

Meeting of the

AUDIT COMMITTEE

Thursday, 18 September 2008 at 6.15 p.m.

A G E N D A

VENUE

MEETING ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

| Members: | Deputies (if any): |
|--|--|
| Chair: | |
| Councillor Helal Abbas | Councillor Azizur Rahman Khan, (Designated Deputy representing Councillor Stephanie Eaton) |
| Councillor Stephanie Eaton | Councillor Abdul Matin, (Designated Deputy representing Councillor Stephanie Eaton) |
| Councillor Denise Jones | Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah) |
| Councillor Abjol Miah, (Leader of the Respect Group) | Councillor Tim O'Flaherty, (Designated Deputy representing Councillor Stephanie Eaton) |
| Councillor Joshua Peck, (Lead Member, Resources and Performance) | |
| Councillor Muhammed Abdullah Salique | |

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: , Democratic Services
Tel: 020 7364 4881, E-mail: daniel.hudson@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Thursday, 18 September 2008

6.15 p.m.

6 .2 Annual Governance Report (Pages 1 - 24)

Audit Commission report.

Special Circumstances and Reasons for Urgency in relation to the Annual Governance Report

- The report sets out all matters that are relevant to members of the Audit Committee as this group is charged with responsibility of the Council's governance issues. A key part of this report is in relation to the final accounts work that the Audit Commission carry out to give their opinion on whether the accounts give a true and fair view which is still on going. The report could not be submitted earlier as a number of enquiries were being dealt with by officers and the Audit Commission. Although some enquiries still need to be dealt with, the majority have been resolved, and this is reflected in the report.
- The audit of final accounts is always reliant on many factors and occasionally, the need to fully understand the financial treatment of items in accounts and the appropriateness with standards can result in slightly later reporting. The Audit Committee meeting has also been brought forward from previous years which also means that there is additional time pressure in producing the final report.

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Annual Governance Report

London Borough of Tower Hamlets

Audit 2007/08

September 2008

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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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved, including the accounting treatment of the repayment of loans relating to housing disposals, capitalisation of asbestos removal and support for service charges. Subject to completion of this work, we expect to issue an unqualified opinion on the financial statements on 30 September 2008. While overall we found that the working papers had improved, there were a number of adjustments made to the draft financial statements, both in terms of figures in the main statements but also around consistency and presentational. The key adjustments are highlighted in the main part of this report.

Value for Money

- 4 We are satisfied that the Authority has put in place arrangements for securing economy, efficiency and effectiveness in its use of resources. The Authority's system of internal control is adequate and this has been operating effectively in 2007/8. We therefore propose issuing an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Next steps

- 5 We ask the Audit Committee to:
 - consider the matters raised in the report before approving the financial statements;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 6 The Authority's financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 7 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 8 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Authority's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 9 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|--|
| Working papers supporting the Housing Revenue Account, fixed assets and capital accounting entries have not always been prepared in accordance with best practice and reviewed by senior officers. | There has been some improvement in the quality of working papers provided to audit in 2007/8, particularly in relation to capital entries. |
| The Authority's Fixed Asset Restatement Account has been replaced by a revaluation reserve which is linked to individual or groups of assets. | We have not identified any problems with revaluations in 2007/08. |

| Issue or risk (continued) | Finding |
|--|---|
| The Authority will need to comply with the Statement of Recommended Practice 2007 (SORP). | The majority of the Authority's draft financial statements complied with the SORP. However, there were a couple of notes supporting the financial statements including Leases and Local Area Agreement which were not compliant with the SORP but these have now been adjusted. |
| In the previous year the Authority failed to remove the dwellings transferred to Registered Social Landlords from their balance sheet. | The Authority has correctly removed these properties from the balance sheet. |
| The Authority's year end asset register has previously included assets that had been demolished, disposed of or transferred. | Audit testing has not identified any assets on the Authority's balance sheet that it no longer owns or that do not exist. |
| Service charges may not be accurately included within the draft financial statements. | Work is still ongoing in this area. |

Draft representation letter

- 10 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;

- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

11 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

12 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

13 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.

14 Management has agreed to adjust the financial statements for the errors identified in Appendix 2. However, because of the weakness in financial control process that caused two of these errors, we are highlighting these errors to you.

Housing Subsidy

15 The Housing Revenue Account (HRA) subsidy receivable of £14,951,000 includes £951,000 rental constraint allowance. However, the Authority calculated the rental constraint allowance using the 2006/07 guidance rather than the revised guidance issued for 2007/08. This resulted in the Authority understating subsidy receivable by £377,000. The Authority has adjusted its financial statements for this error.

