# London Borough of Tower Hamlets

## Report to the Audit Committee on the audit for the year ended 31 March 2019

Issued on 17 January 2022 for the meeting on 27 January 2022

# Contents

# 1. Key messages

# Introduction
## The key messages in this report

We have pleasure in presenting our report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audit of the financial statements for the year ended 31 March 2019.

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| **Status of our work** | Completion of the audit has been delayed well beyond the original deadline of 31 July 2019 due to the time to investigate and resolve issues identified during our original field visit and subsequently, the quality of the council's record keeping and the pace at which officers have responded to audit requests. We previously issued progress reports in July 2019, November 2020 and April 2021 which described challenges encountered in the audit process for the 2018/19 audit and attended other meetings to give oral updates. Audit committee members have also received updates from officers and a report from an external consultant on the closure process for the 2018/19 statement of accounts.<br>Whilst our audit is nearing completion, there are a number of procedures which remain outstanding, including:<br>• Review of updated statement of accounts<br>• Receipt of documentation for some sample items and responses to other audit requests<br>• Other items noted as outstanding throughout this report<br>• Other concluding procedures including review for subsequent events and receipt of management representation letter.<br>In addition, our predecessor has not yet certified the closure of their audits for years ended 31 March 2018 and 31 March 2017. As we understand the remaining matters which they are considering are relevant and material to the statement of accounts for the year ended 31 March 2019, we do not propose to issue our opinion until these earlier audit certificates have been issued. |
| **Key areas of audit judgement** | The key judgements in the audit process related to:<br>• The appropriateness of expenditure capitalised in the year<br>• The valuation of properties<br>• The valuation of a provision for the cost of settling appeals against rateable values made by business ratepayers<br>• The treatment of an historical amount of £20m previously carried in payables<br>• The appropriateness of restating comparative information and opening balances for various items<br>• The valuation of the council's pension liabilities<br>• The accounting for an indemnity given to Tower Hamlets Homes Limited (THHL) in respect of pension contributions<br>• The recognition basis for various income streams<br>• The decision on whether to prepare group accounts.<br>We report our conclusions on these areas in sections 3 and 4. This repeats information previously communicated but we have reported in this way, as a reminder for audit committee members due to the elapse of time and in order to provide a complete picture of our findings and areas of judgement. |

# Introduction
## The key messages in this report

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| **Findings and conclusion** | We have identified a number of adjustments or disclosure deficiencies in the version of the statement of accounts published in draft on the council's website on 19 October 2021. We have included a summary of these items at Appendix A. We have highlighted there those misstatements and disclosure deficiencies which officers have informed us will be corrected in the final version of the statement of accounts and have assumed that where these are material to our opinion, this will be done. Where this is not the case, we expect these matters will be referred to in our audit report on the financial statements. We also draw attention to an unresolved matter in relation to the valuation of council dwellings at page 20.<br><br>As noted above, there are a number of items of information which we are yet to receive. We have assumed for the purpose of this report that the information will be provided and we will be able to conclude satisfactorily on it.<br><br>We expect our opinion will be qualified in respect of the following matters:<br><br>• The council has not consolidated the financial statements of its subsidiaries, Tower Hamlets Homes Limited and King George V Fields Trust and other interests. Had these been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined. Our opinion on the Authority's financial statements is also qualified for this matter as the failure to consolidate all subsidiaries is a departure from the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. In addition , the strategic report and directors' report do not consider the effects of the failure to consolidate this subsidiary. In view of the significance to the accounts, we expect to give an adverse opinion.<br><br>• Note 40 Pension Scheme discloses the plan assets and defined benefit obligations held by the Authority, amounting to £1,444m and £2,133m respectively at 31 March 2019. Within these figures are assets and liabilities of £111.0m and £119.6m respectively, in respect of individuals currently or previously employed by the Authority's subsidiary, Tower Hamlets Homes Limited. Contrary to the footnote within note 40, these amounts include amounts arising from employment periods both before and after the transfer dates. In our opinion, the under International Accounting Standard 19 Employee Benefits, the Authority should recognise and measure amounts relating to employment periods prior to the relevant individuals' transfer date, but not after. To the extent that the net pension obligation relates to retirement benefits accrued after individuals transferred to Tower Hamlets Homes Limited, the obligation to make meet the cost of contributions should be measured and disclosed in accordance with International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets. In these circumstances, we are unable to quantify the effect of the application of the incorrect accounting standard. The effect of this is also not disclosed in the narrative report.<br><br>• Note 8 to the financial statements reconciles the Net Expenditure in the Comprehensive Income and Expenditure Statement (CIES), by service, for the year ended 31 March 2019, to the Expenditure Chargeable to General Fund and Housing Revenue Account (HRA) amounts for the year. We were unable to obtain sufficient appropriate audit evidence concerning the analysis by service of Expenditure Chargeable to General Fund and Housing Revenue Account balances or the reconciliation to the amounts presented in the CIES because, due to [reason], the Authority has not able to provide supporting analyses or reconciliation to the accounting records.<br><br>• Note 33 Officers' Remuneration discloses the number of employees receiving remuneration of more than £50,000 in bands of £5,000. We were unable to obtain sufficient appropriate audit evidence regarding the headcount figures for the year ended 31 March 2019 because of discrepancies between payroll reports and expenditure totals in the accounts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. |

# Introduction
## The key messages in this report

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| **Other information included in the statement of accounts** | We have reviewed the council’s narrative report and annual governance statement to consider whether they are misleading or inconsistent with other information known to us from our audit work. We did not identify any inconsistencies which we consider to be material but did identify a small number of instances where information in the narrative report had not been updated for changes made to the financial statements or where descriptions in the narrative report were inconsistent with those used in the financial statements or were otherwise unclear. In addition, the narrative report has not been updated for significant events subsequent to the year end and, in particular, makes no reference to the pandemic or to changes made to the council’s medium term financial strategy in its latest iteration. We recommend officers update for these matters which we have summarised in Appendix A. |
| **Duties as public auditor** | We did not receive any questions or objections from local electors in respect of the 2018/19 statement of accounts.<br>We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014. |
| **Use of resources** | As reported in our April 2021 report, we expect our conclusion on the council's use of resource will be qualified in respect of:<br>• financial reporting arrangements. This is, in particular, due to the volume and significance of changes required to the original draft statement of accounts and the long delay in finalising the accounts for publication<br>• arrangements relating to childrens services as improvements in arrangements which resulted in a rating of “Good” in Ofsted’s reinspection of the service in 2019/20 were not in place throughout the whole of 2018/19.<br>In addition, we expect our conclusion to be qualified in respect of arrangements for managing risks effectively and establishing a sound system of internal control. |
| **Whole of government accounts** | As the finalisation of the council’s statement of accounts for 2018/19 has been delayed beyond the publication of the Whole of Government accounts for that year, we are no longer required to provide a report to the National Audit Office on the consistency of the council’s consolidation return with its statement of accounts and other matters. |

# 2. Our audit explained

# Our audit explained

## We tailor our audit to your organisation and your strategy

**Identify changes in your business and environment**

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

**Scoping**

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

**Other findings**

As well as our conclusions on the significant risks and our use of resources work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.


**Determine materiality**

When planning our audit we set our materiality at £25m based on an estimate of gross expenditure. We have reported in this paper all uncorrected misstatements above £1,250k.

These are unchanged from the thresholds previously reported to you.

**Significant risk assessment**

In our planning report we explained our risk assessment process and detailed the significant risks we had identified. Following issues identified in early testing, we identified a further significant risk in respect of income from grants and contributions. We report our findings and conclusions on these risks in this report.

**Conclude on significant risk areas**

We draw to the Audit Committee's attention our conclusions on the significant audit risks And on other judgments included in the section on other areas of audit focus. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

**Our audit report**

Based on the current status of our audit work, we envisage issuing an audit Report which is qualified in respect of the matters summarised in the key messages section of this report.


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# 3. Significant audit risks

# Significant audit risks
## Valuation of properties

| Risk and Deloitte challenge and response | Conclusions |
|---|---|

**Risk**

The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

**Deloitte challenge and response**

We have tested the design and implementation of controls within the valuation process.

With the assistance of our internal valuation specialist we have performed the following procedures:

- Assessed the qualifications, experience, objectivity and independence of the valuer
- Tested factual inputs, such as building areas, to source documentation
- Assessed the appropriateness of the methods and assumptions used by the valuer
- Tested a sample of individual asset valuations
- Tested the posting of the valuation to the accounting records.
- Assessed Officers' rationale for concluding that have there was no material change between the data valuation and the reporting date for those assets not revalued at the reporting date.

**Conclusion on the design and implementation of key controls**

The valuation of properties has not been well controlled. Whilst the Council is taking steps to remediate the position, the following significant control deficiencies were present in the production of the 2018/19 draft statements of accounts:

- The Council did not have controls to ensure that information provided to the valuer for the purpose of his valuation was complete and accurate and the design of controls over subjective inputs to the valuation is not clear.
- We have not been able to obtain documentation to be clear on how changes in individual asset values have been scrutinised and followed up with the valuer. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval.
- The calculation and recording of entries relating to the valuation is performed in the fixed asset register. The fixed asset register is maintained on an excel spreadsheet. Typical spreadsheet controls we would expect to see over the design and maintenance of a spreadsheet used for the initiation and recording of significant financial transactions have not been adopted.
- Officers' process for assessing whether there had been a material change on assets not selected for revaluation at the reporting date was not adequate. Further information all this is given below.

We have responded to these control deficiencies by increasing the seniority of staff involved in the audit of this area.

We also draw attention to the recommendations made in relation to the valuer's report in our April 2021 report.

**Conclusion on our substantive audit procedures**

Our testing and subsequent investigations carried out by officers has identified a number of issues.

For assets valued on a depreciated replacement cost basis, land and building areas should reflect the size and layout of the building and ancillary land were it to be re-provided on a least cost basis, using a modern design and on an optimised site (the "modern equivalent asset"). However, it is common and acceptable to use the actual areas of the existing asset. For developed land areas for schools (i.e. the footprint of the buildings together with ancillary built on land such as playgrounds and car park) we understand that the areas used for the original valuation at 31 March 2019 were derived from either the building footprint or gross development value of the building, but did not receive a complete explanation. The approach did not comply with the modern equivalent asset principle and resulted in areas which were as a whole significantly less than the actual developed land areas for the existing assets. Officers have obtained a second updated valuation using the actual areas for the existing assets.

# Significant audit risks

## Valuation of properties (continued)

**Deloitte challenge and conclusion**

- The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. Officers identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools. A second updated valuation has been obtained for the schools affected.
- Together these adjustments related to an increase in the valuation of schools of £118m at 31 March 2019.
- The same information on building areas was used in the valuations at 31 March 2017 and 31 March 2018. As a result, officers have restated building valuations at these earlier reporting dates using the revised actual building area information. The same information on developed land areas was also used in the valuation at 31 March 2018. The position for the valuation at 31 March 2017 is less straight forward rather than developing separate assumptions for land area and price per hectare. For that valuation, the valuer calculated the developed land area as a percentage of the building. We have concluded this approach is not appropriate. Officers have restated the valuation at 31 March 2017 using the information on site areas and price per hectare used in the 31 March 2018 valuation. The restatements led to an increase in schools at 31 March 2018 of £300m and 1 April 2017 of £436m.
- The valuation of land used in preparing the published accounts for 2017/18 assumed a value of £17.8m per hectare for developed land. The same assumption was used for the valuation at 31 March 2019 in the initial version of the 2018/19 accounts. Subsequently, within the 2018/19 accounts, the valuation at 31 March 2018 has been updated for a change in the assumption from £17.8m to £11.1m per hectare. We agreed that the new assumption fell with a reasonable, albeit broad, range based on the range of values observable in the market. We considered the position for earlier years. Following further discussion with the valuer, we concluded that this was a change in estimate, rather than the correction of an error. This is because:
  - Based on research carried out by the valuer and other information considered by our valuation specialist, transaction values are highly dependent on the density of the subsequent development and we have concluded that both original and revised price per hectare both fall within the wide range of observed market prices.
  - The transactions which the valuer has relied on for the lower price per hectare relate to market transactions completed after the date of approval of the 2017/18.
- Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. In addition to the disclosure misstatement, surplus assets are required to be valued on a different basis, which reflects the property's highest alternative use, rather than its existing (or previous) use. The Council has obtained new valuations for these properties on the correct valuation basis which has resulted in an increase to their previously recorded values at 31 March 2019 of £12.2m. As the properties have been surplus for a number of years, the Council has also obtained revised valuation at earlier reporting dates with similar increases. The accounts for both years have been updated for these changes, including restatement of comparative information. Officers performed a review and did not identify any further surplus assets included in operational categories.
- We identified one property where a lease has been granted over part of the property. The lease had not been taken into account by the valuer, but following enquiries of the valuer, we are satisfied that the impact on the valuation is clearly trivial.
- Properties acquired for use as temporary accommodation during 2018/19 were not included in the valuation programme. These have now been valued resulting in a reduction in their value at 31 March 2019 of £11.1m.

