



Annual Audit Letter 2017/18

London Borough of Tower Hamlets

—

August 2018

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The contacts at KPMG in connection with this report are:

Andrew Sayers
Partner
KPMG LLP (UK)

Tel: 07802 975171
andrew.sayers@kpmg.co.uk

Antony Smith
Manager
KPMG LLP (UK)

Tel: 07824 415095
antony.smith@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. If you are dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Tower Hamlets in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

The VFM conclusion was issued with an 'except for' qualification.

Value for Money conclusion

We issued a qualified conclusion on the Authority's arrangements to secure value for money (the VFM conclusion) for 2017/18 on 31 July 2018. To arrive at our conclusion we looked at the Authority's arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. However, we remain satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore issued a qualified VFM conclusion on an 'except for' basis (similar to our VFM conclusion for 2016/17).

Value for Money risk areas

We identified one significant risk and two areas of audit focus in relation to our VFM work. The significant risk was in relation to the implementation of the Best Value (BV) Improvement Plans (Authority and Children's Services) and the areas of focus were the Medium Term Financial Strategy (MTFS); and the 'Clear Up' project.

In terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14, 2014/15, 2015/16 (each year was qualified on an adverse basis) and 2016/17 (qualified on an except for basis). These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas.

The Secretary of State for Housing, Communities and Local Government (SoS for HCLG) decided in March 2017 to end the 2014 Directions and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the remaining work that the Authority had set out as still needing to be completed, the SoS for HCLG made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV Improvement Plan to the SoS for HCLG; and set up an independent review of achievement of the BV Improvement Plan with a report to the SoS HCLG by 1 August 2018. *(We understand that the report has been delivered to the SoS HCLG, in accordance with the required timetable.)*

Consequently, in terms of 2017/18 we have considered the quarterly reporting by the Authority to the SoS for HCLG and the extent to which the actions in the Authority's BV Improvement Plan were reported as completed.

In terms of the latest progress report the Authority considers that almost 80% of the 109 identified actions are completed or on track. During the first year of the BV Improvement Plan the Authority reports that it has delivered the majority of the short-term and medium-term milestones and where there are any delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year. Regular updates on progress are provided to the Corporate Leadership Team and Members and all activities have been incorporated within individual Directorate Plans to ensure the focus remains on delivery.

<p>An unqualified audit opinion was issued for 2017/18 for the Authority.</p>	<p>Value for Money risk areas (continued)</p>	<p>The above generally shows a positive picture of progress being made by the Authority to address the actions/milestones in the BV Improvement Plan. However, it also shows that the Authority still has a little way to go in terms of completing the BV Improvement Plan in full and probably some way to go before the impact of all of the work that has been done could be said to have become embedded within the Authority.</p> <p>In terms of the 2017 Ofsted inspection which rated the Authority’s services for children to be inadequate overall with some features requiring improvement, the Authority established a Children’s Services Improvement Board led by an Independent Chair. The consequent Improvement Plan is challenging and aims to achieve a standard of at least ‘good’ by April 2019.</p> <p>Progress is reviewed regularly by Ofsted. The findings from the Ofsted monitoring visits indicate a positive trajectory of change including the important finding from the December 2017 visit that “no children were identified as being at risk of immediate harm”. The letter also stated that “A relentless focus by senior leaders on ensuring compliance with statutory requirements, such as visiting children at home, is starting to change the culture in children’s services.” The most recent Ofsted visit (May 2018) focused on high risk adolescents. The feedback was again positive, stating “The evidence gathered during this visit has identified substantial but very recent improvements in the quality of multi-agency and social work practice for vulnerable adolescents and their families. This is extremely encouraging given the particularly complex challenges involved in this work. Political leaders and managers are demonstrating considerable determination and commitment to embedding and sustaining these changes, while simultaneously addressing the areas of poor practice.”</p> <p>In terms of the other areas of focus (MTFS and ‘Clear Up’ project) there were no significant matters arising.</p>
	<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority’s financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the Pension Fund.</p>
	<p>Financial statements audit</p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £17.5 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £17.5 million which is around 1.2 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £850,000. The same value was also used for the Pension Fund i.e. £850,000.</p> <p>We did not identify any audit adjustments during our audit.</p>