Cash Flow Statement

16 Our initial review of the cash flow statement raised a number of queries which were discussed with the Authority. The Authority investigated these issues and undertook a further review of the cash flow statement. As a result of this review, the Authority discovered other errors and amended eleven entries in the statement. Some of these amendments were significant and ranged from £25,000 to £27,457,000.

17 We are concerned about the number and the value of these errors, and that they were not identified prior to the financial statements being presented to audit.

Recommendation

R1 The Authority should strengthen its processes to identify and implement all changes in government legislation that impact on the financial statements.

Recommendation

R2 The Authority should strengthen its processes for preparing and reviewing its cash flow statement.

- 18 We also identified an error in the financial statements which we have reported to management that is non trivial but has not been adjusted. Included within the debtors balance of £119m there is £5.9m that relates to amounts that are owed by internal directorates. Within creditors of £148m, there is only £105,000 identified that relates to amounts owed by other directorates. These amounts should match and be removed from debtors and creditors.
- 19 This £5.8m difference in internal debtors and creditors is currently being investigated by the Authority. This difference has been caused by the Council's financial systems being unable to match internal debtors and creditors. We reported a similar problem to management in 2006/07 when the difference was not as large.
- 20 The Council is also investigating whether amounts relating to internal income and expenditure have been correctly removed from the Income and Expenditure Account.

Recommendation

R3 Internal debtors and creditors should be removed from the financial statements.

The audit report

- 21 Subject to resolving the outstanding issues, we plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

- 22 We have not identified any weaknesses 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.
- 23 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 24 There are no other matters that auditing standards require me to report to you.

Value for money

- 25 We are required to conclude whether the Authority has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 26 We have assessed the arrangements of the Authority as adequate in all twelve areas and we therefore propose to issue an unqualified conclusion.

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Formal audit powers

27 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's financial statements is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the financial statements; and
- a power to seek judicial review of a decision of the Authority.

28 We have not had to exercise these powers to date, although we have recently been asked to issue a public interest report by a local government elector. We are considering the matters raised. Our initial assessment is that this will not delay the issue of our opinion on the accounts but that it may delay us certifying the closure of the 2007/08 audit.

Independence

- 29 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 30 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 31 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Authority

- 32 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 33 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 **Audit fees**

| | Plan 2007/08 | Actual 2007/08 |
|--|---------------------|-----------------------|
| Financial statements and Annual Governance Statement | £286,000 | £286,000 |
| Use of Resources | £153,000 | £153,000 |
| Whole of Government Financial statements | £5,000 | £5,000 |
| National Fraud Initiative | £1,000 | £1,000 |
| Total Audit Fees | £445,000 | £445,000 |

- 34 The analysis above shows that we contained our audit fee within the totals you have already agreed.

Our arrangements to ensure independence and objectivity

- 35 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

| Area | Arrangements |
|-------------------------------------|--|
| <p>Independence policies</p> | <p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality. |
| <p>Code of Conduct</p> | <p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p> |
| <p>Confidentiality</p> | <p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p> |

Appendix 1 – Management Letter of Representation

London Borough of Tower Hamlets - Audit for the year ended 31st March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors and officers of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Authority's statements for the year ended 31 March 2008.

All representations cover the Authority's financial statements and Pension Fund financial statements 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 present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements included within the Annual Governance Letter are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Authority within the ISA 260 report.

I believe that the uncorrected errors are not material to the financial statements as ...{To be added following audit committee if appropriate}

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 Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority Committee 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:

Appendix 1 – Management Letter of Representation

- 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.

Fraud risk

I have undertaken a risk assessment of the Authority's susceptibility to fraud and irregularities and consider this to be low. There are no known significant instances of irregularities, including fraud, other than those already disclosed to the District Auditor. We understand the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of account or disclosures in financial statements to deceive financial statement users.

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 Authority.

The Authority 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. All assets and liabilities have been valued in accordance with our accounting policies.

Assets

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

Appendix 4 - action plan

- 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 financial statements.

Provisions and 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;
- no financial guarantees have been given to third parties; and
- no provision under FRS12 is required in the financial statements relating to the 33-37 The Oval

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 Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

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

Fixed assets

There has been no further impairment of fixed assets during the year other than the impairment of Authority dwellings disclosed in the financial statements in line with the requirements of FRS11. The Authority's fixed assets register and financial statements accurately reflect the assets owned by the Authority as at 31st March 2008.

Trust Funds

There are no trust funds that the Authority administers other than those disclosed in the financial statements.

Annual Governance Statement

The Annual Governance Statement reports all known weaknesses in the Authority's environment.