# Significant audit risks
## Valuation of properties (continued)

**Deloitte challenge and conclusion**

- The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change.  Assets measured at current value which were not included in the 2018/19 valuation programme totalled £220.5m.  In addition, assets with valued as part of the 2018/19 valuation programme with an effective date of 1 April 2018 and where the valuation was not updated at the reporting date totalled £110.3m.
- The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer.  We challenged the appropriateness of officers' approach as:
    - Officers had not evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year)
    - Officers had not quantified the possible effect of market changes in the market review report on property values.
- Officers have subsequently performed work to address both these points and have calculated an estimate of change since the last date of valuation for those assets measured at current value but not revalued at the reporting date which is significantly below our materiality threshold. Our property valuation specialist is examining this and we will provide an oral update to the meeting.
- In addition, we have had regard to the results of the 2019/20 valuation programme.  The programme included the revaluation at 31 March 2020 of approximately half of those assets not revalued at 31 March 2019.  The recorded gain on these assets is not indicative of an earlier, material change.

As set out in Appendix D we are waiting for information before finalising our work on the valuation.

# Significant audit risks
## Management override of controls

### Risk and our response

**Risk**

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

**Deloitte response and challenge**

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts in evaluating the judgements made in the preparation of the financial statements.

**Journals**

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used our proprietary data analytics tool to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

**Significant transactions**

- We did not identify any significant transactions outside the normal course of business or where the business rationale was not clear. However we draw to the attention of audit committee members a lower value transaction examined as part of our journal entry testing. The transaction involved recording a contribution from an NHS entity of £3m immediately prior to the year end. We concluded that the transaction was artificial and intended to be unwound and therefore an adjustment has now been made to reverse it. We concluded this based on:
  - The way in which the transaction was characterised in correspondence between the two parties
  - The absence of a written agreement on how the contribution was to be applied by the council (which is a requirement of the governing legislation)
  - The existence of a second transaction, subsequent to the reporting date, where a contribution was made by the council to the NHS entity in the same amount (i.e. having the effect of repaying the original contribution). Again, a written agreement was not put in place recording how the contribution was to be applied, this time by the NHS entity.

**Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as summarised on page 4, including the NNDR appeals provision; the pension liability and debt provisions.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

# Significant audit risks

## Management override of controls (continued)

**Conclusions**

**Conclusion on the design and implementation of key controls**

Journals are raised through two routes. As explained more fully in section 6, Control observations, "bulk upload" route does not require approval of journals before posting. This is a significant control deficiency.

There is no requirement to prepare management position papers to explain and support estimates and we have referred to various examples throughout this report where this has not been done or where the analysis is incomplete. The failure to prepare documentation which fully explains and supports key estimates with associated management review also represents a significant control deficiency.

**Conclusion on our substantive audit procedures**

Our overall conclusion on estimates is as follows:

- The council has made various changes to estimates in the original version of the accounts. We conclude that misstatements arose due to errors in factual inputs to estimate calculations or as a result of the initial analysis being inadequate, rather than intentional manipulation of financial information.
- Entries relating to the valuation of PPE and related depreciation charges and gains and losses on disposal and pension liabilities do not impact on the usable reserves of the council and we would generally expect that there is little or no incentive for the council to manipulate this information.
  - The property valuation as a whole is towards the prudent end of a reasonable range because the land value used for assets at depreciated replacement cost is at the lower end of the range we would expect. This assumption is more prudent than the equivalent assumption at 31 March 2018 and contributed to the overall reduction in the carrying value of PPE compared to the prior year. Pension liabilities are also towards the more prudent end of a reasonable range. This is because, the council's actuary, in their methodology for deriving inflation rate assumptions, did not make a common adjustment to allow for an assumed inflation rate premium within observed market data. The method used by the actuary has not changed from the prior year and therefore involved a similar level of prudence in the position at 31 March 2018.
  - Conversely, the remaining useful economic lives of council dwellings (an average of 54 years) has been set towards the upper end of the range we would regard as reasonable of 30 to 60 years, resulting in a comparatively low depreciation charge. The remaining useful economic life for non residential properties is assumed, on the advice of the council's valuer, to be 50 years, regardless of age or condition of the property. As this results in a depreciation charge of only £14m, we concluded that we did not expect this simplification to result in a material misstatement but are not able to quantify.
- Entries relating to judgements which do impact on the amount of usable reserves were generally centred and consistent with prior year (following revision where relevant) and did not show evidence of bias. Changes in the approach to the estimation of the appeals provision and housing benefit overpayment bad debt provision contributed to an increase and reduction in the amount of provision, respectively, in comparison to the prior year. We identified two estimates where we have proposed an adjustment – one to increase provisions (in this case the NNDR appeals provision) and one to reduce to a bad debt provision against amounts due from leaseholders in respect of contributions to major works (as summarised in Appendix A).

# Significant audit risks

## Capitalisation of expenditure

| Risk and Deloitte challenge and response | Conclusions |
|---|---|
| **Risk**<br><br>The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS).<br><br>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.<br><br>The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital.<br><br>**Deloitte response and challenge**<br>We have tested the design and implementation of controls to ensure that only capital expenditure which meets the conditions for capitalisation is accounted for as such.<br>We have tested a sample of items capitalised (including amounts in REFCUS) to ensure they are valid and meet the conditions for capitalisation. | **Conclusion on the design and implementation of key controls**<br><br>As reported previously, we were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. This represents a significant control deficiency.<br><br>We have responded to this deficiency by increasing the seniority of staff involved in this work.<br><br>**Conclusion on our substantive audit procedures**<br><br>We did not identify any items from our testing which had been inappropriately capitalised. In the our April 2021 report we commented on other matters arising from this testing. We provide an update on those matters in the Appendix C. |

# Significant audit risks
## Income from grants and other contributions

### Risk and Deloitte challenge and response

**Risk**

Our early testing identified issues in relation to grants and other contributions. We have pinpointed the significant risk to:

- Contributions by leaseholders to major works which in the original version of the accounts were recognised in the comprehensive income and expenditure statement on a cash basis. Under IFRS 15 Revenue from contracts with customers, revenue is either recognised over time or at a point in time depending on an analysis of how performance obligations in the contract are satisfied. In this case, the obligation to carry out the works is satisfied over time and therefore contributions should have been recognised as spend on the capital project was incurred.
- Community infrastructure levy which in original version of the accounts (and in previous years) was recognised in the comprehensive income and expenditure statement when invoiced. Revenue should be recognised when payment is due under the relevant legislation, in this case on commencement of the development.

Officers have carried out an exercise for the purpose of both the 2018/19 and 2019/20 accounts to re-analyse both leaseholder contributions and community infrastructure levy across all periods presented in these statements.

There is a risk that leaseholder contributions and community infrastructure may not be recognised in the correct period as a result of errors in the execution of this exercise.

Recognition of grant income and contributions is not inherently complex nor does it involve significant judgement. Errors were also identified in the recognition of grants where grant income had been deferred inappropriately and where grant debtor and creditor control accounts had not been properly reconciled. As these balances, after adjustment, were not material, we concluded that there was not a significant risk of material misstatement associated with the recognition of other grant income.

**Deloitte response and challenge**

We have tested the design and implementation of controls to ensure that grant income and contributions are recognised in the correct period.

We carried out focused testing on the exercise carried out by officers to implement a change in recognition basis for major works across all periods presented in the 2018/19 and 2019/20 statements of accounts.

Our procedures in respect of contributions from leaseholders to major works included:

- Re-calculating accrued income at 31 March 2019, 31 March 2018 and 1 April 2017 for a sample of leaseholders, agreeing inputs to that calculation to records of individual and block gross values and capital expenditure records and testing whether recognition principles have been correctly applied, based on the timing of the related capital expenditure.
- Testing the completeness of income recorded in 2018/19 by tracing from the items in the capital programme to income records for the relevant year.

Our procedures in respect of community infrastructure levy (again to test the exercise carried out by officers), included:

- Understanding the Council's process for capturing and recording the commencement of developments
- Testing accrued income at 31 March 2019, 31 March 2018 and 1 April 2017 to commencement notices, invoice and subsequent receipt of cash
- Testing income in 2019/20 to commencement notices, invoice and subsequent receipt of cash
- Tracing a sample of developments from the Exacon system (used to record information on projects which have commenced) to income records.

# Significant audit risks

## Income from grants and other contributions

### Conclusions

**Conclusion on the design and implementation of key controls**

The Council has prepared and shared with us process notes in relation to grant income and contributions. We are not clear from these what controls operate within this process to ensure that grant income and contributions are recognised in the correct period and in practice errors have been identified. This represents a significant control deficiency.

We have responded to this deficiency by increasing the seniority of staff involved in this work.

**Conclusion on our substantive audit procedures**

Our procedures on contributions from leaseholders to major works did not identify any exceptions.

Our testing of community infrastructure levy identified the incorrect accrual of income of £2.8m at 1 April 2017 relating to a development which did not commence until 2017/18. This has now been corrected.

# 4. Other areas of judgement

# Other areas of judgement
## Prior year adjustments

### Area of judgement and conclusion

Our initial work during 2019, and subsequent investigations carried out by officers, identified accounting issues impacting on prior periods.

Officers concluded on the basis of these investigations that comparative information for 2017/18 and opening balances at 1 April 2017 and 1 April 2018 should be restated.

| Description of restatement | Reference | Effect on net assets at 1 April 2017 | | Effect on 2017/18 total comprehensive income | | | Effect on net assets at 31 March 2018 | |
|---|---|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Income from services | Spend on services | Other | Assets | Liabilities |
| | | £m | £m | £m | £m | £m | £m | £m |
| Correction of property related errors | | | | | | | | |
| PPE valuation | Pages 9-11 | 415.1 | | | (21.7) | 90.9 | 345.9 | |
| Academy conversion | April report | | | | | 141.5 | (141.5) | |
| Correction of income recognition related errors | | | | | | | | |
| Leaseholder contributions | April report | 18.0 | 6.1 | | | (2.2) | 10.5 | 15.7 |
| Community infrastructure levy | April report | 9.4 | | | | (2.4) | 10.3 | 1.6 |
| Grant income recognition | Appendix D | (2.8) | 6.6 | (1.1) | | | (3.7) | 8.5 |
| Correction of presentation errors | | | | | | | | |
| Bank accounts in credit offset | Appendix D | 42.2 | (42.2) | | | | 24.8 | (24.8) |
| Offset of internal income and expenses | Page 22 | | | 42.8 | (42.8) | | | |
| Correction of omission of liabilities | | | | | | | | |
| Teacher discretionary pension award | April report | | (9.4) | | | | | (9.4) |
| Correction of other errors | | | | | | | | |
| Consolidation of schools balances | Pages 19-20 | 1.6 | | 7.0 | 0.3 | | (1.9) | (3.8) |
| Other corrections | | | | 1.7 | 0.4 | (2.6) | (0.3) | 0.7 |
| **Total** | | **483.5** | **(38.9)** | **50.4** | **(63.8)** | **225.2** | **244.1** | **(11.5)** |

We have provided a commentary on the circumstances and accounting issues giving rise to these restatements elsewhere within the report or in our April 2021 report.

# Other areas of judgement

## Prior year adjustments (continued)

### Area of judgement and conclusion

The decision on whether to restate prior periods typically involves two key areas of judgement.

- Firstly prior period information is only restated where there has been a change in accounting policy or to correct for a material error. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. The first area of judgement can therefore be in determining whether or not an item is a prior period error.

  Our principal challenges were in two areas

  - In relation to the selection of an appropriate value per hectare for developed land. We discuss this further on pages 10-11.
  - As part of the 2018/19 accounts process, a valuation of council dwellings was carried out at an effective date of 1 April 2018. This resulted in a valuation which was £113m (10%) lower than the carrying amount at 31 March 2018. This raises a question as to whether the change arises from a change in accounting estimate, for example due to further information becoming available after the date of approval of the 2018/19 accounts, or whether it relates to an error in the carrying amount at 31 March 2018.

    The valuation at 31 March 2018 was derived from a valuation of council dwellings performed at 1 April 2017 which was then updated to 31 March 2019 by applying an index of 4.5% to account for the estimated market increase over 2017/18. The uplift was applied in line with advice in a market review report issued by the council's valuer in April 2018.

    We have inspected the market change report which explains that reported index is derived solely from Land Registry information. The Land Registry information for the London Borough of Tower Hamlets shows a reduction and not an increase over 2017/18. The scale and direction of the change in valuation between the two full valuations (i.e. 1 April 2017 and 1 April 2018) is consistent with the information currently observed in the Land Registry information.

    Land Registry information is updated continuously and retrospectively – however, the scale of the implied change would be unusual (both overall and for the various data points referenced in the valuer's report). The valuer has been contacted by the council for his comments but he has not been able explain further as we understand he did not retain a copy of the data on which his market review report was based.

    Whilst we cannot determine what information was shown in the Land Registry record at the time the valuer prepared his market change report in April 2018, the valuation should reflect information available at the time of approval of the accounts (in July 2018). Given the four month interval, we consider it unlikely that a valuation performed at this point would have resulted in a valuation which was significantly different to the valuation which was subsequently performed at 1 April 2018. The council is discussing this with the predecessor auditor and we will conclude once we know the outcome of this.

