



Annual Audit Letter 2015/16

London Borough of Tower Hamlets

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October 2017



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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.psaa.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, 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. After this, if you are still 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 2015/16 audit year.

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.

We issued a qualified VFM conclusion for 2015/16

VFM conclusion

We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2017. This means we are not satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources throughout the 2015/16 financial year.

We identified three specific VFM risks in our External audit plan 2015/16: Medium Term Financial Standing; implementation of Best Value (BV) Action Plans and section 11 recommendation; and Governance in Authority Schools. We worked with officers throughout the year to discuss these specific VFM risks. For Medium Term Financial Standing and Governance in Authority Schools, we concluded that there was no adverse impact on the VFM conclusion for these risks.

We issued an adverse opinion in respect of the Authority's arrangements to secure VFM for 2013/14 and 2014/15. The qualification reflected the matters raised in the BV Inspection report where the Authority had failed to comply with its best value duty in relation to:

- Payment of grants and connected decisions;
- The disposal of property and the granting of leasehold interests; and
- Spending on publicity.

In addition to the above specific points, the BV Inspection report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas highlighted above. Comments within the Mayoral election judgment and arising from the other matters raised with us as auditors also indicated that the governance processes had not always been effective.

Our qualification for 2014/15 additionally referred to our Section 11 recommendation made in October 2015 reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report.

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources during 2015/16, we have continued our consideration of the findings of the BV Inspection report and more specifically the Authority's progress towards implementing the action plans that it produced in response.

The Commissioners reported that the Authority did not make meaningful progress in accepting the BV Inspection findings and Directions and considering how to address the concerns identified until the current Mayor was elected in June 2015. Consequently, 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 and in 2014/15.

We have also considered the extent to which the Authority's BV Action Plans were implemented during 2015/16. The reports submitted to Cabinet meetings in September 2015 and March 2016 clearly show that while progress was meaningful there were a significant number of actions that were not completed within 2015/16. We further consider that many of the actions will require time to become established and embedded even once the arrangements/procedures have been put in place.

These circumstances therefore resulted in the adverse opinion in respect of the Authority's arrangements to secure value for money on similar grounds to those set out in our 2013/14 and 2014/15 opinions.

<p>We issued an unqualified audit opinion.</p> <p>Our financial statements audit work did identify concerns relating to grant payments and declarations of interest in particular.</p>	<p>Audit opinion</p> <p>Financial statements audit</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. 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 also include those of the Pension Fund.</p> <p>Our audit has not identified any material or significant audit adjustments. We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</i>. There have been no changes that affect the General Fund or HRA balances or the Authority's net worth as at 31 March 2016.</p> <p>We noted that the Authority has maintained the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries.</p> <p>We identified four key financial statements audit risks in our 2015/16 External audit plan issued in June 2016. We worked with officers throughout the year to discuss these key risks.</p> <p>There were no matters of any significance arising as a result of our audit work in PPE.</p> <p>In relation to section 106 agreements we noted two small schemes where the Authority had not spent the monies received within the timescales specified, although we noted there was a very limited risk that the funds could be lost.</p> <p>For declarations of interest we noted that there were potential shortcomings in the system in place that requires all staff to make an annual declaration.</p> <p>In relation to grant payments and property leases several issues have been identified:</p> <ul style="list-style-type: none"> • Several Mainstream Grant payments have been 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. Consequently, further work and testing has been undertaken (summarised below); • The Authority did not hold a central register of grant payments for 2015/16. It is therefore difficult for central teams to gather information or track the grants that are being paid by the Authority. Whilst a central register is now in place, the Authority should conduct internal checks to ensure the completeness of this register; • Detailed testing of a further 15 projects delivered by organisations occupying Authority properties and in receipt of a Mainstream Grant in 2015/16 identified six projects (four organisations) where there was no formal property agreement in place. Subsequently, reports to the Authority's Grants Determination Committee in January and February 2017 summarise the overall position. The reports show a complex position with 41 organisations requiring additional information to ascertain whether the Commissioners' requirements had been met. • The Authority's review of the position for these 41 organisations was completed in June 2017 and identified 11 organisations where the Authority has concluded that no formal property agreement was in place for 2015/16 and that this continued to be the case. Therefore the 50 payments made to these 11 organisations in 2015/16 were considered to unlawful. The total value of the payments made was £151,778. The position was included as an additional disclosure in the 2015/16 financial statements. The additional disclosure also highlighted that the Authority made over 1,500 grant payments in 2015/16 with a value of £3.4 million.
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Section one

Headlines (cont)

We have concluded one objection but have two remaining. Consequently, we have not issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.

