

# Annual governance report

London Borough of Tower Hamlets

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 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.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

My audit of the Council's accounts is now substantially complete. There has been an improvement in the Council's financial controls, the quality of the financial statements and the supporting working papers since my last audit.

A number of errors were identified in the course of the audit. These concerned the disclosure of information in the notes to the financial statements and therefore did not impact on the Council's out-turn for the year or its available resources.

My report includes recommendations on ways in which the Council could further strengthen its internal controls and financial reporting.

## Value for money

My review of the Council's arrangements to achieve value for money concluded that it has adequate arrangements in place. The Council faces some significant challenges in the future and my report includes recommendations to help ensure the Council maintains its focus in this area.



# Before I complete my audit

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## I confirm to you

### Scope of my work

My report 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.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £7,000. We undertook a review of how well the Council is tackling fraud.

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## I ask you to confirm to me

### I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - approve the letter of representation (Appendix 3) on behalf of the Council before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (Appendix 5).
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# Financial statements

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**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**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

At the time of writing this report my audit work was substantially complete. I will provide an update on progress at the Audit Committee on 20 September.

## **Errors in the financial statements**

My audit of the financial statements identified non trivial errors which are detailed in Appendix 2. This section of my report provides you with details of the larger and more complex errors.

On 22 June 2010 the Chancellor announced that public sector pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). As a result of this change the Council's estimated net pension liability has decreased by £134.6m. This adjustment should have been treated as an adjustment to past service costs but was treated as an actuarial gain. The Comprehensive Income and Expenditure Account has been updated to correct this: the gain is now shown in Non-distributed Costs rather than in Financing and Investment Income and Expenditure.

Under IFRS, the Council may classify some short term cash equivalents as either cash or short term investments. The Council's accounting policy is to classify these as cash but £37.6m of these assets were incorrectly classified as short-term investments in the draft financial statements.

Neither of these changes had an impact on the Council's out-turn for the year or its available resources.

## Uncertainties in the financial statements

The Council has an ongoing project to update the asset register by reconciling it to other records such as those held by the legal department. This year assets with an estimated value of £17m were added to the asset register and assets with an estimated value of £8.7m were written out. These adjustments are smaller than similar changes last year. 14 of the assets newly included in the asset register had not been subject to a recent valuation and 11 of these were added at nil value.

As a result of these properties not having been recently valued, we estimated that the Council's Property, Plant and Equipment may be understated by £1.5m. This is an uncertainty so the accounts have not been updated for this item. Officers plan to have these assets valued as part of the 2011/12 valuation programme to correct this.

The Council has a provision of £2.4m in relation to the funding of the Barkantine PFI scheme. Officers have been unable to provide adequate evidence to demonstrate that the funding of this scheme has been correctly accounted for. In particular, it is not clear that the allocation of assets and liabilities in relation to the scheme have been correctly allocated between the General Fund and the Housing Revenue Account. I am satisfied that this matter has not resulted in a material error in the financial statements. This is a complex area of accounting and the Council is in discussion with the CLG about the funding arrangements. The Council should undertake a review of this scheme for 2011/12.

The Council's financial statements include an investment of £346k in relation to the LAML insurance mutual. LAML is currently being liquidated and, as such, it is unlikely that the investment will be realised in full. The Council has not impaired the investment and we estimate that the value of the investment is overstated by approximately £250k.

These uncertainties do not have an impact on the Council's out-turn for the year or its available resources.

### Recommendation

**R1** Obtain valuations for the assets newly identified in 2010/11 that had not been subject to recent valuations.

**R2** Undertake a review of the accounting treatment of the funding of the Barkantine PFI scheme. Seek specialist accounting or legal expertise to inform this review as appropriate.

**R3** Undertake an impairment review of the Council's investment in LAML.

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

## Key audit risk and our findings

Key audit risk	Finding
<b>1. IFRS</b> The Council is now required to prepare the 20010/11 accounts under International Financial Reporting Standards.	The draft IFRS restatements were provided before the start of the audit. This allowed early review of the work and early resolution of issues.
<b>2. Quality assurance</b> Poor quality assurance review of the financial statements prior to submission for audit.	There has been an improvement in the quality of the draft financial statements and supporting working papers. This has been particularly notable in light of the challenges that the Comprehensive Spending Review and the transition to IFRS have presented. There is scope for the Council to build further on the work that has been done to date. For example, my testing found that: <ul style="list-style-type: none"><li>■ the segmental reporting note was not included in the draft financial statements;</li><li>■ the footnote to the pensions note included one significant error;</li><li>■ the related party transactions note did not include the value of outstanding debtor and creditor balances;</li><li>■ the financial instruments note did not comply with the Code format.</li></ul>
<b>3. Leases</b> My 2009/10 audit identified errors in the Council's accounting treatment of leases.	The Council undertook early work in this area which allowed testing before the draft financial statements were complete. My testing of the accounting treatment of leases did not identify any material errors.

