reports and recommendations, it did not sufficiently articulate the underlying causes of these issues or the Council's response. In particular, the "Significant Governance Issues" section lacked the necessary narrative to explain the root causes of concerns raised by Best Value Inspectors, the Regulator of Social Housing, and our own audit findings. The section primarily described timelines and recommendations without addressing the systemic issues that led to them. This lack of balance in the AGS suggests an ongoing reluctance within the organisation to fully acknowledge the scale of the challenges it faces. Without clear recognition of these issues, it is difficult to see how the Council can implement meaningful and lasting improvements.

While the HoIA has stated confidence in their independence and ability to draft the AGS appropriately, we would expect the document to more clearly reflect the significant issues identified – and to be consistent with the concerns the HoIA has raised with us and those set out in this report. We note that the Audit Committee also questioned whether the draft AGS provided a balanced view of the Council's position for 2024/25 and agreed that a revised version would be presented in October 2025.

Under our audit responsibilities, we are required to report by exception where the AGS is misleading or inconsistent with other audit evidence. Based on the version presented in July 2025, we would be required to report by exception. We have provided detailed comments on the draft AGS to support its revision.

We have concluded that there is a significant weakness in proper arrangements for Governance: how the body ensures that it makes informed decisions and properly manages its risks. We recommend that:

- ▶ The Council should ensure that the tone, content, and substance of the Annual Governance Statement (AGS) accurately reflect the scale and nature of the issues faced during the year. This includes reviewing how the AGS is prepared, challenged, and finalised prior to its publication alongside the draft financial statements, to ensure it provides a balanced and transparent account of governance performance.
- ▶ The Council should establish alternative arrangements for the preparation of the AGS from 2025/26 onwards. This will help demonstrate adherence to good governance principles and safeguard professional independence, in line with CIPFA guidance, which advises that the Head of Internal Audit should not be responsible for drafting the AGS.

Value for Money (cont'd)

Capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council

Whilst we did not identify a specific risk of significant weakness in relation to the capacity of the 'Golden Triangle' to respond to the scale and complexity of the challenges facing the Council in our audit planning report, as our value for money procedures have progressed, we have concluded that there is an identified significant weakness in arrangements that needs to be brought to the Audit Committee's attention.

A strong control environment begins with the tone set at the top of the organisation. Within a local authority, the three statutory officers—the Chief Executive, the Section 151 Officer, and the Monitoring Officer—collectively referred to as the 'Golden Triangle'—play a pivotal role in upholding good governance and sound financial management. Together, they champion strong governance practices, effective scrutiny, and financial sustainability. Each officer holds distinct responsibilities defined in legislation, and no single individual can be expected to address the full spectrum of risks facing a local authority. By working collaboratively and drawing on their respective areas of expertise, the Golden Triangle can exert significant influence over the organisation's culture and governance. This collaborative dynamic not only fosters mutual support but also enables constructive challenge, ensuring that decisions are robust and well-informed. A strong Golden Triangle also provides critical challenge to political leadership, reinforcing accountability and transparency at the highest levels.

Since the most recent Mayoral election in 2022, there has been significant turnover within the 'Golden Triangle', with interim appointments made to each of the three statutory officer roles. Most recently, a permanent Monitoring Officer has been appointed, coinciding with the unexpected departure of the Section 151 Officer. This development resets the dynamic within the 'Golden Triangle' and introduces further uncertainty, particularly as the Council seeks a permanent replacement for the Section 151 Officer. The role is currently being fulfilled on a temporary internal basis, which, in our view, leaves the Council exposed due to the absence of a more experienced individual in a highly complex role within an equally complex organisation.

We consider the Council's response to the Section 151 Officer's departure to have been slow. The officer's notice period was not enforced, and although the Council has stated that the role was advertised in September 2025—following advice to avoid the summer holiday period—it remains unclear why recruitment did not commence following the resignation in April 2025, resulting in a six-month delay.

We have concluded that there is a significant weakness in proper arrangements for Governance and recommend that the Council:

- Secure stability and expertise within the current statutory leadership (the Golden Triangle) to ensure it is sufficient to address the significant and complex challenges currently facing the Council. This should include identifying any gaps and taking appropriate steps to strengthen arrangements where needed, to ensure they are fit for purpose and do not leave the Council exposed.
- Take urgent steps to resolve the interim arrangements for the Section 151 Officer, ensuring that a suitably qualified and experienced individual is appointed on a permanent basis to provide the necessary leadership and assurance over the Council's financial management and governance.