# Other areas of judgement

## Prior year adjustments (continued)

**Area of judgement and conclusion**

- The second area of judgement is whether a prior period error is material. IAS 8.42 requires restatement only of material prior period errors. Immaterial prior period errors shall not be corrected through restatement of comparatives. Officers have decided to correct all prior period errors identified.

  Adjustments to the valuation of properties (£204m at 31 March 2018 and £415m at 1 April 2017 – see pages 10-11) and to derecognise academies at 31 March 2018 (£142m) are 8, 17 and 6 times materiality set for planning purposes, respectively and we regard as material.

  In our report to the audit committee in December 2020, we highlighted this as an area where we would normally expect management to prepare a position paper setting out and explaining their view and requested that this be done.  This has not been done and the position on whether other adjustments are individually material involves greater judgement.

  In the case where more than one prior period error has been identified, the accounting guidance requires consideration of the collective effect of errors, as well as whether they are individually material. Where a material prior period error is being corrected through restatement of comparative balances, this does not automatically mean that any other prior period errors identified should also be corrected regardless of their materiality.  However, in this case, in view of the volume and size of other errors identified, we consider the approach taken by officers is, in general, reasonable and has been applied consistently and without bias.

In addition to the error relating to the valuation of council dwellings discussed on the previous page, we note the following errors and disclosure deficiencies in relation to prior period information which have not been corrected in the version of the accounts published on 19 October 2021:

- A restatement has been made to “gross-up” bank overdrafts which have been incorrectly set-off against deposit amounts.  The restatement did not include three accounts which were not included in the trial balance presented to us for audit.  The accounts are involved in placing surplus schools cash on overnight markets.  The Council’s agreement with the bank does not give the Council a legally enforceable right of set-off and therefore the overdraft should not be set-off against the deposit on the balance sheet. The understatement of cash and cash equivalents and bank overdraft at the reporting dates presented are: 31 March 2019 - £23m; 31 March 2018 - £26m; and 31 March 2017 - £28m.  We have included this in Appendix A, Audit Adjustments.
- An analysis performed by officers identified fixed terms deposits with maturity dates falling after 12 months of the relevant reporting date which had been classified within short term (i.e. current) investments.  As these are not held for trading and were not, given their remaining period to maturity, expected to be realised within twelve months of the reporting date, these should be reclassified to long term (i.e. non current) investments.  As this exercise was not performed under after the publication of the October 2021 version of the draft statement of accounts, we have included these as proposed adjustments in Appendix A, Audit Adjustments.  The amounts involved at the respective reporting dates are: At 1 April 2017 - £30m from short term to long term investments; At 31 March 2018 - £85m from short term to long term investments.  In addition, as a proposed adjustment at 31 March 2019 had not been made, an adjustment is also needed in the closing balance sheet to reclassify £12m from long term to short term investments.
- In Note 2 of the draft statement of accounts, relating to the restatements, amounts have been misclassified between categories of restatement. Further information is given in Appendix A, Audit Adjustments.
- Comparative information in disclosure notes has been restated, including disclosures on higher paid employees, but relevant disclosures in relation to the restatement have not been given. Further information is given in Appendix A, Audit Adjustments.

# Other areas of judgement

## Indemnity given to THHL in respect of future pension costs

**Area of judgement and conclusion**

Staff who transferred from the Council to Tower Hamlets Homes Limited (THHL) continued to be members of the Local Government Pension Scheme administered by the council.

At that time, the council entered into a management agreement with THHL in which it agreed to meet the cost of benefits accrued by transferring employees up to the date of their transfer.

On 31 March 2009, the then Corporate Director, Resources appears to have extended this obligation by writing to the Board of THHL and agreeing that the Council "indemnifies THHL in respect of all liabilities that have arisen or may arise from pension obligations".

On the basis of this letter, the Council has recorded a pension liability equal to the full amount of the liability relating to the THHL section of the London Borough of Tower Hamlets Pension Scheme (i.e. the liability recorded relates to the cost of settling benefits accrued from individuals' service both before and after their transfer to THHL). In turn, THHL has recorded both a liability and reimbursement asset of the same amount. Using statutory mitigation arrangements, the relevant revenue account (in this case the Housing Revenue Account) is being charged as contributions become payable, rather than as benefits are earned by individuals. Pension benefits which have accrued relating to individuals' service with the Council prior to their transfer to THHL represent post-employment benefits and are accounted for in the same way as pension benefits provided to other Council staff.

Conversely, pension benefits which individuals have accrued in respect of service rendered after their transfer to THHL do not represent employee benefits from the perspective of the Council. This is because they do not arise from service rendered to the Council (or the individual's termination) – instead they arise from the commercial arrangements put in place between the Council and THHL.

As a result, benefits accruing after an individual's transfer date fall outside the scope of IAS 19 Employee Benefits and should instead be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The consequences of this analysis are, in relation to the part of the liability attributable to post transfer service, that:

- The liability should be classified within Provisions on the balance sheet and not under Liability related to defined benefit pension scheme.
- The liability should be quantified using the measurement rules of IAS 37 which are different to IAS 19.
- Entries to the Comprehensive Expenditure and Income Statement should be calculated and presented on a different basis to that currently reflected.
- Statutory mitigation arrangements do not apply. As a result, the full amount of the provision should be charged to the Housing Revenue Account and subsequent changes in the provision charged or credited to the Housing Revenue Account.

At 31 March 2019, plan assets included in respect of this section were £111.0m and gross liabilities were £119.6m.

We are not able to quantify the adjustments needed as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37. We therefore expect to qualify our opinion in respect of this matter.

# Other areas of judgement
## Consolidation of schools balances

**Area of judgement and conclusion**

Officers identified errors in relation to the recording of cash and other transactions involving schools.

These issues arose because of:

- The complex system of entries used to record disbursements and other flows between the council and individual schools
- The use of only a single general ledger control account within the main council ledger to record the balances for some seventy different bank accounts, together with, we understand, a failure to perform a full reconciliation between the general ledger control account on the one hand and the total of the reconciled cash books for the individual schools on the other.

Following investigation, officers have recorded the following restatement of comparative information:

| £m | Restatement to correct classification errors | Other restatements | Total restatement |
|---|---:|---:|---:|
| Short term debtors | (8.2) | 0.5 | (7.7) |
| Cash and cash equivalents | 12.0 | (6.2) | 5.8 |
| Short term creditors | (3.8) | - | (3.8) |
| General Fund | - | 7.8 | 7.8 |
| Schools reserves | - | (2.1) | (2.1) |
| Gross income | - | 0.3 | 0.3 |
| Gross expenditure | - | 7.0 | 7.0 |

Officers have also made changes to the original version of cash and cash equivalents and other balances at 31 March 2019.

Our procedures have focused on changes to cash balances and has included:

- Discussion of the nature of changes made between original and final versions of the accounts
- Requesting a full reconciliation between the general ledger control account and the individual reconciled cash book balances
- Performing procedures to test the completeness of cash book amounts included in that reconciliation
- Performing tests on the reconciled cash balances on a sample basis.
- Inspection of documentation relating to other accounts balances.

# Other areas of judgement

## Consolidation of schools balances (continued)

**Area of judgement and conclusion**

We found that:

- In relation to other restatements of comparative information (see table on previous page), we have not been able to obtain full information on the changes made to income and expenditure in 2017/18 or to the amount of reserves at 31 March 2018. We understand the approach taken by officers was to adjust school reserves to agree to the total of the individual school reserves on returns made by schools, adjusted for known errors identified by officers' investigation. The General Fund balance was then treated as a balancing amount in agreeing to the adjusted net asset position and resulting in a reduction in the closing General Fund reserve at 31 March 2018 of £7.0m.
- There are differences between the reconciled cash position and amended general ledger control account balance of £699k, £934k, £2,625k and £1,560k at 31 March 2020, 31 March 2019 and 31 March 2018 and 1 April 2017 respectively. It was apparent from these unresolved differences that correcting journals posted to the general ledger control account were incomplete.
- The reconciled cash position incorrectly included amounts due from HMRC of £1,246k, £1,644k, £1,189k and £1,499k at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017, respectively. Officers have informed us that these amounts relate to input tax on schools expenditure for the final month or two months of each year which are to be reclaimed from HMRC. Officers' investigation also found that, as a result of an oversight, amounts relating to Feb/March 2020, Feb/March 2019 and Feb/March 2018 input tax had not been subsequently reclaimed and remain outstanding. The updated accounts include a journal to reclassify amounts from cash and cash equivalents to short term debtors to the extent that officers believe that amounts remain recoverable.
- Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half at 31 31 March 2019), where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries which should be released to income. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented cheques and BACS is £8,127k, £7,309k and £25,712k at 31 March 2019, 31 March 2018 an 1 April 2017, respectively, representing the maximum amount of error at each reporting date.

In view of the uncertainty over the correct balance, we have not proposed adjustment but draw audit committee members attention to the fact that there is uncertainty over cash balances at each reporting date presented.

# Other areas of judgement

## Release of credit balance

**Area of judgement and conclusion**

We have previously reported to you on a release of a credit of £20.0m which had been brought forward on the balance sheet as part of a larger credit balance relating to the collection of taxes. Our conclusion on this is unchanged and no further information on the transaction has come to light subsequently. We have repeated our conclusion here, however, in order to give a complete picture within this report on all areas of identified judgement that remain.

Officer's subsequent investigation of the balance concluded that:

- The amount had accumulated over a period of several years and related to posting errors involving the bad debt provision for business rates arrears. The amount represented the part of the provision which was identified to be in excess of requirement as a result of the posting errors.
- This position was identified in 2014/15 and the amount which was in excess of requirement was transferred to an account included in Short term creditors.
- In the original version of the 2018/19 accounts, authorised for issue in May 2019, an entry was made to release the credit to the General Fund.
- As the amount was originally charged to the Collection Fund as a bad debt provision and was now in excess of the required amount, the liability should have been released in the Collection Fund and not to the General Fund.

On the basis of this conclusion:

- Officers wrote to MHCLG in September 2019 for guidance and MHCLG have agreed that the amount can be accounted for as an in-year release of the provision in the Collection Fund. This means that the benefit of the reversal is subject to the 100% local retention and pan London pooling arrangements applicable to 2018/19.
- Correcting entries have been made in the Council accounts and supplementary Collection Fund statement in line with the guidance from MHCLG.

We inspected officers' concluding report prepared as a basis for these entries. We concluded that:

- The information provided through officers' investigation is not sufficient to determine which original entries (if any) were erroneous.
- The analysis of entries giving rise to the original credit supports that the credit relates to the collection and disbursement of business rates.
- Our work on the Collection Fund does not identify the need for a balance to be held (either amounts due to business rates payers; bad debt provision; or amounts due other preceptors arising from transactions in the period).
- Whilst the quality of records means that the position is not certain, it is, as a result, probable that the amount: forms part of the Collection Fund balance sheet; is in excess of any requirement; and should be released to the Collection Fund.
- The credit has been released on the bad debt expense line within the Collection Fund supplementary statement. Officers have explained why this is the appropriate classification, but the evidence for this (or alternate) classifications is very limited. However, the amount is immaterial to the presentation of the Collection Fund.

# Other areas of judgement
## Release of credit balance

**Area of judgement and conclusion**

Our procedures also included considering whether it was appropriate to account for the release of the credit as a current year item in the Council's accounts or whether opening balances and prior year information should be restated. Officers have told us that they have been unable to determine the reason for the decision taken in 2014/15 to carry forward the "excess" provision amount, rather than release to the Collection Fund.

We have concluded:

- As the excess provision amount was substantially accumulated during a period when the council was acting as an agent for central government in the collection of all business rates, it is reasonable to conclude that officers, at that time, considered it was likely that amounts previously deducted from past remittances to central government in relation to the excess provision would need to be paid to central government in the future and therefore that it was appropriate to carry this credit balance on the balance sheet. The lack of adequate contemporaneous documentation (as explained further below) increases the amount of judgement involved in this accounting decision.
- The release of the credit therefore arises from a change in estimate arising from the department's clarification of its expectations.
- It is therefore appropriate to account for the release in 2018/19 and not by restatement of opening balances.

Officers' investigations identified a brief comment in a working paper in 2014/15 on the accounting treatment. However, this did not adequately explain either the preceding treatment or the rationale for transferring the credit to a separate, short term creditor account. Similarly, we have not been able to obtain documentation which explains the decision to carry forward this credit at subsequent year ends or which explains either the decision to release the credit in 2018/19 or the initial decision to release this to the General Fund and not the Collection Fund.

This type of documentation forms an important part of the Council's accounting records and the absence of the documentation and appropriate internal scrutiny of the decision-making represents a significant control deficiency.

# Other areas of judgement

## Disclosures

### Area of judgement and conclusion

The Code requires disclosure of the number of employees receiving remuneration of more than £50,000 in bands of £5,000.

A set out in our April 2021 report, the disclosure (including comparative information) had been updated as the original version did not include information for staff at schools which had opted out of the corporate payroll arrangement. We also reported that:

- Officers had prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers.
- For a number of schools there are large variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts.
- We had requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences.

We have been unable to obtain a reconciliation or other evidence which provides assurance over the completeness payroll reports. In view of enhanced user interest in higher paid and senior employee disclosures, we regard this as material and therefore expect to qualify our audit report in respect to this matter.

