

Progress Report

June 2010

London Borough of Tower Hamlets

Audit 2009/10

Audit Committee 29 June 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.
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Audit progress

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress 2009/10

- 2 We agreed our outline 2009/10 Audit Plan and fee with officers in April 2009 and presented it to the Audit Committee in June 2009. Appendix 1 summarises the progress of our audit work.
- 3 Our 2009/10 audit is progressing well. We have maintained regular communication with the finance team to identify and resolve issues early. The work proposed remains as set out in the detailed 2009/10 opinion audit plan agreed by the Audit Committee in April 2010.
- 4 We have substantially completed our interim audit which involved updating our understanding of the Council's control environment, updating our documentation of the key financial systems and testing a selection of the key controls within those systems. We have not identified any matters to report to you at this stage. As in previous years, we will therefore be placing reliance on controls, and the work of Internal Audit.
- 5 In respect of use of resources, we reported our 2008/09 use of resources assessment to officers in February 2010 as part of the Annual Audit Letter. The Annual Audit Letter is reported to you separately at this meeting. Our 2009/10 work builds upon this assessment.
- 6 In light of the new government's announcement to abolish Comprehensive Area Assessment, the Audit Commission has announced that it will not be issuing new scores for the use of resources assessment. The use of resources work that we have already completed will inform our VFM conclusion.

2010/11 Audit Plan

- 7 As part of our initial 2010/11 planning, we have had discussions with officers on the issues that may impact on our work for that year. We wrote to the Chief Executive in April setting out the proposed fee covering all work related to the 2010/11 audit. This will be followed up with a detailed plan for the opinion audit later in the year. A separate letter covering the pension fund audit has also been issued. The initial fee letters are attached at Appendix 2.
- 8 The Audit Commission is undertaking a fundamental review of its approach to assessing VFM. At this stage, no decision has been made about any possible impact on future audit fees. We will consult on any amendments to the 2010/11 fee scales in our consultation on 2011/12 fees in July 2010.

Other matters

- 9 The Codes of Audit Practice (the Codes) define the scope, nature and extent of local audit work.
- 10 The Codes were revised and approved by Parliament on 9 March 2010. The changes are minimal and are effective immediately. Details of the changes are included in appendix 3.

Appendix 1 – Audit plan outputs

Table 1 Progress on audit plan outputs

Product	Audit Commission Lead	Timing	Current Progress
Opinion on the Authority's 2009/10 financial statements			
Work on financial systems	Shona Milton Gohar Mirza	January - June 2010	Work substantially complete.
Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • opinion memorandum 	Sally-Anne Eldridge Shona Milton	July - September 2010	Work to start in July once we receive the Council's draft Statement of Accounts.
Use of resources			
Use of resources assessment	Sally-Anne Eldridge Shona Milton	February - May 2010	Work to support our value for money conclusion is complete.
Value for money conclusion	Sally-Anne Eldridge	September 2010	In progress.

Appendix 2 – 2010/11 Fee Letters

Our reference TO00611A

13 April 2010

Kevan Collins
Chief Executive
London Borough of Tower Hamlets
Town Hall
Mulberry House
5 Clove Crescent
London
E14 2BG

**Direct line
Email**

0844 798 2877
j-hayes@audit-
commission.gov.uk

Dear Kevan

Annual audit fee 2010/11

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at the London Borough of Tower Hamlets. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Adewale will be writing to you separately on these fees.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £513,500 which compares to the planned fee of £480,000 for 2009/10. A summary of this is shown in the table below.

Audit Area	Planned fee 2010/11 (£)	Planned fee 2009/10 (£)
Financial Statements	342,500	310,000

Appendix 2 – 2010/11 Fee Letters

Use of Resources & VFM conclusion	162,500	161,500
Whole of Government Accounts	8,500	8,500
Total audit fee	513,500	480,000
IFRS rebate	(33,712)	
Certification of claims and returns	105,000	100,000

The Audit Commission has published its work programme and scales of fees for 2010/11. The

Audit Commission scale fee for the London Borough of Tower Hamlets is £524,700. The fee proposed for 2010/11 is -2.13% per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £33,712 in April 2010.