Role	Mar '22	Sep '22	Mar '23	Sep '23	Mar '24	Sep '24	Mar '25	Apr '25	Jun '25
Chief Exec		W Tuckley - left 02/02/23				S Halsey			
s151		Left 29/01/23	09/01/23 - 31/08/23			01/09/23 - 11/06/25			Interim
Monitoring Officer			Left 29/02/24		29/02/24 - 31/03/25 (Interim)		01/04/25 - present		

Value for Money (cont'd)

Audit Committee effectiveness

Whilst we did not identify a specific risk of significant weakness in relation to the effectiveness of the Audit Committee in our audit planning report, as our value for money procedures have progressed we have concluded that there is an identified significant weakness in arrangements that needs to be brought to the Audit Committee's attention.

Since our appointment as the Council's external auditor, and completion of our onboarding and acceptance procedures, we have attended each meeting of the Audit Committee and have identified several weaknesses in its effectiveness. Many of these had been discussed with the Chair in post until May 2025, who was planning to take forward a number of actions.

The effectiveness of the Audit Committee was also identified by the Best Value Inspectors and Ministerial Envoys, and following recommendations arising from that process the Council is currently in the process of appointing an independent chair on a permanent basis. The Best Value Inspection highlighted Council-wide political toxicity and evidence that the two main political groups engage in backward looking debate which detracts from the Council's ability to move forward positively.

Our observations confirm that the Audit Committee has, at times, faced challenges in operating effectively. We have noted that discussions can become politically focused and occasionally diverted by historical issues, which can limit the Committee's ability to maintain a forward-looking, risk-based agenda. Contributions during meetings are often unevenly distributed, with a small number of members contributing the majority of input, while others participate minimally. In some instances, comments made during discussions have suggested varying levels of understanding regarding the Committee's role, remit, and the skills and expertise required to support its effective functioning. These dynamics may constrain the Committee's capacity to fully discharge its responsibilities, including those arising from the Statutory Recommendations.

We also note that at both Audit Committee meetings where our Statutory Recommendations were presented and subsequently considered by the Council within the required 30-day period, neither the Chief Executive nor the Mayor were in attendance. While we acknowledge that attendance at such meetings may vary, the absence of senior leadership at these key sessions may have limited the opportunity to demonstrate visible support for the Committee's role and the importance of the recommendations.

Our Statutory Recommendations emphasised the need for an action plan to be developed and owned by the Corporate Leadership Team (CLT). While we welcomed the presence of CLT members at the meeting where the Council's initial response was presented, we have not observed consistent senior officer attendance at subsequent Audit Committee meetings. This raises concerns about the extent to which the Committee is being supported and prioritised as a key governance forum within the organisation.

Furthermore, in our planning discussions with the previous Chair of the Committee, it was noted that the Audit Committee has not reported to Full Council during her tenure as either a member or Chair since 2019. This may represent a missed opportunity to reinforce the Committee's role in providing independent assurance and to enhance transparency and accountability across the Council.

Through our attendance at Audit Committee meetings, we have identified several further matters that may be limiting the Committee's effectiveness:

- **Committee composition:** The continued membership of a Cabinet member on the Audit Committee raises concerns regarding the Committee's independence. While this issue was raised by another Committee member, no action has yet been taken. Management has indicated that the appointment of an independent Chair mitigates this risk; however, this appointment was not made until May 2025.
- **Role clarity:** On one occasion, a member standing in for an absent colleague sought to provide assurance to the Committee on a matter under discussion. This highlights a potential misunderstanding of the Committee's role, which is to seek assurance rather than provide it.
- **Committee papers:** We have observed that meeting papers are often lengthy and, in some cases, of variable quality. Additionally, papers are frequently submitted late, outside of extraordinary circumstances, and without prior agreement—potentially limiting members' ability to prepare effectively.
- **Action tracking:** Until our reporting in February 2025, which identified significant weaknesses and resulted in statutory recommendations, there was no consistent process for tracking matters arising or monitoring the implementation of agreed actions.
- **Meeting management:** We have noted delays in resolving matters of business during meetings, particularly where the Chair, Committee Clerk, or a representative of the Monitoring Officer was not in a position to provide timely guidance.
- **Focus of challenge:** During the presentation of our reports, we have observed that challenge has at times been directed toward areas of our professional judgement, rather than focusing on the actions management is taking to address and mitigate the risks identified. This may limit the Committee's ability to drive accountability and improvement.