**Financial
statements
audit
(continued)**

Our audit work was designed to specifically address the following significant risks:

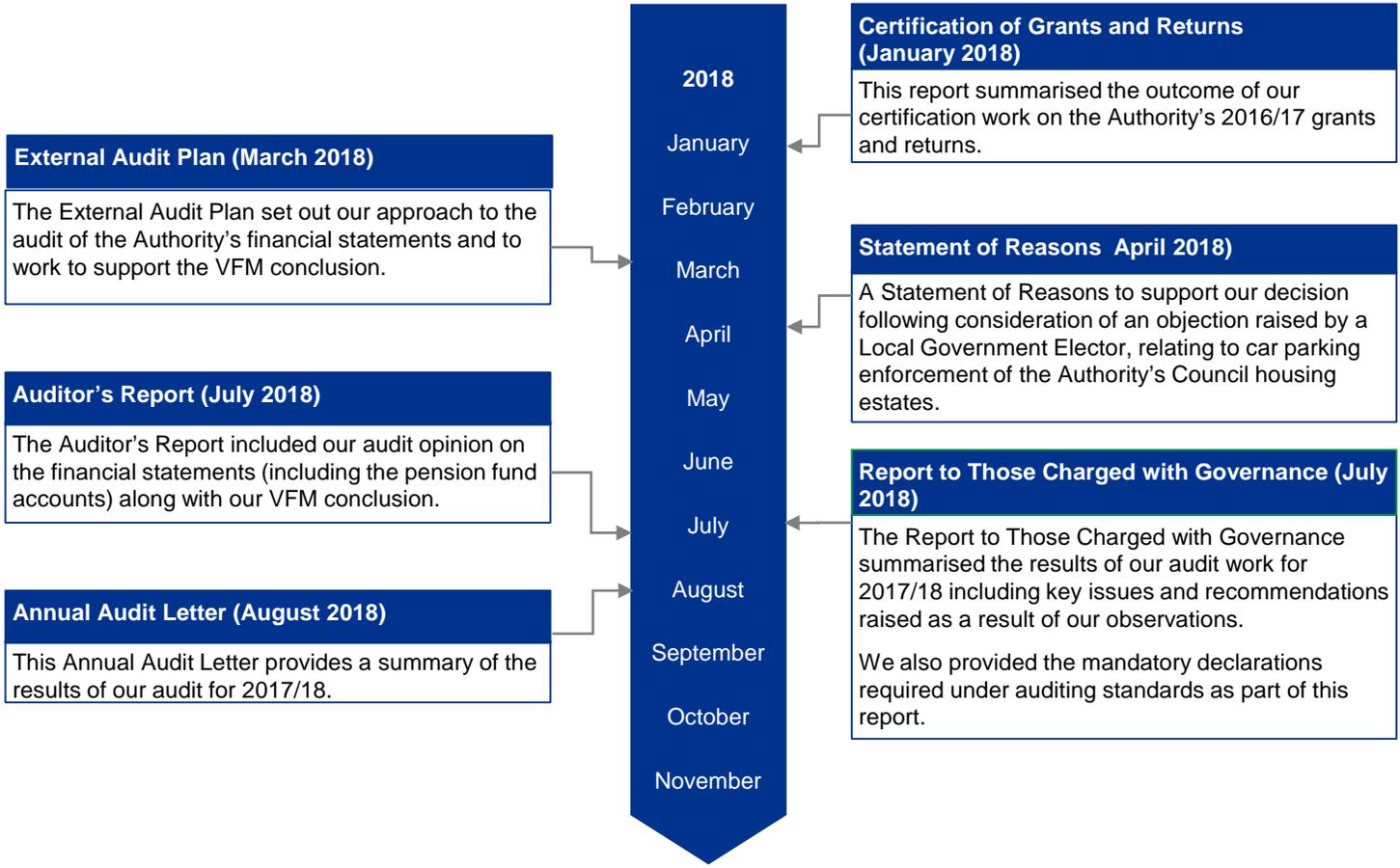
- Management Override of Controls – our audit methodology incorporates the risk of management override as a default significant risk, including controls testing and substantive procedures over journal entries and accounting estimates. We did not identify any specific additional risks of management override relating to this audit.
- Valuation of land and buildings – we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of our work we had no issues arising relating to the valuation of land and buildings as disclosed in the financial statements.
- Pensions Liabilities – we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary (Hymans Robertson), including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial Valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that pension assets and liabilities movements and year end balances were reflected correctly in the financial statements.
- Grant payments/property leases – in 2015/16 and 2016/17, a small number of grant payments were identified that were not made in accordance with all of the conditions set by Commissioners. Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property, and so these payments (£151,000 in 2015/16; and £79,000 in 2016/17) were considered to be unlawful and were disclosed in the respective years' financial statements. This year we considered the detailed approach and systems put in place by the Authority and tested a sample of payments. We also assessed whether any conditions/ delegation arrangements had been implemented effectively. We had no matters arising from this work to raise with the Authority
- Declarations of interest – in 2016/17 we noted that the Authority had taken significant steps to address historic declarations of interest issues and ensure systems and processes were more robust. However we also noted that an August 2017 Internal Audit review had identified further issues including: existing policy, guidance and forms must be reviewed; inconsistent management actions in response to declarations made by staff; declarations found to be incomplete; and a lack of declarations for family relationships within the Authority. This year we have considered the Authority's actions taken and follow up work undertaken by Internal Audit and completed supporting testing as considered appropriate. We had no issues arising regarding declarations of interest in relation to the financial statements.

