

Annual Governance Report

London Borough of Tower Hamlets

Audit 2009/10

September 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Corporate Director of Resources and the Service Head, Corporate Finance on 9 September 2010 and updated it as issues have been resolved. The report will be presented to the Audit Committee on 21 September 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Jon Hayes
District Auditor

21 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Adequate internal control environment	No	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	11

Audit opinion

- 1 Subject to satisfactory completion of outstanding testing and the resolution of the remaining issues noted in paragraph 7, I expect to issue an unqualified opinion on the financial statements by 30 September 2010. I also plan to issue my certificate at the same time.

Value for money

- 2 I propose issuing a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate (see page 11).

Audit fees

- 3 My audit is still in progress and I will review the audit fee upon completion. It should be noted that I have encountered a number of delays in receiving appropriate responses to my audit queries, which has delayed the audit process.

Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 6** Subject to satisfactory clearance of the outstanding matters listed below, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 7** The key areas outstanding where I am awaiting responses from the Council are:
- sample testing of income;
 - sample testing of debtors;
 - reconciliation and sample testing of cash;
 - receipt of a revised financial instruments note; and,
 - responses to queries raised on the Private Initiative Schemes (PFI).
- 8** Should any issues arise during the completion of this work that professional standards require me to report to those charged with governance, I will discuss them with the Corporate Director of Resources and the Service Head, Corporate Finance and, thereafter, with the Chairman of the Audit Committee.

Errors in the financial statements

- 9** My audit identified a material error within the draft financial statements, which has been amended by management:
- The Council gave Tower Hamlets Homes (THH) a guarantee for pension costs relating to staff transferred from the Council to THH. £18.0m of the £19.3m liability relates to the pre-transfer service of THH staff and should have been accounted for as part of the Council's pension fund liability under FRS17.
- 10** Additionally, there have been material amendments to two of the notes:
- £97,203k of balance sheet financial instruments were omitted from the financial instruments note; and
 - the fixed assets disclosure note showed the net value of total impairments of £32,886k and revaluations of £40,151k. The SoRP requires that impairments and revaluations are disclosed separately, although we recognise that there are inconsistencies between the SoRP and the SoRP guidance notes.

Financial statements

- 11** My audit also identified three non-trivial errors within the draft financial statements, which have not been amended by management:
- As part of a reconciliation exercise the Council identified a number of fixed assets not currently included in the balance sheet. The value of this error is estimated to be £4.5m.
 - The Council has guaranteed to meet pension liabilities relating to the post-transfer service of THH staff. The estimated value of this is £1.3m. This should be accounted for as a provision under FRS12, however management has chosen to account for this as a pension liability under FRS17. The effect of this is to understate expenditure.
 - The Council's review of its leases identified finance lease liabilities which the Council has accounted for as operating leases. The effect of this is to understate the Council's balance sheet by £188k.
- 12** A number of further non-trivial adjustments were made to the draft financial statements and these are summarised in Appendix 2. These mainly concerned the disclosure of information in the notes to the financial statements; there has been very little change to the reported income and expenditure account deficit for the year or the balance sheet net worth as at 31 March 2010.

Recommendation

R1 Account for the post-transfer service element of the ALMO pension liability as a provision under FRS12.

R2 Reflect the newly identified assets in the balance sheet and comply with the SoRP requirements to disclose relevant movements in fixed assets.

R3 Disclose financial instruments in accordance with the SoRP.

Important weaknesses in internal control

- 13** I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, I have found the following weaknesses in the operation of controls:
- My testing of a sample of 20 journals found that in one case the journal processed was incorrect and this was not identified by the reviewing officer. This was subsequently identified by the Council and did not give rise to an error. However this indicates that there is the potential for incorrect journals to be posted;
 - My testing of the cash system identified a four month period during which the main bank reconciliation was completed but not reviewed. This did not result in an error but does increase the risk of one occurring;
 - My testing of the payroll system found that the incorrect pension deduction rate had been applied to one of the employees selected. This was due to a manual amendment which was made without authorisation. This resulted in incorrect deductions from an employee's salary; and,

- One key system control is the review of reconciliations by a senior officer. I have been unable to place reliance on this control in a number of systems, as the senior officer review is not documented. There is a lack of evidenced review of reconciliations in the accounts receivable, treasury management, benefits and housing systems.