Value for Money (cont'd)

Audit Committee effectiveness (continued)

We have not witnessed significant pace or urgency in seeking the resolution of recommendations. We would expect an effective Audit Committee to be applying significant challenge to officers, scrutinising:

- ▶ The level of importance being placed on identified issues within the Council by the 'Golden Triangle' and CLT.
- ▶ The quality and sufficiency of actions plans being implemented to address the issues and recommendations identified.
- ▶ How the Council is ensuring that recommendations are being implemented and monitored to ensure changes are being embedded into the culture of the Council.
- ▶ Whether papers presented to the committee, alongside officers' commentary, provide sufficient assurance that issues have been understood and appropriate courses of action have been, or are planned to be taken, to resolve them on a timely basis.
- ▶ How officers are planning to provide appropriate assurance to the committee that matters are resolved.

At times we have observed the committee promoting or defending work that is perceived sufficient to improve Council arrangements; this not only contradicts the role of the committee, but it also reduces the likelihood of management agreeing sustainable, long-term resolutions to the issues identified. Without resolving issues, the Council is likely to continue in a cycle of limited assurance reports and further recommendations.

We have concluded that there is a significant weakness in the Council's arrangements for governance—specifically, how the organisation ensures it makes informed decisions and effectively manages risk.

To address this, we recommend the following actions:

- ▶ Audit Committee Training - The Council should engage an independent third-party organisation to deliver training for all Audit Committee members. This training should ensure members fully understand the Committee's terms of reference and are equipped to apply appropriate levels of scrutiny and governance in line with their responsibilities.
- ▶ Review of Committee Membership - The membership of the Audit Committee should be reviewed to ensure it remains independent and that all members possess the necessary skills and experience to contribute effectively to the Committee's work and fulfil its terms of reference.
- ▶ Annual Reporting to Full Council - The Audit Committee should report to Full Council at least annually. This will help reinforce the Committee's role in providing independent assurance and enhance transparency and accountability across the organisation.
- ▶ Strengthened Oversight of Recommendations - The Audit Committee should actively challenge officers on the pace and timelines for addressing recommendations—particularly those relating to significant weaknesses, Statutory Recommendations, and other internal and external audit findings.

Management has stated that the Council is actively addressing areas for development through its Member Development Programme and governance review. As part of our 2025/26 value for money procedures we will consider the progress made by the Audit Committee.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Contract Management and Procurement</p> <p>The Council continues to investigate and review events in relation to Project Winter/Autumn and Operation NextWage, each arising from potential weaknesses in the Council's arrangements in these areas.</p> <p>In 2023/24, we reported that the Council had inadequate arrangements for governance and improving economy, efficiency and effectiveness.</p> <p>Additionally, as our risk assessment has progressed in relation to 2024/25, we have identified an additional risk of significant weakness concerning the council's procurement waiver process.</p>	<p>Governance and Improving economy, efficiency and effectiveness</p>	<p>We have engaged colleagues to continue their work in relation to the two specific instances of Non-Compliance with Laws and Regulations (NOCLAR) that the Council are investigating. These matters are as follows:</p> <ul style="list-style-type: none">▶ Project Winter/Autumn where, in relation to the Homecare contract, over a number of years, insufficient controls resulted in a material value of unreconciled payments being made that subsequently required further investigation.▶ Operation NextWage which relates to alleged inappropriate procurement and approval of services and payments involving undeclared conflicts of interest. <p>We have held meetings with management and inspected any available reports relating to procurement and contract management.</p> <p>We have reviewed the output of the procurement waiver Internal Audit report.</p>

Findings

In 2023/24 we reported significant weaknesses in proper arrangements for:

- ▶ governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- ▶ improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

In relation to our findings, we made the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

The Council should:

- ▶ Undertake a detailed review of procurement and contract management arrangements and implement an action plan to improve the processes and controls.
- ▶ Improve controls associated with payments, including segregation of duties and identification of conflicts of interest.
- ▶ Embed arrangements for training and compliance of the Council's policies and procedures related to procurement and contract management.