Note 8 to the financial statements discloses an analysis by service of expenditure chargeable to General Fund and Housing Revenue Account balances with a reconciliation to amounts determined in accordance with generally accepted accounting principles and presented in the Comprehensive Income and Expenditure Statement. We were unable to obtain sufficient appropriate audit evidence concerning analysis by service of expenditure chargeable to General Fund and Housing Revenue Account balances or the reconciliation to the amounts presented in the Comprehensive Income and Expenditure Statement as the Authority has not able to provide supporting analyses or reconciliation to the accounting records.

We also expect to qualify our opinion in respect of this matter.

# Other areas of judgement

## Preparation of group accounts

### Area of judgement and conclusion

Authorities with interests in subsidiaries, associates and/or joint ventures are required to prepare group accounts in addition to their single entity financial statements unless their interest is considered not material.

The council has subsidiaries but has not prepared group accounts as officers have concluded that group accounts would not be materially different to the council’s single entity accounts.

We have summarised information for the two principal subsidiaries to the right, being THHL (a wholly owned subsidiary) and King George V Fields Trust (for which the council is corporate trustee) from their draft or published accounts. Other subsidiaries individually and in aggregate are clearly trivial. The analysis includes entries which would be made to eliminate transactions between group components in order to illustrate the extent to which group accounts would be different to the council’s single entity accounts.

| £m | THHL | KGVFT | Eliminations | Total |
|---|---|---|---|---|
| Revenue | (31.9) | (1.4) | 31.9 | (1.4) |
| Expenditure | 31.1 | 1.2 | (31.9) | 0.4 |
| Deficit on provision of services | (0.8) | (0.2) | - | (1.0) |
| Total comprehensive income | 0.7 | (0.2) | (1.5) | (1.0) |
| Total assets | 16.6 | 16.7 | (11.0) | 22.3 |
| Total liabilities | (12.4) | (0.1) | 11.0 | (1.5) |
| Net assets | 4.2 | 16.6 | - | 20.8 |

Officers identified an entry of £22.8m in the fixed asset register within community assets relating to expenditure on Mile End Park. The Park is owned by KGVFT and not by the council. Based on a review of changes to this record since 2007, officers have determined that the amount relates to a Millennium Commission funded project which encompassed the construction of the Green Bridge linking two parts of the park, the creation of “gardens” with associated pavilions and other works in the Park. Officers have also concluded that the entry substantially duplicates other entries relating to shop units and pavilions recorded at current value within the other land and buildings category. Officers formed this view on the basis of discussions with colleagues in the estates team to understand the likely disposition of expenditure. However, the information to corroborate this second assumption is limited and there is also contradictory evidence including that the entry in community assets has been accounted for in the past as land and not depreciated and an analysis of spend suggest that expenditure on the Green Bridge (which includes the spend on the shop units) and the creation of the gardens (which includes the spend on the pavilions) account for only half of the total expenditure on the Millennium project.

Officers have made an adjustment in the updated accounts to remove the entry relating to the Millennium project. Notwithstanding the question of whether assets have been duplicated, this is appropriate as the council does not own Mile End Park and the assets are instead owned by an entity with a separate legal personality. However, to the extent that the expenditure relates to assets not already recorded on either the council’s balance sheet or the balance sheet of KGVFT (such as expenditure on landscaping, the design of the park and the laying out of footpaths), these would need be recorded on the group’s balance sheet (in the event that one was to be prepared) under the council’s accounting policy for community assets which requires such assets to be carried at depreciated historic cost.

Officers have prepared a management position paper which analyses both quantitative and qualitative considerations and concludes that the group accounts would not be materially different to the council only accounts. The paper does not consider the possibility that part or all of the spend on the parks might be brought on to the council’s balance sheet. However, as the net assets of the subsidiaries are close to materiality it is reasonable to conclude that group accounts would be materially different to the council’s single entity accounts. As group accounts have not been prepared, we expect to qualify our report in respect of this matter.

# Other areas of judgement

## NNDR appeals provision

**Area of judgement and conclusion**

We have previously reported in relation to the original version of the accounts:

- The Council has made a provision of £1.3m for the estimated cost of appeals made by business ratepayers to their bills.
- We had been provided with an analysis prepared by an external adviser which indicates a provision requirement of £8.9m for appeals made against the 2010 Ratings List, of which the Council's share would be £5.8m.
- No provision has been made for appeals against the 2017 Ratings List.

We further reported in relation to an updated version of the accounts circulated to the audit committee for the January 2021 meeting:

- Officers had increased the appeals provision at 31 March 2019 by £12.8m. This was determined as an amount equal to the Council's share of the reversal of the credit of £20m discussed earlier (resulting in the aggregate of these two adjustments having no impact on the Collection Fund surplus).
- Whilst a revised provision calculation had not been prepared, the Council had supported its view that the revised provision is reasonable by reference to a comparison with other authorities. The comparison with other authorities shows that the revised provision remains towards the bottom (but no longer at the extreme) end of the range - but other points on that range might give a provision that was materially higher.

Subsequent to the meeting in April, officers have provided an updated analysis which estimates the provision required using historical information on the proportion of appeals which are successful and average refund amounts as a proportion of rateable value. The calculation suggests a provision which is £1.0m higher than the recorded amount. As the calculation provided an evidence based estimate, we focused our work on this.

Our procedures included making the following challenges:

- The calculation took into account appeals received up to 31 March 2019 and made no allowance for claims received or expected after this date. The council has formed the general view that it is unable to form a reliable estimate of the appeals which have not yet been made. This is because (i) ratings lists typically have different types and profile of issues relating to them (ii) the check and challenge process introduced for the 2017 ratings list is designed and expected to impact on ratepayer appetite to appeal against rateable values. As a result, there is insufficient information on which to model expected future appeals. Whilst we conclude that this view is reasonable, in this instance, due to the delay in the accounts and audit process, there is a longer period of post balance sheet information available.
- The calculation used historical information in relation to appeals determined prior to 31 March 2019 and not the full data set available to the council. As a consequence, data sets for some appeals types are very small and may be less accurate.
- The data includes apparent duplicates or instances where the same business ratepayer has appealed on multiple grounds and we may not expect the effect to be additive.

We have estimated the effect of adjusting for these matters would be to increase the provision by £10m, of which the council's share would be £6.4m. Whilst the council's provision falls within a range of possible outcomes (taking into account variability within the historical data), as the recorded amount (a) does not take account of the analysis which the council has performed (b) their analysis ignores information subsequent to the reporting date which should have been taken into account, we have proposed an adjustment.

# Other areas of judgement

## Pension liability relating to the Tower Hamlets Pension Fund

**Background**

The Council participates in the fund it administers, as well as the Local Government Pension Scheme fund administered by the London Pension Fund Authority (LPFA). Our comments on this page deal with the much larger liability relating to the Council's own pension fund and not to the liability relating to the LPFA fund.

The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The actuary has not estimated the impact on the Council's liability but we understand has advised the Council that he does not expect the impact would be significant.

**Deloitte response**

- We obtained a copy of the actuarial report for the Council Pension Fund produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We performed substantive analytical procedures on movements.
- We reviewed the disclosures within the accounts against the Code.

| | Council | Benchmark | Comments |
|---|---|---|---|
| Discount rate (% p.a.) | 2.40% | 2.36% | Centred |
| Consumer Price Index (CPI) Inflation rate (% p.a.) | 2.50% | 2.25% | At prudent end of reasonable range |
| Salary increase (% p.a.)<br>(over RPI inflation) | -1.2% | n/a | Entity specific assumption. See below |

**Deloitte commentary on findings to date**

The Council has not adjusted the pension liability for the impact of the McCloud/Sargeant rulings, in view of the advice from its actuary that adjusting for this would not have a significant impact. The scale of impact is in particular driven by assumptions on future salary increases and the age of the membership. The salary increase assumption used to calculate the pension liability relating to the Tower Hamlets Pension Scheme is towards the lower end of what local government employers have assumed and the average age of the active membership is 52 years is comparatively high – both these factors indicating a smaller impact. We have estimated the impact to be an increase in the pension liability of £1.6m and have proposed this as an adjustment.

The lower assumed salary increase is not inconsistent with recent experience or assumptions made in the Council's Medium Term Financial Strategy and the Council has confirmed that this is their best estimate.

The plan assets used in the original actuarial calculation were determined by the actuary using information at an earlier date, rolled forward on the basis of estimated investment returns. The estimate of investment returns was optimistic. The actuary has now revised his calculations based on the actual plan assets shown in the draft pension scheme accounts. This has resulted in a reduction to the net pension liability of £15m which has been reflected in the current version of the accounts.

As set out in more detail in the separate report on the pension scheme audit, stale prices by the custodian to value one of the scheme's investment. The impact, if adjusted, would be to decrease the net pension liability on the council's balance sheet by £1.0m and we have proposed this as an adjustment.

The actuary has not allowed for an assumed risk premium in market information used to derive inflation rate assumptions. It is now common practice to adjust for an inflation risk premium. As this has not been done, the inflation assumptions are at the prudent end of the range we consider to be reasonable.

# 5. Use of resources

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

**Background**

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

**Our risk assessment**

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report. We also set out in our audit planning report the two areas of significant risk identified by our risk assessment procedures performed at that point. These risks both related to the risk that matters giving rise to the previous year's qualified conclusion are also relevant to the current year. The prior year qualifications related to: an Ofsted rating of inadequate for children's services; and the council's best value improvement plan.

At the time of issue of our 2019/20 audit planning report our 2018/19 audit was ongoing. We used the report to update you on two further risks we had identified which required further evaluation to determine if they were significant risks:

- A risk relating to the council's administration of the London Borough of Tower Hamlets local government pension scheme in the light of reports which the council has needed to make to the Pensions Regulator. We have now completed that risk assessment work, including consideration of the further matters which we have recommended the council report to the Pensions Regulator and gained an understanding of the council's arrangements in relation to administration of the pension scheme. We concluded on the basis of this further risk assessment work that there was not a significant risk in respect of our value for money conclusion and therefore have not performed further work.

- We also determined that the volume and nature of misstatements identified during the audit process for the 2018/19 financial statements, as well as the time taken to investigate and resolve issues identified, represented a risk of weaknesses in financial reporting arrangements. We concluded this was a significant risk to our value for money conclusion.

We have now completed other risk assessment work, including reviewing the revised version of the 2018/19 Annual Governance Statement and internal audit reports issued as part of both the 2018/19 and 2019/20 internal audit programmes. On the basis of this further risk assessment work we have identified the following additional risk to our value for money conclusion:

- There is a risk that there is a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control.

We set out information on the significant risks and our response on the following pages.

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

| **Risk title** | **Ofsted rating of inadequate for children's services** |
| --- | --- |
| **Risk description** | In their inspection report published on 7 April 2017, Ofsted rated children's services in Tower Hamlets as "inadequate". This overall assessment incorporated inadequate ratings for the following assessment categories: children who need help and protection; and leadership, management and governance. Our predecessor concluded that these circumstances provided evidence of weaknesses in proper arrangements.<br><br>There is a risk that the matters giving rise to the previous year's qualified conclusion are also relevant to the current year. |
| **Procedures performed** | We have read the original inspection report and reports from subsequent monitoring visits and discussed with the Corporate Director responsible for children's services.<br><br>We have also read the Council's disclosures made about this issue in the Annual Governance Statement. |
| **Conclusion on risk** | We conclude that our VFM conclusion should be qualified in respect of this matter. This is because:<br>• Children's services are an important and high profile service<br>• The Council's rating from its regulator was "inadequate" during 2018/19<br>• Whilst it is apparent from both the Council's own internal monitoring and monitoring visits that the CQC have carried out that improvements have been made, these arrangements were not in place throughout the year and in particular the Ofsted inspection reports from the early part of 2018/19 identify some areas where there had been limited improvement. |

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

| Risk title | Financial reporting arrangements |
|---|---|
| **Risk description** | In our 2019/20 audit plan, we identified an additional risk in relation to financial reporting.<br><br>The Council’s statement of accounts has been significantly delayed and there has been a period of uncertainty over the true financial performance in 2018/19 and amount of resources available at 31 March 2019 while officers investigate and quantify potential or actual misstatements in the draft statement of accounts. The Council has recognised in its updated draft annual governance statement for 2018/19 that there significant deficiencies in controls over financial reporting.<br><br>There is a risk that these matters indicate material weaknesses in financial reporting arrangements. Reliable and timely financial reporting that supports the delivery of strategic priorities is a key component of informed decision-making. |
| **Procedures performed** | We have evaluated:<br><br>• the volume, size and significance of adjustments required to the original version of the statement of accounts and their cause.<br><br>• the control observations made in the course of our work.<br><br>• the report commissioned by the Council into the 2018/19 accounts closure and audit process. |