14 Due to the control weaknesses identified I have had to conduct additional audit testing.

Recommendation	
R4	Fully review journals prior to authorisation for processing.
R5	Implement change controls to ensure that amendments to standing data on the payroll system are subject to evidenced review.
R6	Ensure that the review of reconciliations by senior officers is evidenced and that the evidence is retained.

Letter of representation

15 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation. This includes specific representations on unadjusted non-trivial mis-statements and the review of contracts.

Key areas of judgement and audit risk

16 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Although International Financial Reporting Standards do not take effect in Local Government until 2010/11, the CIPFA Statement of Recommended Practice (SoRP) does adopt one standard (IFRIC 12) for 2009/10. The impact of this is the Council's Private Finance Initiative schemes will have to be re-assessed and are likely to be accounted for on-balance sheet. In previous years the schemes have been off-balance sheet.	I have reviewed the Council's arrangements for identifying and assessing contracts that potentially fall within the scope of IFRIC 12. The PFI schemes are the only contractual arrangements to be assessed as on-balance sheet as a result of IFRIC 12. My work on reviewing the PFI schemes is in progress.

Financial statements

Issue or risk	Finding
<p>The SoRP includes other changes to the format of the accounts:</p> <ul style="list-style-type: none"> • changes to accounting for local taxation; and • deletion of some notes and other minor changes. 	<p>My work on the re-statement of local taxation is in progress. No material issues have been identified to date.</p>
<p>Amendments to the accounts and audit regulations require more disclosures about senior officers' pay.</p>	<p>My work on the remuneration disclosures found that the disclosure is materially correct.</p>
<p>The current economic climate suggests property values are still volatile and the valuer's advice will be critical to ensuring the balance sheet is materially accurate.</p>	<p>My testing of the valuation of Fixed Assets is complete and I have not identified any matters to report.</p>
<p>Our interim work indicated the need for substantive testing in areas where we would normally seek to place reliance on internal controls. This includes payroll and housing benefits.</p>	<p>My substantive testing is in progress. I have experienced delays in getting evidence to support the samples selected.</p>
<p>The 2008/09 financial statements contained significant errors which could have been identified by a robust quality assurance process.</p>	<p>My work this year has again identified errors in the accounts which could have been identified by quality review.</p>
<p>My 2008/09 Annual Governance Report highlighted the following issues in respect of last year's draft financial statements:</p> <ul style="list-style-type: none"> • the Council included £120m of assets in its balance sheet incorrectly; and, • £24.4m of long term debtors had been classified as short term in error. 	<p>My work on fixed assets has not identified any assets that were incorrectly included in the balance sheet. I have however found that newly identified assets with an estimated value of £4.2m have been omitted from the balance sheet.</p> <p>My work on debtors is in progress. This work has not identified any classification errors to report at this stage.</p>

Recommendation

R7 Undertake a detailed quality review of the 2010/11 financial statements to identify any material or non-trivial errors or omissions.

R8 Undertake a detailed quality review of responses to audit queries before these are returned to the audit team.

Other matters

- 17** The draft financial statements submitted for audit were not approved within the required timetable because the 29 June Audit Committee was not quorate. In accordance with the Accounts and Audit Regulations 2006, the draft financial statements were approved by the Council on 14 July 2010.
- 18** The Annual Governance Statement (AGS) included in the financial statements for the Council meeting was not the most up to date version, although the final version of the AGS was approved by the Audit Committee in early July. This administrative error reduced the scope for meaningful scrutiny of the AGS by the Council and increased the audit time spent on this work.
- 19** Nine Councillors, six of whom are no longer Councillors, failed to return signed related party declarations. Disclosures were made in the accounts in relation to these Councillors, however this weakness undermines the completeness of the disclosure in the financial statements.
- 20** Eight schools year end bank account reconciliations were completed before the year end date. Additional work was required by officers and auditors to establish the correct cash book amounts for inclusion in the Council's financial statements. This also indicates a weakness in a key financial system of which officers were not aware.
- 21** The Council has included an additional disclosure as a non-adjusting post balance sheet event to reflect the Government's announcement to adopt the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes from April 2011. The actuarial estimate of the impact of the change is a reduction of some £92m to the disclosed gross pension liability and the net pension fund deficit as at 31 March 2010.