This area of weakness was reported in February 2025. As action to address the significant weakness and statutory recommendations commenced after this date, and given the proximity to 31 March 2025, the Council is unable to demonstrate that arrangements were in place for the period 1 April 2024 to 31 March 2025. As a result, for 2024/25 there remains a significant weakness in the proper arrangements for:

- ▶ governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- ▶ improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We note that the Council has been progressing an action plan to address the significant weakness and statutory recommendations in 2025/26 to date.

Continued overleaf...

Value for Money (cont'd)

Findings continued

Management has advised that the Council has undertaken a comprehensive and well-governed Procurement Improvement Programme. This programme is embedded within the Continuous Improvement Plan and overseen by the Transformation Assurance Board. According to management, key improvements have been delivered across the following areas:

- ▶ Governance and Process Reform
- ▶ Transparency and Oversight
- ▶ Controls and Compliance
- ▶ Training and Capability Building
- ▶ Strategic Oversight and Assurance
- ▶ RCDA Governance Strengthening

As part of our 2025/26 value for money procedures, we will consider these updates alongside any other relevant matters that come to our attention. We will require appropriate evidence to substantiate the statements made by management in relation to the design, implementation, and effectiveness of the improvements described.

Procurement waiver process (RCDA process):

In addition to the matters identified in our February 2025 Audit Results Report, we have identified an additional matter and recommendations relating to procurement waivers that contribute to this significant weakness in 2024/25. In November 2024 internal audit reported several findings related to the Council's arrangements for management and control of their procurement waiver process. The weaknesses identified by internal audit included:

- ▶ the lack of a central database or register of approved procurement waivers;
- ▶ an overall lack of monitoring and oversight over procurement waivers;
- ▶ a lack of reporting of waivers to cabinet; and
- ▶ a lack of evidenced contracts between the Council and RCDA awarded providers.

We are in the process of finalising our procedures in relation to this matter, which are consistent with those of internal audit, but consider that there is sufficient evidence of significant weaknesses in the Council's overall contract management and procurement for 2024/25 and consider this to further contribute to the significant weakness and recommendations issued to the Council as part of our 2023/24 reporting.

We recommend that:

- ▶ The Council should improve the controls and processes in relation to the management and control of the procurement waiver process.

Value for Money (cont'd)

Effectiveness of the Council's process for conducting internal investigations:

Whilst we did not identify a specific risk of significant weakness in relation to the effectiveness of the Council's process for conducting internal investigations in our audit planning report, as our value for money procedures have progressed we have concluded that there is an identified significant weakness in arrangements that needs to be brought to the Audit Committee's attention.

As external auditor we have specific responsibilities to consider the implications of any suspected or actual non-compliance with laws and regulations. During 2023/24, management informed us of several matters. In performing our procedures, we consider the implications of non-compliance matters on the financial statements and the Council's arrangements for securing value for money. As a result of the procedures we performed in response to one instance of potential non-compliance we identified weaknesses in the Council's governance arrangements. We did not consider this to be a significant weakness in isolation but did make recommendations to the Council. We have not been able to conclude that these recommendations have been sufficiently resolved.

Specifically, we noted that '*No documentation has been provided that summarises the scope of the enquiries / investigation, evidence sources, key findings, and rationale for undertaking further procedures or not, and setting out how the Council has ensured that all reasonable steps were taken so that it reached fully informed decisions.*'

For the two non-compliance matters relating to Project Winter/Autumn and Operation NextWage, we were unable to finalise our conclusions or reporting as part of the 2023/24 audit. This was due to the fact that, as of the 28 February 2025 backstop date, the necessary procedures had not yet been completed by officers. As a result, these matters were referenced in our audit opinion as unresolved issues, with the potential impact not yet capable of being evaluated.