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

| Risk title | Financial reporting arrangements (continued) |
|---|---|
| **Conclusion on risk** | We conclude that our VFM conclusion should be qualified in respect of this matter. This is because:<br><br>1. The length of time taken to provide information and explanations to support transactions in the accounts; to investigate issues which have arisen; and prepare amended financial statements leading to an expected delay in excess of two years for the target date for issue of our opinion of 31 July 2019.<br>2. The volume, size and pervasiveness of corrections required in relation to both current and prior period information reported in the statement of accounts originally authorised for issue in May 2019, in particular correction to or prolonged uncertainty over the amount of usable reserves available to meet future spending requirements and therefore strategic objectives (or timing in recognition of these resources) (see the appendix to this document for a summary of the changes made). Of particular note are:<br>• In the original accounts a reversal of a creditor was recorded in the general fund and not the collection fund. The correction of the error, together with the correction of an error in the estimate for appeals to business rates, resulted in a reduction in council revenue resources of £20m.<br>• The earlier recognition of capital resources of £30m in respect of contributions from leaseholders to major works and £20m due from developers in respect of community infrastructure levy and other government grants of £7m.<br>• The restatement of prior period accounts, including the restatement of PPE by £440m.<br>• The Council commissioned an independent report into the accounts closure process which identified weaknesses in the accounts closure process, including weaknesses in the leadership of that process.<br>• These and other weaknesses in related accounting and business processes, including the following resulted in material misstatement of the accounts and delays in the accounts and audit process:<br>    • Inadequate controls in areas of significant risk of material misstatement which resulted in material misstatement including controls over journals, controls over the valuation of properties and controls over the calculation of estimates.<br>    • Inadequate control reconciliation processes, in particular in relation to the reconciliation of the schools disbursement account resulting in prolonged uncertainty over the amount of schools cash balances.<br>    • Inadequate VAT accounting processes resulting in the under claim for input tax of £4m.<br>    • Inadequate training of staff resulting in incorrect application of the Council's accounting policies, in particular in relation to the recognition of income.<br><br>We note that this has also been identified as a significant control deficiency in the council's annual governance statement. However, the wording requires updating to reflect the final position and we recommend that this is done. |

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

| Risk title | System of risk management and internal control |
|---|---|
| **Risk description** | • There is a risk that there is a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control. This is because:<br>o Whilst in respect of 2018/19, the Head of Internal Audit was able to provide reasonable assurance that the council had adequate systems of governance, risk management and internal control, the scope of that opinion was limited as the internal audit programme had not addressed IT risks or the system of risk management, pending the establishment of arrangements for the independent review of these areas.<br>o There were 11 (37%) internal audit reviews where the arrangements under review were given a rating of limited assurance.<br>o In 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council had adequate systems of governance, risk management and internal control. The 2019/20 opinion took into account: the results of work which fell outside the scope of the opinion given in 2019/20 (including audit of IT risks and the system of risk management); audits relating to field work carried out in 2018/19 but where the report had not been finalised by the time of the Head of Internal Audit opinion in July 2019; audits selected for review in 2019/20 as part of the cyclical audit programme; and other matters which have subsequently came to light from other review or management processes, including in relation to financial reporting and pensions administration. It is likely that some or all of the weaknesses which resulted in the limited assurance opinion in 2019/20 were also present in 2018/19.<br>o The annual governance statement reports on nine "significant governance issues". |
| **Procedures performed** | We have evaluated:<br>• The significance of the subject matter and findings reported for individual audits given a limited assurance rating by internal audit (both in the 2018/19 and, where relevant, the 2019/20 internal audit programmes)<br>• The significance of governance issues reported in the annual governance statement<br>• Considered other matters, including progress on past recommendations and the resourcing and scope of the internal audit programme. |
| **Conclusion on risk** | We conclude that our VFM conclusion should be qualified in respect of this matter. This is because:<br>• whilst the council has designed and implemented risk management arrangements these are not operating effectively; and<br>• the internal audit programme and annual governance statement process has identified a significant number of governance issues and internal control deficiencies in areas which are significant either quantitatively or where the council is exposed to material reputational damage. Some aspects of governance arrangements were not included in the scope of the internal audit programme due to resource constraints. |

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

| Risk title | Best value improvement plan |
|---|---|
| **Risk description** | During 2017/18, the Council was subject to Directions issued by the Secretary of State which required the Council to set up a Best Value Improvement Board; submit quarterly progress reports on the Best Value Improvement Plan to the Secretary of State; and set up an independent review of the achievement of the Best Value Improvement Plan with a report to be provided to the Secretary of State by 1 August 2018.<br><br>Our predecessor noted that not all actions were confirmed as completed or on track and anticipated that the impact of the work would not yet be embedded and concluded that these circumstances provided evidence of weaknesses in proper arrangements.<br><br>There is a risk that the matters giving rise to the previous year's qualified conclusion are also relevant to the current year. |
| **Procedures performed** | During 2018/19, the Council completed the actions specified in Directions. On the basis of the peer challenge review submitted to the Secretary of State, the Directions were lifted.<br><br>Our conclusion is given in respect of arrangements throughout the year and not just at the year end. We have reviewed the peer challenge review report and considered the scope and findings. We have also considered the significance of issues open at the start of the year and the timeline for their closure during the year. |
| **Conclusion on risk** | The areas of concern in the original PwC report do not involve individually significant areas of financial spend or key services but raised important questions about governance which are relevant to the sub criterion of "Acting in the public interest, through demonstrating and applying the principles and values of sound governance". These were developed further around this same theme within the Best Value Improvement Plan.<br><br>It is apparent that in the specific areas covered by the original PwC investigation, and the Best Value Improvement Plan, that the Council has made significant progress in earlier years, resulting in the end of the intervention and the return in 2017/18 of the Council's functions (which had been carried out since 2015 by special commissioners).<br><br>Whilst we recognise that a number of the actions were not complete at 1 April 2018, these were not individually significant to our conclusion or in aggregate. The LGA peer review (carried out in the first quarter of 2018/19) concluded satisfactorily on each of these areas and, of more significance, concluded there had been a significant improvement in the culture of the organisation.<br><br>We have therefore concluded that these circumstances do not provide evidence that the Council does not have proper arrangements in 2018/19.<br><br>The peer review identified other issues, which in part reflect the need to scale back the Council's "belt and braces" response to the original PwC investigation and subsequent intervention (including retention of decision making at a senior level to enable more agile decision-making), together with new issues raised by the Peer Challenge team, including development of IT. The Council has agreed an action plan to address the issues raised by the review (including a review of the scheme of delegation and wider constitution) which are being monitored by a member committee set up for this purpose and has earmarked reserves to support the IT development. Therefore we have not identified these matters as significant weaknesses in arrangements relevant to our conclusion. |

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

**Conclusion**

We expect that our conclusion will be qualified on an “except for” (and not “adverse”) basis in respect of three matters:

- As reported in our July 2019 report to the audit committee, our report will be qualified in respect of children’s services as Ofsted’s 2018 report and subsequent monitoring reports provide evidence (notwithstanding the improvement trajectory, subsequently confirmed in their re-inspection report) that proper arrangements to secure to secure economy, efficiency and effectiveness in the use of resources were not in place throughout the whole of the period covered by our conclusion.
- Financial reporting arrangements in view of the volume and size of changes required to the original version of the statement of accounts and time taken to resolve issues identified.
- Risk management and the system of internal control in view of weaknesses identified in the operating effectiveness of the system of risk management and the number and significance of issues identified in the system of internal control.

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

The expected form of our conclusion is as follows:

Basis for qualified conclusion

The finalisation and publication of the council's statement of accounts for the year ended 31 March 2019 has been significantly delayed from the original target date of 31 July 2019. This is due to the time needed to investigate issues identified during the audit process and to prepare amended accounts. The Council's investigation of these matters resulted in a period of prolonged uncertainty over the amount and timing of recognition of usable reserves available to meet future spending requirements and the council's strategic objectives and a significant volume of corrections to the originally published draft statement of accounts which had the effect of increasing usable reserves at 31 March 2019 by £42m, unusable reserves by £58m, assets by £128m and liabilities by £28m.

These conditions provide evidence that the Council did not have proper arrangements in place for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making.

In the Annual Governance Statement, the Council has reported on significant governance issues identified from its annual review of effectiveness. The Annual Governance Statement reports that internal audit are under resourced and the Head of Internal Audit has reported there that he has limited the scope of his annual opinion on the system of internal control as he has not been able to consider IT risks. The Head of Internal Audit was not able to report on the Council's system of risk management in 2018/19 pending the establishment of independent review arrangements for this and in 2019/20 has reported he can provide only limited assurance on its operating effectiveness. The Head of Internal Audit was able to provide only limited assurance in relation to 37% of the areas included in the 2018/19 internal audit programme. In three cases these related to follow-up reports where recommendations from the original report had not been satisfactorily actioned.

These conditions provide evidence that the Council did not have proper arrangements in place to manage risks effectively and maintain a sound system of internal control.

An Ofsted inspection of the Council's services for children in need of help and protection, children looked after and care leavers undertaken in January and February 2017, which reported in April 2017, rated childrens services, overall, as inadequate. The inspection also reviewed the effectiveness of the Local Safeguarding Children Board ("LCSB") and rated this as inadequate. The Ofsted report raised concerns in relation to poor frontline practice and non-compliance with basic standards (including legal requirements) which in some cases left children at risk of harm. The report also highlighted that there was insufficient scrutiny by senior leaders and non-compliance was not sufficiently challenged. In addition, performance management and quality assurance systems were not underpinned by reliable management information due to social workers and managers not updating records on the electronic recording system. The LSCB in Tower Hamlets was judged to be inadequate, as it was not discharging all of its statutory functions. The report concluded that there was insufficient monitoring of the quality of frontline practice which meant that the board was not aware of the failings to protect children reported on in the review. The Annual Governance Statement describes improvements which the Council has made in response to these findings. These improvements were not in place over the full year.

These conditions provide evidence that the Council did not have proper arrangements in place throughout the year to understand and use appropriate and reliable performance information to support informed decision making and performance management; manage risks effectively and maintain a sound system of internal control; and work with third parties effectively to deliver strategic priorities.

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are 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 ended 31 March 2019.

# 6. Control observations

# Control observations

During the course of our audit, we have identified a number of internal control findings. We have set out below the high priority findings which represent significant control deficiencies. In some instances, this repeats information previously reported but we have included here in order to give a complete picture in this report of our key findings from the audit.

| Area | Observation and recommendation |
|---|---|
| **Quality of draft financial statements** | **Observation**<br>The initial draft statement of accounts which were published for public inspection and presented for audit were not of the expected standard. Issues noted included:<br>• Narrative report not compliant with Code guidance<br>• Inconsistencies between primary statements and notes in the financial statements;<br>• Inconsistencies between notes in the financial statements<br>• Accounting policies not updated for the adoption of IFRS 9 and IFRS 15<br>• Accounts disclosures not updated for the adoption of IFRS 9<br>• Accounts disclosures not updated for the adoption of IFRS 15<br>• Accounts disclosures not updated for 2018/19 changes in the Code including in respect of the reconciliation of financial liabilities<br>• Cash flow statement notes which were incomplete<br>• Omission of disclosures required by the Code (a disclosure checklist was completed but did not identify all of the disclosure omissions).<br>Together these indicate significant deficiencies in the financial reporting and close process.<br><br>**Recommendation**<br>We recommend the Council reviews the year-end reporting and close process, including:<br>• preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council;<br>• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts;<br>• Line-by-line review of the completed CIPFA disclosure checklist by a second officer;<br>• documented and reviewed internal checks of internal consistency;<br>• completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and<br>• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers. |

# Control observations (continued)

| Area | Observation and recommendation |
| --- | --- |
| **Preparation of accounting papers** | **Observation**<br>Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures.<br><br>The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation.<br><br>**Recommendation**<br>We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the audit committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the audit committee's approval of the draft statement of accounts |
| **Accounts closure resourcing and processes** | **Observation**<br>Very few of the requested documents were provided at the start of our original audit visit. We needed to request the finance team to follow-up on a number of items provided as breakdowns did not tie to the trial balance, were not in the level of detail requested, or it was not clear how the working papers provided related to the request. Subsequent requests for information have not been turned around on an acceptable timescale.<br><br>The accounts closure plan allocated preparer and reviewer to each task, including control account reconciliations. In a number instances the same individual was allocated as both preparer and reviewer for a particular task.<br><br>Errors, for example in the accounting for community infrastructure levy, the recognition of grant income an contributions from leaseholders to major works, the preparation of school bank reconciliations and cut-off of capital expenditure between periods provide evidence that officers did not have a full understanding of the tasks assigned to them.<br><br>**Recommendation**<br>We recommend that the Council considers the resourcing of the closure process, the assignment of tasks and the training needs of those involved in the process. We also recommend the Council considers whether there are year end processes which can be streamlined or pulled forward to earlier in the year. |