Changes in international auditing standards will also increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of those additional requirements.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate opinion plan for the audit for the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 audit are:

Sally-Anne Eldridge, Senior Audit Manager (s-eldridge@audit-commission.gov.uk)
Shona Milton, Audit Manager (s-milton@audit-commission.gov.uk)

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.

Alternatively you may wish to contact the London Head of Operations, Les Kidner (l-kidner@audit-commission.gov.uk).

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager

Appendix 1 - Planned Outputs

Output	Planned date
Opinion audit plan	December 2010
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of Resources report	October 2011
Final Accounts Memorandum (to the Director of Finance)	October 2011
Annual Audit Letter	December 2011

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Our reference TO00611A

13 April 2010

Kevan Collins
Chief Executive
London Borough of Tower Hamlets
Town Hall
Mulberry House
5 Clove Crescent
London
E14 2BG

Direct line 0844 798 2877
Email j-hayes@audit-commission.gov.uk

Dear Kevan

**Tower Hamlets Pension Fund
Annual Audit fee 2010/11**

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year on the Tower Hamlets Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £38,500, which compares to the planned fee of £38,500 for 2009/10.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2009/10. A separate opinion plan for the audit of the Pension Fund will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for 2010/11 are:

Sally-Anne Eldridge, Senior Audit Manager (s-eldridge@audit-commission.gov.uk)
Shona Milton, Audit Manager (s-milton@audit-commission.gov.uk)

Appendix 2 – 2010/11 Fee Letters

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.

Alternatively you may wish to contact the London Head of Operations, Les Kidner (l-kidner@audit-commission.gov.uk).

Yours sincerely

Jon Hayes
District Auditor

cc

Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager

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Appendix 3 - Other matters of interest

Code of audit practice

- 11 The Codes of Audit Practice (the Codes) define the scope, nature and extent of local audit work.
- 12 There is a separate [code of audit practice for local government](#) and a [code of audit practice for the NHS](#), primarily to reflect the increasingly divergent accounting, corporate governance and performance management frameworks in the two sectors.

Background

- 13 The Commission has a statutory duty to prepare, and keep under review, codes of audit practice prescribing the way in which auditors must carry out their functions under the Audit Commission Act 1998 (the Act). The Codes must embody what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The Act allows for separate codes to be produced for the audit of local government and NHS bodies.
- 14 The Codes have to be approved by both Houses of Parliament at five yearly intervals and auditors have a statutory duty to comply with it. As such, it constitutes secondary legislation, and the way it is drafted and the process for reviewing and revising it reflects this.
- 15 Parliament approved the current Codes on 9 March 2010. There are only minimal changes to the Codes which will come into effect immediately.
- 16 In preparing the Codes, the Commission consults widely, engaging key organisations that represent audited bodies in local government and the NHS, the accountancy profession and the public audit agencies at each stage.

The content of the Codes

- 17 In developing the current Codes, the Commission's principal aims were to bring about a more streamlined, risk based approach to audit, targeted to areas where auditors have the most to contribute to improvement, together with a stronger emphasis on value for money and clearer reporting of audit results. The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime.
- 18 Each Code:
 - sets out the general principles to be followed by auditors in delivering their objectives;

Appendix 3 – Other matters of interest

- outlines their responsibilities regarding the audit of financial statements and use of resources; and
 - sets out the range of outputs through which the results of audit are reported.
- 19 Auditors are required by the Code to report their conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion).

Statements of Responsibilities

- 20 The Commission's [Statements of Responsibilities of Auditors and Audited Bodies](#) support the Codes and have therefore been updated to align with the new Codes. The 'Statements of Responsibilities of Auditors and Audited Bodies' assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. As with the Codes, the Commission has prepared separate statements of responsibilities for local government and the NHS.

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The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

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