- ▶ In relation to Project Winter/Autumn, the Council engaged specialist forensic support to undertake investigative procedures concerning an overpayment to a supplier. The scope of this work also included assessing whether there were any indications of deliberate wrongdoing by Council employees. While the work was scoped and initiated, the external specialists reported in April 2025 that they were unable to progress further due to the non-receipt of requested documentation. Officers have subsequently advised that they believe no wrongdoing by staff was identified. However, no supporting documentation or clear rationale has been provided to substantiate how this conclusion was reached. We also note that, at the April 2025 Audit Committee meeting, the external specialist confirmed they had not been re-engaged to complete further work. Officers indicated that internal audit would undertake this review. However, during the same meeting, the Head of Internal Audit stated that they did not consider it appropriate for their team to carry out this work. This exchange suggests that there had been insufficient prior discussion and agreement on the appropriate course of action to bring the matter to a conclusion.
- ▶ In relation to Operation NextWage, management commenced work to investigate the circumstances surrounding how a member of staff was able to allegedly commit fraud against the Council following notification from the police of crimes they were investigating. The Council's internal fraud investigation team performed procedures to formulate their own view of the substance of the allegations, which resulted in the dismissal of the individual involved. The Council continued to investigate whether any other individuals were implicated. In discussion with the previous S151 officer we challenged the adequacy and extent of the procedures undertaken and it was agreed that further procedures needed to be undertaken by the Council to understand the extent and completeness of the opportunity that may exist within the organisation to perpetrate fraud and, separately to investigate if other individuals may have also been able to commit similar criminal acts.

At the time of preparing this report, we remain unable to complete our audit procedures in relation to the non-compliance matters concerning Project Winter/Autumn and Operation NextWage. We are significantly concerned about the pace and urgency with which these matters are being investigated and progressed toward resolution. In October 2025, we formally notified the Council that, the lack of progress by management was preventing us from concluding on these matters prior to issuing our audit opinion. As a result—and consistent with our 2023/24 audit opinion—our 2024/25 audit opinion will again include reference to these unresolved matters.

We have noted weaknesses in the Council's arrangements that are consistent with our findings from the prior year concerning how the Council progresses their internal investigations. The changes in the 'Golden Triangle' referred to earlier in this report are likely to have an impact on this but further demonstrate the significant challenges the Council faces and the need to ensure there is suitable capacity and capability within the Council to respond to such significant issues.

Management has reported to the Audit Committee that there is no evidence of any further incidences of fraud. Despite our requests, we have not yet been provided with:

- ▶ The scope of the work performed to assess the risk or to focus the investigations.
- ▶ Supporting evidence, including an email review performed on the alleged suspect for Operation NextWage, to demonstrate how the Council has been able to conclude that there has been no additional wrong-doing within the Council in relation to both investigations.
- ▶ A report summarising the results and conclusions of the investigations to allow the Audit Committee to consider whether the level of work and resulting assurance is appropriate.

Value for Money (cont'd)

Effectiveness of the Council's process for conducting internal investigations (continued):

Our observations in this area are that:

- The Council apply a high bar of proof for investigations, commensurate with that of a police investigation instead of applying a balance of probabilities approach, looking objectively at the evidence having undertaken a thorough investigation and being able to conclude that all responses that could have been taken have been.
- Investigations focus on substantiating the allegations, rather than considering the wider factors and implications of the case, including those impacting the internal control environment.
- Accountability and responsibility for investigations is not clear. We have seen inconsistency in whether or not the s151 officer oversees the process and whether the investigations are carried out by specialists, the Council's fraud investigation team or Internal Audit.
- The policies and approach to investigations are not clear, and therefore there is inconsistency in approach and thus inconsistency in the conclusions. It is also not clear which committee is responsible for receiving reports in relation to investigations. We have seen reports taken to the Audit Committee in relation to Project Autumn/Winter, however, the other investigations have not been individually reported to any committee.

It is the view of the Head of Internal Audit, and also the result of our own risk assessment, that there is a heightened risk of fraud at the Council, with weaknesses in the internal control environment presenting a higher level of opportunity that exists in relation to fraud. These factors increase the importance for the Council of responding appropriately when there are incidents that require investigation. The inconsistency of the Council's approach, potential failure to conclude accordingly and to produce meaningful examples of consequences for inappropriate behaviour can be a factor that increases the element of "rationalisation" - where individuals feel that they could perpetrate fraud as they are unlikely to either be caught, or the sanctions if caught would not be prohibitively punitive.