# Control observations (continued)

| Area | Observation |
| --- | --- |
| **New accounting standards – IFRS 9 and 15** | **Observation**<br>Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. The recognition of leaseholder contributions to major works was not in accordance with IFRS 15 and required adjustment.<br><br>**Recommendation**<br>We recommend that the Council prepares a clear project plan for the implementation of new or changed accounting guidance. We recommend that accounting papers are prepared to record officers' the rationale in areas of judgement and these are subject to a management review process. |
| **Reconciliation of general ledger control accounts and segregation of duties** | **Observation**<br>General ledger control accounts were not reconciled in a number of instances and reconciling differences adequately resolved. This resulted in various misstatements. This included the control accounts for schools bank accounts; corporate bank accounts; utility costs; and grant control accounts.<br><br>**Recommendation**<br>We recommend:<br>• Responsibility for each control account is assigned to a named preparer and reviewer (with those roles allocated to different officers)<br>• The frequency and timescale for preparation and review of reconciliations is set down in written instructions to staff<br>• A monitoring arrangement is designed to ensure reconciliations are carried out and reviewed in accordance with instructions and any exceptions reported to senior management for action. |
| **Elimination of internal recharges** | Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. The process of doing this is complicated because the coding structure adopted does not enable the finance team to readily identify postings within income and expenditure. Our testing identified charges of £47m which had not been fully netted down.<br><br>We recommend that the coding structure is amended to facilitate elimination of internal recharges in the Comprehensive Income and Expenditure Statement and to readily demonstrate that this has been done in full. |

# Control observations (continued)

| Area | Observation |
|---|---|
| **Valuation of properties** | **Observation**<br>The valuation of properties is dependent on officers' assumptions (or input from officers in forming assumptions) including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor space of schools. A paper was not prepared and reviewed setting out assumptions made (or information provided to the valuer to inform their formation of assumptions).<br><br>There are also no formal controls operating to ensure the completeness and accuracy of other information provided to the valuer.<br><br>We have not been provided with information about the Council's review of the reasonableness of the outcome of the valuation in 2018/19.<br><br>**Recommendation**<br>We recommend the Council prepares and maintains a schedule which sets out the information which is provided to the valuer (including management assumptions and information provided to the valuer to inform assumptions made by the valuer) and identifies the controls over each category of information.<br><br>We recommend the Council design and document their review of the outcome of the valuation. |
| **Classification of expenditure as capital** | **Observation**<br>We were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital.<br><br>Whilst we did not identify any exceptions, the classification of expenditure between revenue and capital can involve the exercise of judgement. Projects which are of a capital nature can involve both revenue and capital elements which need to be accounted for differently.<br><br>**Recommendation**<br>We therefore recommend the Council implements such a control. |

# Control observations (continued)

| Area | Observation |
|---|---|
| **Journals** | **Observation**<br>Journals either pass through workflow approval process or are processed through a separate "bulk upload" process. The latter are principally posted to the general ledger system by officers in the Operations team based on requests submitted by other teams in finance.<br><br>Checks are performed by the Operations team to confirm that journals have been accurately entered to the general ledger system in accordance with the submitted request, but the scope of these checks does not include confirming that the journal is for a valid business and accounting reason and that the values and proposed entries are accurate. The Operations team does not hold a list of individuals authorised to submit a journal request and are not required to see evidence that the journal has been approved by a second officer. Journals may therefore be posted by the Operations team which have not been subject to review and approval within the originating team. Individual teams may have established their own working practices relating to the approval of journals, but as the Council has not communicated common standards to be applied, arrangements for the approval of journals and controls to ensure compliance with those standards, if any, will not be consistent across teams. As standard documentation for journal requests is not required, a record of who has prepared and who has approved the journal request is not consistently maintained and in practice it has not been possible to determine in all cases whether the journal has been approved and who has prepared and who has approved the journal before submission to the Operations team. As a result it is not possible in all cases to determine whether, in practice, there has been appropriate segregation of duties or whether the journal has been approved by an officer who is authorised to do so.<br><br>A small number of officers have been given access to raise this journal type within the Chief Accountant's team. There are no controls to prevent or detect the posting of journals by these individuals which have not been approved by a second officer who is authorised to do so.<br><br>**Recommendation**<br>Re-visit which journal types and amounts can be posted without approval by a second officer and implement controls which prevent or detect the posting of journals which have not been approved in accordance with those agreed arrangements. |

# Control observations (continued)

| Area | Observation |
|---|---|
| **Recognition of grants and contributions** | **Observation**<br>Errors were identified in the recognition of grants and contributions.<br><br>The appropriate recognition of grants and contributions depends on the identification of conditions within the grant agreement.  Correctly distinguishing between conditions and restrictions can involve judgement.<br><br>**Recommendation**<br>We recommend:<br>• grant agreements are reviewed on notification of entitlement and a preliminary assessment made of whether there are conditions attached to the grant. This assessment is documented and subject to review by a second officer.<br>• The decision is reflected in the type of general ledger code set-up to record the grant.<br>• For grants or contributions involving conditions, a working paper is prepared showing the calculation of the amount to be recognised and which is subject to review by a second officer. |

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

# 7. Purpose of our report and responsibility statement

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes the results of our work on key audit judgements and other insights we have identified from our audit.

### What we don’t report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

**Jonathan Gooding**

for and on behalf of Deloitte LLP

St Albans

17 January 2022

# Appendices

# Appendix A: Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version and (B) those misstatements which management have agreed will be corrected in the final version of the statement of accounts

**A. Misstatements which management do not propose to correct**

| | | Debit/ (credit) income statement £m | Debit/ (credit) in net assets £m | Debit/ (credit) prior year reserves £m | Debit/ (credit) OCI/Equity £m |
|---|---|---|---|---|---|
| **Misstatements identified in current year** | | | | | |
| Impact of McCloud/Sargeant rulings | [1] | 1.6 | (1.6) | - | - |
| Impact of stale prices in pension assets | [2] | (1.0) | 1.0 | | |
| Major works provision in excess of requirement | [3] | (2.0) | 2.0 | - | - |
| NNDR appeals provision | [4] | 6.4 | (6.4) | - | - |
| **Total** | | **5.0** | **(5.0)** | **-** | **-** |

[1] As explained on page 30, the pension liability does not take into account the impact of the McCloud/Sargeant rulings

[2] Stale prices have been used by a custodian to value one of the pension scheme's assets

[3] The council has not provided evidence for the level of provision in the light of the leverage it has to refuse to approve assignment of leases and the absence of historical experience of bad debt expense at this level. We have proposed a judgemental adjustment to reduce the provision by £2m.

[4] As explained on page 29, the NNDR appeals provision does not take into account information received after the reporting date which is relevant to the circumstances at the reporting date.

# Appendix A: Audit adjustments
## Unadjusted misstatements (continued)

**B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts**

We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

| | | Debit/ (credit) income statement £m | Debit/ (credit) in net assets £m | Debit/ (credit) prior year reserves £m | Debit/ (credit) OCI/Equity £m |
|---|---|---|---|---|---|
| **Misstatements identified in current year** | | | | | |
| Overdraft incorrectly set off against deposit amounts (£23.2m) | [1] | - | - | - | - |
| Investments incorrectly analysed between short and long term investments | [2] | - | - | - | - |
| **Total** | | **-** | **-** | **-** | **-** |

[1] The Council has set off a bank account in an overdraft position (£23.5m) against deposit amount where it does not have a legally enforceable right of set-off. There are similar presentational errors at 31 March 2018 (£26.2m) and 31 March 2017 (£28.0m). Further information on this is included in Appendix D.

[2] Investments are not analysed correctly between short and long term (i.e. current and non-current) investments. Further information is given in Appendix D. The adjustments required at respective reporting dates are:

At 1 April 2017 - £30m from short term to long term investments

At 31 March 2018 - £57m from short term to long term investments

At 31 March 2019 - £12m from long term to short term investments

# Appendix A: Audit adjustments

## Misstatements corrected in the 19 October 2021 version of the statement of accounts

In the version of the accounts published in draft on the council's website on 19 October 2021, officers have corrected for various misstatements identified over the course of the audit. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control. The analysis includes only the more significant reclassification adjustments and does not include prior period restatements.

| | Debit/ (credit) in net assets £m | Debit/ (credit) prior year retained earnings £m | Debit/ (credit) total comprehensive income £m | Reference to further information |
|---|---|---|---|---|
| Removal of Millennium Project asset | (22.6) | 22.6 | - | Page 28 |
| Removal of other assets owned by KGVFT | (9.2) | 9.2 | - | Page 28 |
| Recognise cottages previously omitted from fixed asset register | 4.7 | (4.7) | - | |
| Remove duplicated assets | (2.6) | 2.6 | - | April 2021 report |
| Correct schools valuations | 117.9 | (158.7) | 40.8 | Pages 10-11 |
| Reverse charge and capitalisation of notional planning contribution regarding new Town Hall | (0.7) | - | 0.7 | |
| Revision of useful economic lives of infrastructure assets | (4.5) | - | 4.5 | April 2021 report |
| Correction of early cut-off error on capital expenditure | 3.4 | - | (3.4) | |
| Valuation of temporary accommodation held at cost in original version of accounts | (11.1) | - | 11.1 | Note 1 |
| Reclassification of assets from other land and buildings to surplus assets change in valuation basis | 12.2 | (10.4) | (1.8) | April 2021 report |
| Other reclassifications between PPE categories including temporary accommodation of £24.5m from other land and buildings to assets under construction | - | - | - | April 2021 report |
| Correct recognition of leaseholder income | 31.8 | (26.2) | (5.6) | April 2021 report |
| Correct recognition of community infrastructure levy | 19.8 | (11.9) | (7.9) | April 2021 report |
| Reverse accrued income in respect of contribution from NHS entity and release related provision (£3.0m) | - | - | - | Page 13 |

# Appendix A: Audit adjustments

## Corrected misstatements (continued)

| | Debit/ (credit) in net assets £m | Debit/ (credit) prior year retained earnings £m | Debit/ (credit) total comprehensive income £m | Reference to further information |
|---|---|---|---|---|
| Write-off balances on utility accounts which had not been reconciled and cleared down | (1.1) | - | 1.1 | Note 2 |
| Adjust housing benefit overpayments bad debt provision | 4.2 | - | (4.2) | Page 78 |
| Correct entries relating to Council Tax collection costs | 3.1 | - | (3.1) | Note 3 |
| Correct recognition of developer contributions | - | - | | Note 4 |
| Correct errors in grant control accounts and recognition | 2.8 | (4.8) | (2.0) | April 2021 report* |
| Correct omission of liability for past discretionary awards to teachers | (9.4) | 9.4 | - | April 2021 report* |
| Adjust developer contributions to agree to tracking schedule and remove interest accrual made in error | 0.5 | - | (0.5) | Note 5 |
| Adjust plan assets in calculation of pension liability from estimate to actual | 15.3 | - | (15.3) | April 2021 report |
| Increase in NNDR appeals provision | (12.8) | - | 12.8 | Page 29 |
| Recognise provision for reimbursement of water charges (included as a contingent liability in the original version of the accounts) | (9.0) | - | 9.0 | Note 6 |
| Release provision where no present obligation | 2.6 | - | (2.6) | Note 7 |
| Eliminate internal income and expenditure (£47m) | - | - | - | April 2021 report |

* Where relevant, the amounts referred to in our April 2021 have been updated for changes made in finalising the adjustment.

[1] The Council purchased residential accommodation during 2018/19 for provision as temporary housing. The properties are required to be carried at current value after initial recognition but were not included in the list of properties given to the valuer for valuation. Some of the properties were not in a condition where they could be used without works to the properties which were ongoing at the reporting date. These properties have been reclassified from other land and buildings to assets under construction and did not require valuation under the accounting rules for that class.

[2] The Council maintains control accounts for utility bills which require allocation to relevant cost centres (and in a small number of cases, other entities which occupying Council premises). The control accounts had not been correctly maintained and as a result costs had not been expensed or had not been billed to third parties and had become irrecoverable.

[3] Council Tax collection costs receivable were not recognised on the balance sheet due to an oversight, but were included in the calculation of a bad debt provision against both Council Tax and collection cost arrears.

# Appendix A: Audit adjustments

## Corrected misstatements (continued)

[4] Our sample testing identified developer contributions which had been deferred but where the agreement did not contain conditions preventing recognition. Officers performed a review and identified similar amounts which had been deferred at both 31 March 2019 and earlier reporting dates and have adjusted all periods presented for this misstatement.

[5] This corrects (a) a difference between the control account and the subsidiary records by developer agreement (b) removes interest which had been accrued on outstanding balances as the agreements did not contain an obligation on the Council to maintain the value of the contribution in real terms.

[6] The original version of the accounts included a disclosure of a contingent liability relating to possible claims for re-imbursement of water charges. We challenged the Council on whether settlement was now probable following the outcome of a test case. Officers concluded that settlement was now probable and have recognised a provision. As the test case was not decided until after the approval of the 2017/18 financial statements, prior years have not been restated.

[7] This adjustment relates to a corporate provision for which no support could be provided (£0.7m) and a provision relating to the cost of restoring one of the Council's properties damaged within a fire (£1.9m) such that there is no obligation on the Council.

# Appendix A: Audit adjustments

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version (B) those disclosure misstatements which management have agreed will be corrected in the final version of the statement of accounts.