Recommendation
R9 Approve the financial statements in line with the published timetable.
R10 Obtain signed related party transaction declarations for all Councillors.
R11 Complete all bank account reconciliations as at the year-end.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 22** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 23** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The annual governance statement is a public report by a local government body on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to the Members of the London Borough of Tower Hamlets

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

Appendix 1 – Independent auditor’s report to the Members of the London Borough of Tower Hamlets

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources' responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from

material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 1 – Independent auditor’s report to the Members of the London Borough of Tower Hamlets

Jon Hayes

District Auditor

1st Floor Millbank Tower, Millbank, London, SW1P 4HQ

[Date]

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

Description of adjustment	Income & Expenditure		Balance Sheet	
	Dr £k	Cr £k	Dr £k	Cr £k
Correctly account for two assets which are not owned by the Council but were on the balance sheet. The assets were revalued in year and then removed as disposals from the balance sheet.			700	
		700		
Post the impact of a schools valuation adjustment to the income and expenditure account.	3,717			
				3,717
Remove a prior period adjustment made in error.			2,710	
				2,710
Post movements on earmarked reserves to the income and expenditure account.	329			
				329
Include the pre-service transfer element of the pension liability of Tower Hamlets Homes within the balance sheet.		17,959		
				17,959
Correct an error in the calculation of Council Tax receivable in the year.	598			
				598
Adjustment to notes				£k
Note 20 - Fixed Assets				
<ul style="list-style-type: none"> The write down of assets on demolished was accounted for as a disposal instead of an impairment. 				10,718

Appendix 2 – Amendments to the draft accounts

<ul style="list-style-type: none"> ● Land which had previously held HRA dwellings was not reclassified to other land and buildings when the HRA dwellings were demolished. 	4,594
<ul style="list-style-type: none"> ● The write down of the value of assets included in a stock transfer was treated as a disposal instead of an impairment. 	6,842
<ul style="list-style-type: none"> ● Revaluations and impairments were shown net in note 20 instead of gross as required by SORP: <ul style="list-style-type: none"> – impairments – revaluations 	32,886 40,151
<p>Note 31 - Financial Instruments The following balance sheet financial instruments were omitted from the financial instruments note:</p>	
<ul style="list-style-type: none"> ● Debtors 	15,879
<ul style="list-style-type: none"> ● Creditors 	44,314
<ul style="list-style-type: none"> ● Cash 	37,010
<p>Note 57 - Prior Period Adjustments</p>	
<ul style="list-style-type: none"> ● A reclassification of borrowing from long term to short term was incorrectly included as a PPA. 	2,710
<p>Note 48 - Capital Adjustment Account</p>	
<ul style="list-style-type: none"> ● Revenue expenditure financed by capital under statute (REFCUS) and amortisation were shown net as opposed to gross as required by the SORP: <ul style="list-style-type: none"> – REFCUS – amortisation 	15,045 1,374

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts affected	Value of error £ '000
As part of a reconciliation exercise the Council has identified a number of assets not currently included within the balance sheet fixed assets figure. A provisional valuation provided by the Council's internal valuer indicates that the value of these assets is £4.2m.	Balance Sheet: - Fixed Assets - Revaluation Reserve	4,515
The Council have guaranteed to pay £1.3m of pension liabilities relating to the post-transfer service of Tower Hamlets Homes. This should be accounted for as a provision under FRS12. The Council have chosen to account for this as a pension liability under FRS17, along with the pre transfer service amount.	Balance Sheet: - Pension Liability - Pension Reserve - Provisions Income and Expenditure Account: - Net Cost of Services	1,300
The Council employed external consultants to review their leases. The consultants identified finance lease liabilities which the Council	Balance Sheet: - Fixed Assets - Short Term Borrowing - Long Term Borrowing	188

Description of error	Accounts affected	Value of error £ '000
has accounted for as operating leases.	Income and Expenditure Account: - Net Cost of Services - Interest Payable	

Appendix 4 – Draft letter of representation

Jon Hayes
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

XX September 2010

London Borough of Tower Hamlets - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's Accounts, Group Accounts and Pension Fund Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Audit Committee and the reasons for not correcting these items are as follows;