We consider the above issues to represent a significant weakness in proper arrangements for governance, in particular, how the body demonstrates that it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. Given that we reported weaknesses in relation to our findings in the prior year, and the Council has not demonstrated any improvement in this area, we plan to make a Statutory Recommendation under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014. Our draft recommendation is as follows:

To strengthen the Council's arrangements for managing internal investigations and ensure they are fit for purpose, we recommend that the Council:

- Review the Internal Investigations Team - Undertake a review of the internal investigations team to assess whether it is appropriately structured, resourced, and equipped to carry out its responsibilities effectively. To ensure independence, this review should not be conducted by internal audit.
- Strengthen Investigation Policies and Procedures - Review and update the Council's policies and processes for conducting internal investigations. These should be aligned with best practice and designed to ensure that all investigations are robust, fair, and consistently applied.
- Ensure Transparent Decision-Making - Ensure that the rationale for all key judgements and decisions made during investigations is clearly documented, and that there is sufficient evidence to demonstrate that all relevant aspects of conduct matters have been fully considered and addressed.
- Clarify Oversight and Reporting Arrangements - Establish clear roles and responsibilities for the oversight of internal investigations, including when and how investigations are reported to members, and through which governance channels.

We understand that management has started to address the above matters following the appointment of a new Investigations manager in September 2025. Management has stated that in the majority of cases that the team deals with, they are seeking criminal sanctions through the courts. The Council should be working on the basis of a 'balance of probabilities' having fully investigated the matter as opposed to adopting a 'burden of proof' approach. The Council should be evaluating all available sources of information and considering whether additional actions or procedures are necessary to reach an informed decision before concluding the closure of investigations regardless of whether a criminal conviction can be achieved.

As part of our 2025/26 value for money procedures we will consider the progress made by the Council.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Best Value Inspection</p> <p>The Secretary of State for Housing, Communities and Local Government ("the Secretary of State") has exercised powers under section 15(5) of the Local Government Act 1999 ("the 1999 Act") in relation to the Council to secure its compliance with the Best Value Duty. The Best Value Inspection report identified concerns in five of the seven best value themes, being Leadership, Governance, Culture, Partnerships and Community Engagement and Continuous Improvement. Insufficient evidence was provided to the inspectors to demonstrate the openness, transparency and valued assigned to constructive criticism to drive required improvements. The Council was provided with clear directions, by the Secretary of State for Housing, Communities and Local Government in January 2025 that it must follow within expected timelines.</p>	<p>Governance and Improving economy, efficiency and effectiveness</p>	<p>We have liaised with Management and the Ministerial Envoys.</p> <p>We have obtained the latest statement and Ministerial Envoys report published by the Minister of State for Local Government and English Devolution on the 9 July 2025.</p>

Findings

In February 2025 we reported that there were significant weaknesses in proper arrangements for:

- ▶ governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- ▶ improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

This was due to the Secretary of State for Housing, Communities and Local Government ("the Secretary of State") exercising their powers under section 15(5) of the Local Government Act 1999 ("the 1999 Act") in relation to the Council to secure its compliance with the Best Value Duty. The Best Value Inspection report issued in November 2024 identified concerns in five of the seven best value themes, being Leadership, Governance, Culture, Partnerships and Community Engagement and Continuous Improvement. Insufficient evidence was provided to the inspectors to demonstrate the openness, transparency and valued assigned to constructive criticism to drive required improvements.

Ministerial Directions were issued in January 2025, with Ministerial Envoys deployed to work with the Council on improvement plans to embed sustainable change.

The significant weaknesses was reported in February 2025. As action to address the significant weakness predominantly commenced after this date, and given the proximity to 31 March 2025, the Council is unable to demonstrate that arrangements were in place for the period 1 April 2024 to 31 March 2025. As a result, for 2024/25 there remains a significant weakness in the proper arrangements for:

- ▶ governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- ▶ improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Management has informed us of the progress made since January 2025 in working with the Ministerial Envoys and the Transformation Assurance Board. We note the Ministerial Envoys' report published in July 2025 on the progress since their appointment in January 2025. The statement from Minister of State for Local Government and English Devolution set out the following concerns:

'While I welcome this early progress at the Council, I share the Ministerial Envoy's concerns that wholesale political and staff buy-in and involvement in the Council's improvement journey is not yet in place. This report clearly sets out the Ministerial Envoys' expectations for further progress and I expect to see the Council's improvement work being embedded into 'business as usual' council practices in the coming months, along with clear evidence that the political and officer leadership are gripping and proactively driving change.'