**A. Disclosure misstatements which management do not propose to correct**

| Disclosure |
|---|
| **Dedicated schools grant comparatives**<br>The comparative information in the dedicated schools grant disclosure has apparent errors as it shows no grant and no expenditure allocated to central expenditure. The amount of grant for 2018/19 which has been allocated to central expenditure is £83.2m. |
| **Calculation of Council Tax base (note 1 to the Collection Fund)**<br>The note wrongly describes the first column for each period as the number of dwellings and not the number of chargeable dwellings and there is not a footnote to explain that the comparative information has been restated to put on this different basis. |
| **Conclusion on Annual Governance Statement**<br>The annual governance statement concludes “We are satisfied that the Council has adequate governance arrangements in place”, albeit later in the paragraph concludes that there are areas for improvement. This is somewhat at odds with the number of governance issues which the council has described as significant in its statement and our expected qualified value for money conclusion. We propose the wording is amended, for example to say: “We are satisfied that the Council generally has adequate governance arrangements in place, but we acknowledge that there are areas where we must improve (as set out on pages 148 to 152), particularly in relation to the Council’s statement of accounts and spending”.<br>The council is considering what changes if any to make and we will conclude on this point when this is done. |
| **Inconsistencies between the Comprehensive Income and Expenditure Statement and Note 41, Income and Expenditure analysed by nature**<br>There are differences between income and expenditure on services per CIES and the amounts shown in Note 41, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 41 is £2647k higher than the amount shown in the CIES. We are not able to determine whether the CIES or Note 41 requires correction. |

# Appendix A: Audit adjustments

## Disclosures

### Disclosure misstatements

| Disclosure |
|---|
| **Note 41, Income and Expenditure analysed by nature – comparative information**<br>Note 41, Income and Expenditure analysed by nature has been restated for the correction of errors which impact on income and expenditure (as discussed in section 4) and to put on a comparable basis to the analysis in the current year.<br>There are differences between income and expenditure on services per the restated CIES and the amounts shown in the restated Note 41, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 41 is £14355k higher than the amount shown in the CIES. We are not able to determine whether the CIES or Note 41 requires correction.<br>We have not been provided with an audit trail between the restated information and accounting records. We have also not been able to obtain a full reconciliation between the originally stated amounts in Note 41 and the restated amounts. There are differences in a partial reconciliation performed as follows: Employee benefits expenses - £1m; Other service expenses - £16m; Depreciation, amortisation and impairment £32m; Fees, charges and other service income - £27m; Government grants and contributions - £12m. The amount shown in Note 41 in respect of Depreciation, amortisation and impairment is £57m different to the amount shown in Note 14, Property, Plant and Equipment.<br>We are currently evaluating the significance of this point and request that officers investigate the internal inconsistency on Depreciation, amortisation and impairment further. |

# Appendix A: Audit adjustments

## Disclosures

### Disclosure misstatements

**B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts**

We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

| Disclosure |
|---|
| **Narrative report**<br>The narrative report has not been updated for significant events subsequent to the year end and, in particular, makes no reference to the pandemic or to changes made to the council's medium term financial strategy in its latest iteration. |
| **Components of cash and cash equivalents**<br>Note 19, Cash and cash equivalents discloses components of cash and cash equivalents. The line item "Short term deposits with banks and building societies" is not accurately described as it also includes money market funds and amounts on deposit with other local authorities. Also, within the note, overdrafts have been offset against deposits and as a result the note does not readily show how amounts tie through to the balance sheet where these amounts have not been offset. |
| **Classification of rechargeable works deposits within short term creditors**<br>Amounts received on account from individuals and businesses for rechargeable works are classified in Short-term creditors - Other entities and individuals. These represent contract liabilities and should be classified in Short term creditors - receipts in advance. The balance at 31 March 2019 and 31 March 2018 were £12.5m and £10.9m, respectively. |
| **Restatement of comparatives in respect of academy conversions**<br>Entries to the Note 2, Restated Accounting Statements have been misclassified between restatements relating to PPE valuations and restatements relating to academy conversions: a restatement to other comprehensive income of £12.6m in 2017/18 should be reclassified from the academy conversions column to the PPE revaluation column; a restatement to PPE and reserves (capital adjustment account and revaluation reserve) in the academy conversions column and an equal and opposite adjustment made to entries in the PPE valuation column. Linked to this, in the comparative information in the Comprehensive Income and Expenditure Statement, other operating expenditure (loss on disposal of non current assets) should be reduced by £3.7m with an equal and opposite adjustment to Gross expenditure on Childrens' Services, with corresponding adjustments made to the restatements in Note 2. |
| **Auditors' remuneration**<br>The disclosure differs to our records. Further information is included in page 69. |

# Appendix A: Audit adjustments

## Disclosures

### Disclosure misstatements

Disclosure

**The impact of accounting changes required by new standards that have been issued, but not yet adopted**

The council is required to disclose the impact of accounting changes required by new standards that have been issued, but not yet adopted. The council has provided the following commentary in relation to IFRS 16 Leases: "This standard will require the Council to recognise more leases where they are the lessor on balance sheet with the corresponding liability for lease payments". It is not clear what is meant by "recognising more leases" or why the council anticipates a change in this area as the requirements in IFRS 16 in relation to lessor accounting are similar to those in IAS 17. It is also not clear what is meant in the context of lessor accounting by the reference to a corresponding liability for lease payments.

**Cash flow statement and associated notes**

The cash flow statement and associated notes contain various misstatements which are summarized on the next page.

**Narrative report – consistency with the financial statements**

There are a small number of instances where information in the narrative report had not been updated for changes made to the financial statements or where descriptions in the narrative report were inconsistent with those used in the financial statements or were otherwise unclear.

- The narrative report includes PIE charts showing an analysis of revenue by funding source and an analysis of gross revenue expenditure. The description of amounts in the PIE chart should be more precise as follows: the PIE chart on gross revenue expenditure appears to be only expenditure on services but this is not made clear; it is not clear what "housing rents" is intended to include.
- Also, in these charts, the other grant funding amount shown in the PIE chart is not in agreement with information in Note 36, Grant Income which shows £208.1m. As a result, the total gross income shown in the PIE chart of £1,156.4m is not in agreement with the total income in Note 41, Income and Expenditure Analysed by Nature which shows £1,244.1m.
- The narrative report describes plan assets as increasing by over £78 million over the last year. The increase in plan assets shown in Note 40, Pension scheme, is £68m.
- The narrative report includes the following commentary on the housing revenue account: "The HRA account previously showed a surplus of £6.2 million, but this has been amended by creating provisions of £9.2m for water rates charging and housing disrepairs claims, giving a deficit of 3.0m". The reference back to earlier versions of the draft financial statements is likely to be confusing for users of the accounts.

# Appendix A: Audit adjustments

## Disclosures

### Disclosure misstatements – cash flow statement and related notes

| | As currently stated | Proposed adjustment | Revised amount |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| **CHANGES TO THE CASH FLOW STATEMENT:** | | | |
| Cash flows from operating activities | 2,705 | (8,263) | (5,558) |
| Cash flows from investing activities | (40,603) | 31,115 | (9,488) |
| Cash flows from financing activities | 1,436 | (22,852) | (21,416) |
| | | | |
| **CHANGES TO THE NOTES TO THE CASH FLOW STATEMENT:** | | | |
| **The cash flows for operating activities include the following items:** | | | |
| Interest received | 4,259 | 1,098 | 5,357 |
| Interest paid | (27,917) | 17,920 | (9,997) |
| | | | |
| **The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:** | | | |
| Increase/Decrease in Creditors | 2,517 | (2,255) | 262 |
| Increase/Decrease in Debtors | (36,734) | 7,449 | (29,285) |
| Other non-cash items charged to the net surplus or deficit on the provision of services | 16,103 | (173) | 15,930 |
| | | | |
| **The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:** | | | |
| Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 35,684 | (35,684) | - |
| Any other items for which the cash effects are investing or financing cash flows | (59,215) | 22,400 | (36,815) |
| | | | |
| **Cash flows - investing activities** | | | |
| Purchase of property, plant and equipment, investment property and intangible assets | (117,509) | 3,849 | (113,660) |
| Purchase of short-term and long-term investments | (429,949) | 137,949 | (292,000) |
| Other payments for investing activities | (705) | 73 | (632) |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 19,047 | 4,382 | 23,429 |
| Proceeds from short-term and long-term investments | 422,693 | (101,693) | 321,000 |
| Other receipts from investing activities | 65,820 | (13,445) | 52,375 |
| | | | |
| **Cash flows - financing activities** | | | 50,000 |
| Cash receipts of short- and long-term borrowing | 55,403 | (5,403) | 9,522 |
| Billing Authorities - Council Tax and NNDR adjustments | 14,824 | (5,302) | (2,417) |
| Repayments of short- and long-term borrowing | (66,374) | (12,147) | (78,521) |

# Appendix A: Audit adjustments
## Disclosures

### Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

| Disclosure |
|---|
| **Expenditure and funding analysis**<br>The Council is required to provide a reconciliation of the adjustments between the Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, with a note that describes all material reconciling items. [Code 3.4.2.100]. The Council has included adjustments to net cost of services of £91.1m and other income and expenditure of £95.5m which has not been disaggregated further. |
| **Movements on Property, Plant and Equipment**<br>Properties acquired in the year for the provision of temporary accommodation have been included in additions to other land and buildings. Where properties were not ready to bring into use, these have been reclassified to assets under construction, shown on a separate reclassification line. The value of properties which were no ready for use should have been included in additions to assets under construction and not other land and buildings and a transfer to from assets under construction to other land and buildings recorded, once the properties were ready for use. |
| **Movements on provisions**<br>The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and discloses instead the aggregate of these two amounts [Code: 8.2.4.2]. |
| **Disclosures relating to the transition to IFRS 9**<br>The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9 [Code: 7.4.3.16]. |

# Appendix A: Audit adjustments

## Disclosures

### Other disclosure recommendations

Disclosure

**Expenditure and funding analysis**

The Council is required to provide a reconciliation of the adjustments between the Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, with a note that describes all material reconciling items. [Code 3.4.2.100]. The Council has included adjustments to net cost of services of £91.1m and other income and expenditure of £95.5m which has not been disaggregated further.

**Movements on Property, Plant and Equipment**

Properties acquired in the year for the provision of temporary accommodation have been included in additions to other land and buildings. Where properties were not ready to bring into use, these have been reclassified to assets under construction, shown on a separate reclassification line. The value of properties which were no ready for use should have been included in additions to assets under construction and not other land and buildings and a transfer to from assets under construction to other land and buildings recorded, once the properties were ready for use.

**Movements on provisions**

The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and discloses instead the aggregate of these two amounts [Code: 8.2.4.2].

**Disclosures relating to the transition to IFRS 9**

The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9 [Code: 7.4.3.16].

**Revenue from contracts with service recipients**

Revenue recognised from contracts with service recipients has not been disclosed separately from its other sources of revenue [Code: 2.7.4.5] and the amount has not been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors [Code 2.7.4.6].

Impairment losses recognised on receivables arising from contracts with service recipients have similarly not been disclosed separately from impairment losses from other contracts [Code: 2.7.4.5]

The opening and closing balances on receivables, contract assets and contract liabilities from contracts with service recipients has not been separately disclosed, together with disclosures related to these account balances [Code: 2.7.4.8].

The Council has not made any disclosures about the transition to IFRS 15 Revenue from Contracts with Customers [Code: 2.7.4.20].

# Appendix A: Audit adjustments

## Disclosures

### Other disclosure deficiencies

We also report to you the following further disclosure omissions which management have agreed will be included in the final version of the statement of accounts. We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

| Disclosure |
|---|
| **Disclosures on critical accounting judgements**<br>The disclosure on key sources of estimation uncertainty provides a generic explanation, but does not provide further detail, for example, the sensitivity of the valuation of schools land to the assumption on land prices and how the Council has changed its estimate for this in 2018/19 [Code 3.4.2.91 and Code 3.3.4]. |
| **Prior period errors**<br>Where a material prior period error is corrected, the Code requires disclosure of the nature of the error. This has not been done in relation to corrections made to disclosures including those relating to the remuneration of higher paid officers and the maturity analysis for liabilities [Code 3.3.4.5]. |
| **Disclosure of comparative information**<br>Comparative information in respect of the preceding period is required to be disclosed for all amounts reported in the financial statements, except when the Code permits or requires otherwise [Code 3.4.2.30]. This has not been given for the following disclosures where the Code does not permit or require otherwise: Material items of income and expenditure; capital commitments; fair value hierarchy table; related parties (amounts due to or from related parties at 31 March 2018); and disclosures in relation to PFI and similar contracts. |
| **Reclassification and other changes to comparative amounts**<br>Where comparative amounts are reclassified, the nature of the reclassification, The amount of each item or class of items that is reclassified and the reason for the reclassification. The Council has made changes to the note lines in the short-term debtors and short-term creditors notes. Items have been reclassified to new note lines, between note lines and between short term debtors and short-term creditors. The council has also made changes to notes including the financial liability maturity note, officer remuneration and an adjustment in the PPE note to “zero” depreciation on revaluation of assets. No disclosure has been made around these changes [Code 3.4.2.31]. |
| **Governance issues**<br>The Code requires issues around governance arrangements during the year have been highlighted in the Narrative Report. This may be done by cross reference to the Annual Governance Statement to avoid duplication [Code: 3.1.1.7]. |

# Appendix A: Audit adjustments
## Disclosures

### Disclosure

**Events after the reporting period**

The statement of accounts must give the date the financial statements were authorised for issue and who gave that authorisation.  This has not been done.  This wording and the date is typically entered at the foot of the balance sheet.  The accounts should also disclose whether the statements were amended following audit.  This has also not been done. [Code: 23.8.4.1]

**Fair value measurements**

The Council is required to disclose for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised.  The Council is required to do the same for assets and liabilities not measured at fair value in the balance sheet but for which fair value is disclosed.