Other information accompanying the financial statements	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.
Pension fund audit	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.
Recommendations	<p>We raised one medium priority recommendation as a result of our 2015/16 audit work relating to grant payments/property leases. We also noted that our high priority recommendation from 2014/15 had not been implemented fully. These are detailed in Appendix 1 together with the action plan agreed by management.</p> <p>Due to the timing of making the recommendations (September 2017), we will formally follow up these recommendations as part of our 2017/18 work.</p>
Objection concluded	We have completed our consideration of one objection received in relation to the Authority's 2014/15 financial statements. The objection related to the Lender Option Borrower Option (LOBO) loans that the Authority took out in 2007 and 2009/10. We were requested to apply to court that the LOBO loans should be declared unlawful items of account; and also to consider whether a public interest report should be issued. Having considered the matters raised we concluded that we would not take any action in relation to the LOBO loans ie that we did not consider that there was an unlawful item of account to be declared and that there were no issues that required a public interest report.
Certificate	<p>We have one remaining objection from a Local Government Elector that we are considering relation to parking matters and the Authority's 2013/14 financial statements.</p> <p>Until we have completed our consideration of this objection we will not be in a position to formally conclude the audit and issue an audit certificate.</p>
Audit fee	The scale fee for 2015/16 was £209,918, excluding VAT. We have requested a fee variation, and this is being considered by Public Sector Audit Appointments. Further detail is contained in Appendix 3.

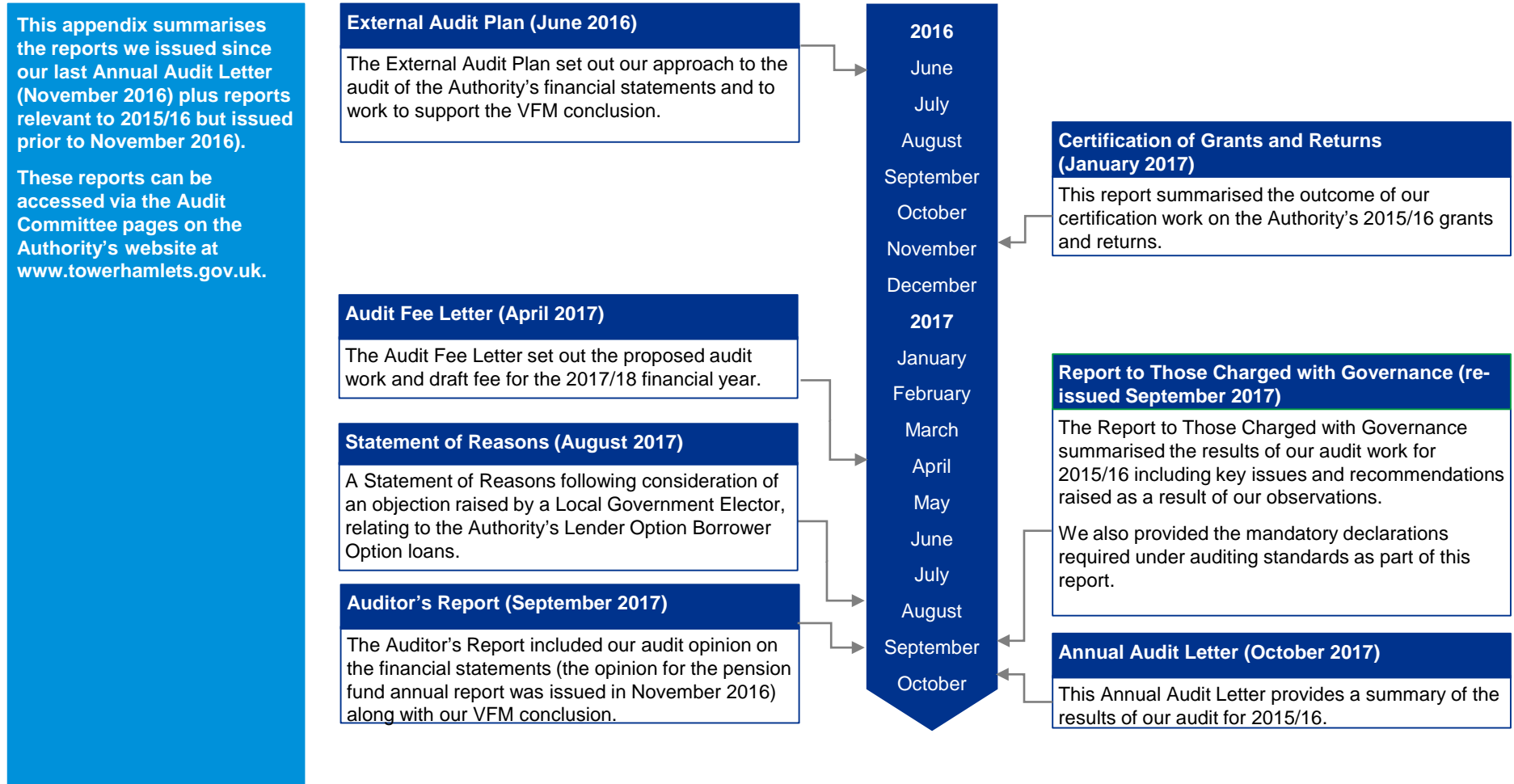
Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Grant Payments/Property Leases</p> <p>Our work has identified several issues relating to grant payments and the controls over them. Matters arising include:</p> <ul style="list-style-type: none"> No central listing of grant payments in 2015/16 was available, making identification of grants paid difficult; One instance where the allocation awarded by the Commissioners was exceeded by almost 20% (£34,000); and Fifty grant payments made in 2015/16 (to 11 organisations), with a value of £152,000 have been identified by the Council as being unlawful due to the lack of a formal property agreement being in place; <p>Recommendation (2015/16 medium priority)</p> <p>The Authority should:</p> <ul style="list-style-type: none"> Ensure that the single system that the Authority now requires all Directorates to use to record all grant payments is used universally and all grant payments for 2016/17 onwards are captured on it; Clarify the arrangements for grants (particularly demand led ones) to ensure that additional approval by Commissioners/ the relevant Authority Committee/officer is required (even where the over spend is being managed within the Directorate's overall resources); Ensure that all unlawful grant payments have been identified and disclosed in the financial statements; and Ensure that all grant programmes have been assessed to ensure that recipients are complying with the Commissioners' requirements that all grant recipients occupying Authority property must have a formal property agreement in place. 	<p>The council maintains a grant register that logs all grants and is updated on a monthly basis. All grant payments are made via the council's Agresso payment system and there is a reconciliation of grant payments made. The Council is procuring a new online system and all grants will be recorded on the system once it is fully implemented. This will replace the grants register and will automate the majority of the currently manual processes.</p> <p>All Managers with budget responsibility for grants will be written to in September 2017 and reminded that expenditure must be routinely monitored and any additional approval required is sought from the Grants Determination (Cabinet) Sub Committee.</p> <p>All grant payments to organisations occupying council buildings have been reviewed and any associated unlawful payments have been identified and disclosed in the statement of accounts. On-going monitoring arrangements are in place.</p> <p>The Council completed an exercise to identify all MSG and other grant payments that have been made where an appropriate premises agreement was potentially not in place at the time of payment. In most cases, premises agreements have now been provided. The remaining cases are being monitored and progress updates are regularly reported to Grants Determination (Cabinet) Sub Committee.</p> <p>The checking process for MSG payments and premises agreements has been strengthened and grant officers undertake premises checks, with an additional check between the grant officer and team manager made at the time of the authorisation of MSG payments to ensure premises conditions are met.</p> <p>Responsible Officer - Steve Hill, Head of Benefits Services</p>

Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Follow up position consideration
2	<p>Declarations of Interest</p> <p>The BV Inspection report refers to several instances where there are relationships with other parties. The BV Inspection report does not conclude as to whether these relationships represented significant concerns or were improper. However, there appears to be the potential for interests that should be declared not being so, possibly due to due to incomplete knowledge about who the Authority is doing business with, or seeking to do business with. As a minimum this gives the potential for reputational damage to the Authority.</p> <p>Recommendation (2014/15 high priority recommendation)</p> <p>The Authority should:</p> <ol style="list-style-type: none"> 1. Review its policies, procedures and processes for identifying potential interests and ensuring declarations are up to date and complete; 2. Consider whether improvements can be made to ensure relevant members and officers are aware of organisations and individuals seeking to do business with or interact with the Authority; and 3. Ensure that all relevant members and officers receive at least annual training and reminders about their responsibilities and the need to ensure interest declarations are complete and up to date. 	<p>We have reviewed the actions taken by the Authority which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns:</p> <ul style="list-style-type: none"> • The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise; • We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review; • Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and • There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectives are understood clearly by staff and that they have the necessary information to complete declarations properly and to support the Authority in terms of any issues that might arise from incomplete declarations. <p>We will therefore continue to follow up this recommendation next year.</p>

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

The scale fee for the 2015/16 audit of the Authority was £209,918. We have requested a fee variation in relation to the additional work needed to address the risks and issues arising from the BV Inspection; resulting Directions; and associated risks. Our fees are therefore still subject to final determination by Public Sector Audit Appointments.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

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. The final fee was in line with the planned fee of £20,327.

Other services

We charged £6,750 for additional audit-related services for the certification of the Teachers' Pensions grant claim and the Capital Receipts return, which are outside of Public Sector Audit Appointment's certification regime.

We also charged £36,500 for conducting business intelligence research on 14 companies of interest to the Authority. The research included identifying any links between these companies as well as their known public profile. This work was not related to our responsibilities under the Code of Practice.



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