- explanation for newly identified assets not included in the balance sheet
- explanation for the treatment of finance leases as operating leases
- explanation for the treatment of the guarantee of the ALMO's pension liability relating to post transfer service
- explanation for the overstated employee contributions in the pension fund

Appendix 4 – Draft letter of representation

- explanation for the overstated debtors in the pension fund

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in notes 31 and 32 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than the guarantee already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred, other than the disclosure relating to pension liabilities, which would require additional adjustment or disclosure in the financial statements other than those items already disclosed.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

I have considered the Council's long-term contracts in line with IFRIC 12 and other relevant financial reporting standards and confirm that, other than those already disclosed in the accounts, these are not considered to include leases, service concession arrangements or any embedded derivatives that would require separation from the host contract.

Signed on behalf of the London Borough of Tower Hamlets.

Appendix 4 – Draft letter of representation

I confirm that the this letter has been discussed and agreed by the Audit Committee on [date]

Signed

Name

Position

Date

Appendix 5 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

The Audit Commission

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Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Account for the post-transfer service element of the ALMO pension liability as a provision under FRS12.	3	Service Head Corporate Finance / Chief Accountant	No	Treating this liability under FRS12 would mean that one part of the Council's pension liability would be treated differently in the accounts from the other part. The use of FRS17 reflects substance over form arrangements that the ALMO is an extension of council management arrangements and that it is not appropriate to reduce usable reserves on the basis of management arrangements. We have not found any other Councils who have created FRS12 provisions for this item. The Council does not intend to adjust the accounts for this item.	N/A
7	R2 Reflect the newly identified assets in the balance sheet and comply with the SoRP requirements to disclose relevant movements in fixed assets.	2	Chief Accountant	Yes – for 2010/11 accounts onwards	Assets not included as full valuations not conducted in time for 2009/10 accounts. Valuations will be conducted by Property Services during 2010/11.	June 2011
7	R3 Disclose financial instruments in accordance with the SoRP.	2	Yes	Yes	Financial instruments notes restated for 2008/09 and 2009/10 to include debtors, creditors and cash.	Sept 2010
8	R4 Fully review journals prior to authorisation for processing.	3	All journal processing officers / Systems Team	Yes	Reminder to review journals before processing. Note that incorrect journal identified for £113.48 was corrected by officers which demonstrate that a review was conducted.	Oct 2010
8	R5 Implement change controls to ensure that amendments to standing data on the	3	Payroll Manager	Yes	Following identification of the pension deduction error, monthly reports are produced	In place

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	payroll system are subject to evidenced review.				from the payroll system to confirm pension deductions are correct. The officer who made the erroneous change to the system has been identified and admonished. The value of the error would have amounted to £90 over a full year. As changes to pension deduction rates seldom occur, the financial risk of further changes is low.	
8	R6 Ensure that the review of reconciliations by senior officers is evidenced and that the evidence is retained.	3	Relevant Senior Managers / Chief Accountant	Yes	Managers responsible for overseeing reconciliations will be required to evidence review of reconciliations.	Oct 2010
9	R7 Undertake a detailed quality review of the 2010/11 financial statements to identify any material or non-trivial errors or omissions.	3	Chief Accountant	Yes	2010/11 closedown timetable will build in additional review time for review in June.	June 2011
9	R8 Undertake a detailed quality review of responses to audit queries before these are returned to the audit team.	3	Chief Accountant	Yes	Problems experienced in obtaining historic information from supporting systems. Will liaise with auditors to improve planning of audit requirements to allow working papers to be designed to include required information, thus improving liaison process.	June 2011
10	R9 Approve the financial statements in line with the published timetable.	3	Audit Committee	Yes	Audit Committee to approve draft accounts by end of June.	June 2011
10	R10 Obtain signed related party transaction declarations for all Councillors.	2	Members / Member Services	Yes	Member Services will remind Members to submit declarations	March 2011
10	R11 Complete all bank account reconciliations as at the year-end.	2	Schools / Officers responsible for bank reconciliations	Yes	Year-end bank reconciliations to be conducted at year-end. Issue arose due to eight schools providing reconciliations up to 26 March 2010 (last day before end of term) to avoid delaying closedown work. Process for 2010/11 to be agreed with schools.	March 2011