Accounting policies

The Authority has complied with the requirements of FRS18 in that the accounting policies, used to construct the financial statements have been subject to review and approval.

Section 137 Expenditure

There has been no expenditure in 2007/8 on section 137 monies.

Group Financial Statements

The Authority has undertaken an exercise to identify whether or not it has any interests in subsidiary and associated companies and joint ventures. As a result of the exercise, the Authority concluded that that group statements are not necessary.

Trading Activities

There are no ongoing concern issues on the Authority's trading activities.

Grant claims

The Authority is satisfied that estimates included in their financial statements for grant claims are reasonable compared to the audited claims.

I confirm that this letter has been discussed and agreed by the Authority on 18 September 2008

Signed on behalf of the London Borough of Tower Hamlets

Chris Naylor
Director of Resources

Martin Smith
Chief Executive

Joshua Peck
Chair of
Audit Committee

Appendix 2 – Summary of adjusted misstatements

1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities

Table 4 Adjusted misstatements

| Explanation for Adjusted misstatements | Nature of adjustment | Statements adjustment impacts on | Main Correcting entries |
|---|------------------------|--|--|
| The tenant housing reconciliation did not agree to the trial balance. There is an error of £878k relating to a new account set up that was coded to cash instead of debtors. The net effect is to understate cash and overstate debtors by £878k. | Non trivial adjustment | Balance Sheet and Cash Flow Statement | Debit cash and bank £878k Credit debtors £878k |
| The Authority used the incorrect guidance to calculate the rental constraint allowance. This resulted in understating the rental constraint allowance by £377k. | Non trivial adjustment | Housing Revenue Account Balance Sheet | Debit debtors £377k Credit HRA subsidy receivable £377k |

Appendix 2 – Summary of adjusted misstatements

| | | | |
|---|-------------------------------|--|--|
| <p>The write off of movement in governments grant of £14,834k should have been coded to income and expenditure account. The amount has been included in the statement of recognised gains and losses.</p> | <p>Non trivial adjustment</p> | <p>Statement of recognised gains and losses Income and expenditure account</p> | <p>Debit Income and expenditure account £14,834k Credit Statement of movement on general fund balance £14,834k</p> |
| <p>Movements between insurance reserves and provisions of £4,317k should be put through the income and expenditure account.</p> | <p>Non trivial adjustment</p> | <p>Statement of recognised gains and losses Income and expenditure account</p> | <p>Debit Statement of movement on general fund balance £4,317k Credit Income and expenditure account £4,317k</p> |
| <p>Capital receipts not relating to an asset of £810k were included on the statement of recognised gains and losses</p> | <p>Non trivial adjustment</p> | <p>Statement of recognised gains and losses Income and expenditure account</p> | <p>Debit Statement of movement on the general fund balance £810k Credit Income and expenditure account £810k</p> |
| <p>The Authority has £16million relating to the HRA in the general fund earmarked reserves. The Authority should disclose these in the HRA.</p> | <p>Presentation</p> | <p>HRA Balance sheet</p> | <p>Dr General fund earmarked reserves £16,000k Cr HRA reserves £16,000k</p> |

Appendix 3 – Proposed auditor's report

Independent auditor's report to the Members of London Borough of Tower Hamlets

Opinion on the accounting statements

I have audited the accounting statements, pension fund financial statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Account, the Statement of the Movement on the Housing Revenue Account, the Collection Fund and the related notes. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements and pension fund financial 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 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources responsibilities for preparing the financial statements, including the pension fund financial statements, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Financial statements.

My responsibility is to audit the Authority accounting statements, pension fund financial 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's accounting statements and the pension fund financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

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

- 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 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 financial 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 accounting statements, pension fund financial statements and related notes and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, pension fund financial 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 Authority accounting statements, pension fund financial 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 accounting statements, pension fund financial 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 accounting statements, pension fund financial 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 accounting statements, pension fund financial statements and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended

Appendix 4 - action plan

Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- The pension fund financial statements and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, 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 relevant criteria specified by the Audit Commission for principal local authorities. 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 December 2006, I am satisfied that, in all significant respects, London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 in December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Jon Hayes
District Auditor

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

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Appendix 4 – Action Plan

Table 5 - Action Plan

| Recommendation | Priority 1= low 2= med 3 = high | Responsibility | Agreed | Comments |
|---|--|----------------|--------|----------|
| R1 The Authority should strengthen its processes to identify and implement all changes in government legislation that impact on the financial statements. | | | | |
| R2 The Authority should strengthen its processes for preparing and reviewing its cash flow statement. | | | | |
| R3 Internal debtors and creditors should be removed from the financial statements. | | | | |