Key audit risk	Finding
<p><b>4. Internal recharges</b> My 2009/10 audit found double counting of income and expenditure resulted in errors in the accounts.</p>	<p>My testing of income and expenditure did not identify any instances of double counting.</p>
<p><b>5. ALMO pension accounting</b> My 2009/10 audit identified that the provision for the post-transfer service element of the ALMO pension liability was not accounted for in accordance with accounting standards.</p>	<p>My testing of the accounting treatment of the post-transfer service element of the ALMO pension liability did not identify any material errors. This year's actuarial valuation resulted in the ALMO having a net asset in relation to pension costs. As a result, no provision is required in the Council's statements in relation to this item in 2010/12.</p>

# Financial statements

## Significant weaknesses in internal control

My testing of the Council's financial systems found a number of instances where the operation of controls was not evidenced. Examples included, but were not limited to:

- the monthly review by HR managers of starters and leavers;
- the weekly reconciliation of the Housing Rents and Service Charge systems to the general ledger; and,
- the review of the monthly treasury reconciliation.

These weaknesses do not necessarily indicate control failures. They do, however, mean that I have been unable to place reliance on the Council's systems in these areas. As a result, I have undertaken additional substantive testing.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.



## Recommendation

**R4** Evidence the operation of controls more consistently to strengthen the internal control environment.

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

I have reported uncertainties relating to the Barkantine PFI provision and the impairment of the LAML investment, both of which are accounting estimates. There are no further matters that I wish to bring to your attention.

## Letter of representation

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 3 contains the draft letter of representation I am seeking from you.

# Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The comprehensive spending review (CSR) requires the Council to save £72m between 2011/12 and 2013/14. My review found that the Council has adequate arrangements in place to respond to the CSR.</p> <p>Significant further savings are required to achieve a balanced medium term financial plan. Whilst the Council is well positioned, the scale of the challenge means there is a risk that it could fail to make the required savings.</p> <p>The Council should continue the work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Mayor's priorities.</p>

Criterion	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>In my Annual Governance Report last year, I reported significant weaknesses in the Council's financial systems and financial reporting. The Council has made adequate progress in implementing the recommendations in my report. Whilst some further improvement could be made, my work found that the controls in material financial systems are more robust and the quality of financial reporting has improved.</p> <p>In 2010/11, the Council made the transition to an elected Mayoral system. The Council updated its governance arrangements in response to this change. I undertook a review of the Council's governance arrangements which found that there are adequate arrangements in place. I do not have any recommendations arising from my work in this area.</p>

Recommendation
<p><b>R5</b> Continue the work to identify and implement savings to achieve the medium term financial plan whilst delivering against statutory requirements and the Mayor's priorities.</p> <hr/> <p><b>R6</b> Build on the recent improvements in internal controls and financial reporting. Specifically:</p> <ul style="list-style-type: none"> <li>■ undertake a more thorough quality review of the draft financial statements;</li> <li>■ continue to undertake early work on items that are technically complex or high risk; and</li> <li>■ roll out the improvements in working papers and responses to all teams with input to the financial statements.</li> </ul>

# Appendix 1 – Draft audit report

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## **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 of the London Borough of Tower Hamlets for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Corporate Director of Resources and the Auditor**

As explained more fully in the Statement of the Corporate Director of Resources Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of the London Borough of Tower Hamlet's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.



## **Respective responsibilities of the Corporate Director of Resources and the Auditor**

As explained more fully in the Statement of the Corporate Director of Resources Responsibilities, the Corporate Director of Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the Authority and Group accounts of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes  
District Auditor

Audit Commission, 1<sup>st</sup> Floor Millbank Tower, Millbank, London, SW1P 4HQ

September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Accounting adjustments		Comprehensive income and expenditure account		Balance sheet	
Adjusted statement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Comprehensive income and expenditure statement	The gain resulting from the change in the prescribed approach for uplifting pension liabilities was accounted for as an actuarial gain instead of a change in past service cost.	134,600	134,600		
Balance Sheet	Cash equivalents were incorrectly classified as short term investments instead of cash.			37,600	37,600
Group Accounts	Items of Income and Expenditure were omitted: <ul style="list-style-type: none"> <li>■ Group CIEA non-distributed costs;</li> <li>■ Group CIEA housing revenue account;</li> <li>■ Group CIEA actuarial gain;</li> <li>■ Group Pension reserve; and</li> <li>■ Group Movement in Reserves Statements</li> </ul>	651	5,127 2,444	2,444	
		4,476			

## Accounting adjustments

## Comprehensive income and expenditure account

## Balance sheet

(adjustments between accounting basis and funding basis under regulations).