<p>An unqualified audit opinion was issued for 2017/18 for the Pension Fund.</p>	<p>Other information accompanying the financial statements</p>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
	<p>Pension Fund audit</p>	<p>There were no significant issues arising from our audit of the Pension Fund and we issued an unqualified opinion on the Pension Fund financial statements as part of our audit report.</p> <p>Our audit work was designed to specifically address the following significant risk relating to the Pension Fund:</p> <ul style="list-style-type: none"> — Investment valuation – we verified a sample of investment asset prices to third party information and obtained independent confirmation on asset existence. We assessed the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, and considered the relevant controls reports for the Custodian. We also undertook substantive testing over sales and purchases made in the year, reviewed year on year movements, and compared performance to known benchmarks. We had no issues arising regarding the valuation of Pension Fund investments in the financial statements.
	<p>Whole of Government Accounts</p>	<p>We have not yet completed our review of the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. This work is in progress and is expected to be completed by the end of August deadline.</p>
	<p>Recommendations</p>	<p>We raised no new recommendations as a result of our 2017/18 work.</p>
	<p>Certificate</p>	<p>The audit cannot be formally concluded and an audit certificate issued as we are considering an elector query relating to 2016/17. Until we have completed our consideration of this we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.</p>
	<p>Audit fee</p>	<p>Our fee for 2017-18 was £209,918, excluding VAT (2016/17: £231,996, although the 2016/17 fees does not include the additional fee that will be needed to complete our consideration of the elector query referred to above). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). Further detail is contained in Appendix 2.</p>
	<p>Exercising of audit powers</p>	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.</p>

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.towerhamlets.gov.uk.



Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £209,918, which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Our fees for dealing with the 2016/17 objection by a Local Government Elector are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We expect to charge £7,000 for additional audit-related services for the certification of the Pooling of Housing Capital Receipts claim and Teachers' Pensions return, which are outside of Public Sector Audit Appointment's certification regime.



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