We will continue to hold regular liaison meetings with the Ministerial Envoys and review their next report scheduled to be released later this year. As part of our 2025/26 value for money procedures we will consider the progress of the Council in this area as well as any other matters that come to our attention and will need to be provided with evidence that corroborate the statements of management.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Social Housing</p> <p>During 2024/25 the Council made a self referral to the Housing Ombudsman. An investigation by the Regulator of Social Housing was conducted in April 2025 resulting in the issuing of a first judgement of the London Borough of Tower Hamlets on the 30 April 2025.</p>	Governance	<p>Reviewed the Regulatory Judgement issued by the Regulator of Social Housing.</p> <p>Liaised with management to determine what actions are being taken to address the C3 grading received.</p>

Findings

In November 2023, the Council brought control of its housing management services back in-house from Tower Hamlets Homes. This meant that, following the enactment of The Social Housing Regulation Act in July 2023, the Council became subject to the regulation and inspection regime of the new regulator - the Regulator for Social Housing (RSH), which commenced 1 April 2024. The Council owns around 11,000 social housing homes in East London. Most homes are under direct management with a small number managed through tenant management arrangements, although LB Tower Hamlets remains ultimately responsible for its social housing homes that are managed in this way.

The Council performed a self-assessment, which led to a referral to the regulator in October 2024, six months after the compliance date. Following the Council's self-referral, which identified concerns regarding their delivery of the outcomes of the consumer standards, the Regulator for Social Housing conducted an investigation in April 2025. The subsequent regulatory judgment confirmed a consumer grading of C3. The Regulator found that there are serious failings in how the Council is delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to outcomes against the Safety and Quality Standard. The report noted that weaknesses were apparent, and improvement is needed in relation to the Transparency, Influence and Accountability Standard and the Neighbourhood and Community Standard.

The key findings were that:

- ▶ The Council did not have an accurate, up to date and evidenced understanding of the condition of its homes.
- ▶ There were serious failings in meeting the Safety and Quality Standard.
- ▶ Serious failings in how the council managed remedial actions in relation to electrical safety, fire safety and water hygiene exposing tenants to risk.
- ▶ There were weaknesses in the delivery of services in relation to monitoring reporting in respect of the Neighbourhood and Community Standard.
- ▶ There were weaknesses in the consistency of services that tenants receive.
- ▶ There were weaknesses in providing information to tenants in line with the Transparency and, Influence and Accountability Standard.
- ▶ There were weaknesses in complaints handing performance.

We have noted that the regulator does not plan to enforce its powers at this stage as the Council seeks to resolve these issues and we will monitor for updates in this regard.

The time taken to submit a self-referral, and the outcome of the regulatory inspection, indicate a significant weakness in Governance arrangements over Social Housing for 2024/25. The Council needs to deliver against an agreed action plan to address the issues raised by the review to comply with relevant legal and regulatory requirements and ensure tenant safety. The Council should also understand why there was a significant delay in the identification and reporting of non-compliance with the required standards and why matters of non-compliance with laws and regulations were not identified earlier in relation to the activity of one of its wholly owned subsidiaries. Action should be taken to ensure there are no other instances of non-compliance within the Council and revised processes should be embedded to prevent repeat instances of insufficient oversight of adherence to laws and regulations. We also recommend that the Council considers the adequacy of the governance arrangements in place over its subsidiaries.



Value for Money (cont'd)

Findings (continued)

The Council has provided a response that the delay in self referral is related to the insourcing of the housing services in November 2023 and have provided the following timeline:

- ▶ November 2023: Insourcing of housing services.
- ▶ February 2024: Commissioning of external reviews.
- ▶ April 2024: Completion of reviews.
- ▶ May-August 2024: Internal review of findings, development of action plan, and engagement with administration.
- ▶ June 2024: Delivery of Improvement Plan
- ▶ October 2024: Self-referral submitted.

We note the following factors:

1. We would have expected as part of the due diligence on the insourcing of housing services that compliance with laws and regulations would have been considered. Further, as Tower Hamlets Homes is a wholly owned subsidiary of the Council, there should have been sufficient governance processes to ensure that the subsidiary and the Council, as the parent entity, were compliant with laws and regulations, regardless of where the services were being provided.
2. Whilst the Council may have commenced an improvement plan in June 2024, the Regulator for Social Housing conducted an investigation in April 2025 and still concluded that there were serious failings in how the Council is delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to outcomes against the Safety and Quality Standard.

As part of our 2025/26 value for money procedures we will consider how the Council is responding to the findings of the Regulator for Social Housing.

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