## Other adjustments to the financial statements

Adjusted statement	Nature of adjustment
Comprehensive Income and Expenditure Account	<p>A note was added to the face of the CIEA to provide detail on:</p> <ul style="list-style-type: none"><li>■ the gain arising from the change in the prescribed method for estimating future pension liabilities; and</li><li>■ the revaluation loss from the reduction in the factor used to reflect the restricted use of Council Dwellings.</li></ul> <p>This supplements note 4B which provides greater detail on these items.</p>
Movement in Reserves Statement (MIRS)	<p>The financial statements were updated to correct a difference of £1,425k between the MIRS and Note 7 (transfers to/ from earmarked reserves).</p>
Note 4b - Material Items of Income and Expense	<p>The note was updated to include the value of termination benefits paid to employees.</p>
Note 14 - Financial Instruments	<p>The foot note was updated to show the debtor balance of £57,918k.</p> <p>The note was updated to reflect the change in the reclassification of £37,600k of cash equivalents from Short Term Investments to Cash.</p>
Note 30 - Pooled Budgets	<p>The Pooled budgets note erroneously disclosed income of £1,537k from Tower Hamlets PCT in relation to Integrated Services for Disabled Children in the Trust Pathfinder (DCTP) agreement.</p>
Note 36 - Related Party Transactions	<p>The related party transaction note was updated to include debtor and creditor balances with related parties.</p>
Note 43 - Pension Scheme	<p>The footnotes were updated to show the correct prior year comparators: the prior year total deficit on the scheme was restated from £670,700 to £308,700.</p>



## Other adjustments to the financial statements

Note 44 - Segmental Reporting      The accounts were amended to include a segmental reporting note.

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# Appendix 3 – Draft letter of representation

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Jon Hayes

District Auditor

1<sup>st</sup> Floor Millbank Tower

Millbank

London

SW1P 4HQ

## **London Borough of Tower Hamlets- Audit for the year ended 31 March 2011**

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 2011. All representations cover the Council's accounts, Group Accounts and Pension Fund accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

## **Supporting records**

All relevant information and access to persons within the entity has 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 financial statements.

## **Irregularities**

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the London Borough of Tower Hamlets' related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

### **Comparative financial statements**

A restatement of 2009/10 Balance Sheet and Comprehensive Income and Expenditure Account was made to comply with accounting standards on the transition to IFRS. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of the London Borough of Tower Hamlets

I confirm that this letter has been discussed and agreed by the Audit Committee on 20 September 2011.

Signed

Name

Position

Date

# Appendix 4 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## 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 financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my 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.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.



The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## 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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;

- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

# Appendix 5 - Action Plan

## Recommendations

### Recommendation 1

Obtain valuations for the assets newly identified in 2010/11 that had not been subject to recent valuations.

<b>Responsibility</b>	Kevin Miles
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<b>Priority</b>	Medium
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<b>Date</b>	March 2012
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<b>Comments</b>	Property Services have been asked to provide valuations on the newly identified assets in time for the 2011/12 Accounts.
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### Recommendation 2

Undertake a review of the accounting treatment of the funding of the Barkantine PFI scheme. Seek specialist accounting or legal expertise to inform this review as appropriate.

<b>Responsibility</b>	Paul Leeson
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<b>Priority</b>	Medium
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<b>Date</b>	March 2012
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<b>Comments</b>	Officers are liaising with the CLG to agree the treatment of any PFI credits for the Barkantine scheme - it is planned that this matter will be resolved this financial year and will therefore not be an issue for the 2011/12 final accounts. The current treatment of the Barkantine provision is consistent with that applied in previous years.
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### Recommendation 3

Undertake an impairment review of the Council's investment in LAML.

<b>Responsibility</b>	Peter Hayday
<b>Priority</b>	Low
<b>Date</b>	March 2012
<b>Comments</b>	The investment in LAML has been funded from the Council's insurance reserve to reduce the external insurance premiums payable to insurance providers in exchange for the consortium having a higher level of self insurance. Officers will review the value of the investment during 2011/12 and will present the latest value within the 2011/12 accounts - any shortfall or surplus will fall to the insurance reserve.

### Recommendation 4

Evidence the operation of controls more consistently to strengthen the internal control environment.

<b>Responsibility</b>	Peter Hayday & Kevin Miles
<b>Priority</b>	High
<b>Date</b>	March 2012
<b>Comments</b>	Action has been taken to ensure that all reconciliations and exception reports are counter-signed to evidence that they have been reviewed.

### Recommendation 5

Continue the work to identify and implement savings to achieve the medium term financial plan whilst delivering against statutory requirements and the Mayor's priorities.

<b>Responsibility</b>	Peter Hayday
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<b>Priority</b>	High
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<b>Date</b>	March 2012
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<b>Comments</b>	The Council has implemented a robust budget, performance and savings review process as an integral part of the Medium Term Financial Planning Programme.
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### Recommendation 6

Build on the recent improvements in internal controls and financial reporting. Specifically:

- undertake a more thorough quality review of the draft financial statements;
- continue to undertake early work on items that are technically complex or high risk; and
- roll out the improvements in working papers and responses to all teams with input to the financial statements.

<b>Responsibility</b>	Kevin Miles
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<b>Priority</b>	High
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<b>Date</b>	June 2012
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<b>Comments</b>	Complications with drawing up IFRS accounts for the first time restricted time for reviewing the statements. Officers plan to build on IFRS implementation in 2011/12 - this should provide more scope to review draft accounts in June. Officers will work with the auditors to see how working papers can be improved, this will ensure enhancements are in place for the next closedown.
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