The Council has taken an exemption from the requirement to determine fair values for certain assets where officers have assessed that the carrying amount is a reasonable approximation of fair value (e.g. short term debtors).  These assets have been included in the table on fair values of financial assets and financial liabilities as if fair values had been determined.  The Council has also incorrectly included in the fair value hierarchy table (and classified within the fair value hierarchy) assets and liabilities such assets and liabilities.

The Council has not included pooled investment in the table which are measured at fair value.  The table is incorrectly limited to disclosures on financial assets and liabilities and does not therefore include information on surplus assets as these are non-financial assets.

The table classifies assets and liabilities in the fair value hierarchy but does not provide a description of the valuation technique and the inputs used in the fair value measurement. [Code: 2.10.4.1].

**Disclosure of material items**

The Code requires that when items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include: a) disposals of items of property, plant and equipment b) disposals of investments, and c) other reversals of provisions [Code 3.4.2.52]. In Note 6, Material items of income and expenditure, the Council has disclosed an early termination premium of £17.9m, but has not disclosed there larger items including gains and losses on non-current assets included in net cost of services.  Comparative information has not been disclosed.

# Appendix A: Audit adjustments

## Disclosures

### Disclosure

**Valuation arrangements for council dwellings**

Where items of property, plant and equipment are stated at revalued amounts, the Council is required to disclose the effective date of the revaluation and whether an in-house or external valuer was involved. The accounts do not disclose the effective date for the valuation council dwellings or disclose that the valuation these assets was updated by in-house staff using information on market changes advised by the Council's valuer [Code: 4.1.4.3, 4.6.4.3].

**PFI and similar contracts**

The Code requires disclosure of rights and obligations for each arrangement or class of arrangement [Code: 4.3.4.4]. This has not been done.

**Past due or impaired assets**

Disclosures by class of debtor for past due or impaired assets are required to be made in relation to non-financial assets (e.g. council tax and non-domestic rate debtors) [Code: 5.2.4.2]. This has not been done.

**Disclosures relating to defined benefit plans**

The Code requires the risks associated with the Council's defined benefit plans (such as longevity assumptions, statutory changes to the scheme and structural changes to the scheme) and a description of the regulatory framework in which the plan operates to be disclosed [Code: 6.4.3.42]. This has not been done.

In relation to the effect of defined benefit plan on the Council's cash flows, the accounts disclose an estimate of the contributions expected to be paid in the following year but do not explain more broadly how its defined benefit plans may affect the amount, timing and uncertainty of the authority's future cash flows or give a description of any funding arrangements and funding policy that affect future contributions [Code: 6.4.3.42]

A sensitivity analysis for each significant actuarial assumption has been disclosed but the methods and assumptions used in preparing the sensitivity analyses required, the limitations of those methods, comparative information and changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes, if any, have not been disclosed [Code: 6.4.3.42].

Information about the maturity profile of the defined benefit obligation has not been disclosed [Code 6.4.3.42].

# Appendix A: Audit adjustments

## Disclosures

### Disclosure

**Disclosures relating to multi employer schemes**

A description of the extent to which the Council can be liable to the plan for other entities' obligations under the terms and conditions of the teacher's pension scheme has not been given (the Council is not liable) [Code 6.4.3.42].

The actual contributions for the year have been disclosed but not the expected contributions to the plan for the next annual reporting period [Code 6.4.3.42].

An indication of the level of participation of the authority in the plan compared with other participating entities has not been disclosed [Code 6.4.3.42].

**Disclosures relating to credit risk on financial assets**

The Council has made both quantitative and qualitative disclosures in relation to credit risk.  The disclosures do not deal with credit risk in relation to amounts due from service recipients and similar contacts [Code: 7.3.3.7].

# Appendix A: Audit adjustments
## Disclosures

| Disclosure |
|---|
| **Community infrastructure levy**<br>The Code recommends considering separate disclosure of material CIL income and expenditure, and material balances on the Capital Grants Unapplied Account. CIL is a material balance within the Capital Grants Unapplied Account but has not been separately disclosed. |
| **Disclosures in relation to trust funds**<br>The council is the sole trustee for the King George V Fields Trust. In this circumstance the council is required to disclose details of the nature and amount of trust funds [Code 3.4.4.1]. |
| **Transfers to/from the major repairs reserve**<br>The Council is required to present an analysis of amounts in the movement on the Housing Revenue Account statement which includes transfers to/from the major repairs reserve [Code 3.5.3.3]. This has not been disclosed as the amount has been net off against an equal and opposite transfer from the capital adjustment account. |
| **Contingent liability**<br>The council has disclosed a contingent liability relating to the possibility that the council may be required to compensate lenders if certain registered social landlords are unable to repay loans taken out by the landlords to finance the transfer of properties from the council to the landlord. Following further consideration, officers have concluded that the possibility that guarantees will be called is remote and therefore will remove the disclosure. |

# Appendix B: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---|---|
| Independence confirmation | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the council and and our objectivity is not compromised. |
| Fees | Details of proposed fees for audit and non-audit services performed for the period have been presented separately in this appendix.<br><br>The fees for the audit set out on the next page relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2018/19 audit, as well as the 2019/20 audits, to its current state and we will be seeking to agree a further fee variation in relation to this. |
| Non-audit services | We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.<br><br>We have carried out assurance work on two grants/returns made by the council in respect of 2018/19. We regard the threats to independence presented by these services to be insignificant and not to require safeguards.<br><br>During 2018/19 we also provided property related advice which commenced prior to our appointment. Details of the fees earned during 2018/19 are given on the next page. Fees earned from the start of our appointment to completion of the contract were £23k. The service relates to a transaction involving compensation for the transfer of part of a park which is owned by Council. The compensation was expected to be less than £0.5m. The engagement was ongoing at the time of our appointment and involved advising on the amount of the compensation. This involves both valuation services and negotiation with the government agency who will pay the compensation. The service did not involve taking a management role and the outcome of that service has not been used in the preparation of the financial statements. The work has been carried out by partners and staff from a different office and service line to the audit engagement partner. |
| Relationships | We are not aware of any relationships (other than the provision of non-audit services which are covered above) we have with the council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. |

# Appendix B: Independence and fees

The professional fees expected to be charged by Deloitte for the period from 1 April 2018 to 31 March 2019 are as follows:

| | Current year £'000 |
|---|---|
| Audit of the council | 260 |
| **Total audit** | |
| Certification of grants and returns (Housing benefit subsidy and teacher pension return) | 29 |
| **Total assurance services** | |
| Other non-audit services not covered above (Property related service – see previous page) | 7 |
| **Total other non-audit services** | 7 |
| **Total non-audit services** | 36 |
| **Total fees** | |
| London Borough of Tower Hamlets pension scheme audit | 17 |

As set out on the previous page, the fees for the audit set out on the next page relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2018/19 audit, as well as the 2019/20 audits, to its current state and we will be seeking to agree a further fee variation in relation to this.

# Appendix C: Our other responsibilities explained

## Fraud responsibilities and representations

**Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

**Required representations:**

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

**Audit work performed:**

In our planning we identified the risk that operating expenses had been inappropriately capitalised and management override of controls as key audit risks.

During course of our audit, we have made enquiries of management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report (for all entities subject to audit) how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

**Concerns:**

We have brought to the attention of audit committee members on page 13 a transaction which did not appear to have any economic substance.

# Appendix D: Resolution of matters reported on in our April report which were open at that time

| Open issue reported in our April 2021 report | Resolution |
|---|---|
| A lump sum payment contribution in 2017/18 of £43.4m. The council had taken legal advice which had the following conclusions:<br>• The Council had a statutory duty under Regulation 62(1) to "contribute" the amount set out in certificate.<br>• The regulations are highly prescriptive and require payment to be according to the timetable set out in the certificate.<br>• It was not lawful for the Council to pre-pay the amount on its certificate.<br>• The amount of the overpayment is due back from the LGPS fund to the Council and in principle the Council may charge interest on this.<br>• In the subsequent two years, the Council may set-off its liability under the certificate to pay annual contributions of £15m against the initial overpayment. | The council has obtained a second piece of legal advice which concludes that the payment of the lump sum in 2017/18 was lawful. As a result, the council has revised its analysis of the accounting as follows:<br>• As the payment in 2017/18 was a lawful contribution, it was appropriate for the pension scheme to credit the contribution in full to the pension scheme income and expenditure account.<br>• Again as the payment in 2017/18 was a lawful contribution, in the council's accounts, the contribution was correctly deducted in arriving at the net pension liability.<br>• In the movement in reserve statement the council is required to make a transfer from revenue accounts to the pension reserve which has the effect of reversing entries made in the comprehensive income and expenditure statement, replacing with the contribution payable in respect of the financial year and taking the difference to the pension reserve. As the amount paid in 2017/18 is higher than the amount payable in respect of 2017/18, this results in a difference between the pension liability and the pension reserve which unwinds over the following two years.<br>We have consulted with the National Audit Office on the legal position and expect to be able to provide an oral update at the meeting. Subject to this, on the basis of the revised legal position, we are content with the proposed accounting. |
| Officers provided a paper analysing the accounting of various income streams under IFRS 15. The analysis in the paper was not adequate and in particular did not recognise that the requirement for the leaseholder to contribute to the cost of major works represents a service arrangement within the Council's lease agreements such that contributions should be accounted for under IFRS 15. As a result, the paper did not contain an analysis of the accounting treatment under the new standard. The form of the analysis of other income streams did not reflect the steps set out in IFRS 15. | We have now performed an analysis and concluded that there are no further risks arising from the transition to IFRS 15.<br>Adjustments relating to recognition of income from leaseholders have been incorporated into the current version of the accounts.<br>We have reported disclosure deficiencies in relation to the transition in Appendix A, Audit Adjustments. |
| Losses of £0.5m in 2018/19 on pooled investments should be reclassified from the other comprehensive income section of the CIES to Financing and Investment Income and Expenditure within the surplus on provision of services. | This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021. |

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| Within the Statement of Movement on Reserves, losses have been transferred to the Financial Instruments Revaluation Reserve. Instead, the loss should be charged to a different unusable reserve (CIPFA suggest this is called the pooled investment funds adjustment account). | This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021. |
| The disclosure on the categorisation of financial instruments should be updated to reclassify pooled investments from FVOCI to FVTPL. | This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021. |
| Whilst we have received information on the terms of various financial instruments, we have not received officers' assessment of their classification. As a result we have not concluded on this area. | The Council has analysed the balance sheet classification of investments and cash and cash equivalents and extended this exercise to cover prior periods. The analysis identified fixed terms deposits with maturity dates falling after 12 months of the relevant reporting date which had been classified within short term (i.e. current) investments. As these are not held for trading and were not, given their remaining period to maturity, expected to be realised within twelve months of the reporting date, these should be reclassified to long term (i.e. non current) investments. In addition, a proposed adjustment to reclassify an amount from long term to short term investments had not been made.<br>As this exercise was not performed under after the publication of the October 2021 version of the draft statement of accounts, we have included these as proposed adjustments.<br>The amounts involved at the respective reporting dates are:<br>At 1 April 2017 - £30m from short term to long term investments<br>At 31 March 2018 - £57m from short term to long term investments<br>At 31 March 2019 - £12m from long term to short term investments |

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| Further explanation and analysis is needed to pinpoint and support a more precise estimate for the NNDR appeals provision. | We have provided our conclusion on this in Section 4, Other areas of audit judgement. |
| Short term debtors and short term creditors at 31 March 2018 have been restated to correct errors in the mapping of individual general ledger codes, including bad debt provisions incorrectly mapped to short term creditors and components of amounts due to other preceptors for local taxation collected on their behalf not being appropriately grouped and reported in either short term debtors and short term creditors. Whilst the net change to the presentation of the balance sheet is insignificant, officers have concluded that it is appropriate to make these changes due to their impact on individual note lines. We have commented on instances where the mapping remains incorrect. | Remaining classification errors which were present at the time of our April 2021 report have been corrected in the version of the accounts published in draft on the council's website on 19 October 2021. |
| Provisions have been restated to classify provisions of £2.3m from non current to current at 1 April 2017. It is not clear why this has been done, in particular as the level of actual payments in 2017/18 is much closer to the originally stated position. | This restatement journal has been reversed in the version of the accounts published in draft on the council's website on 19 October 2021. |
| Short term debtors and short term creditors have been restated at 1 April 2017 to include internal loans of £2.2m between the Council and individual schools. This restatement is not correct as they are internal balances which should be eliminated on consolidation of the schools into the Council's accounts. | This restatement journal has been reversed in the version of the accounts published in draft on the council's website on 19 October 2021. |

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| The Council holds many bank accounts, some of which are in a debit (asset) position and some in a credit (liability) position. In the past the Council has presented the net position in cash and equivalents, offsetting credits against debits. Under the accounting rules, the Council can offset assets and liabilities only if it has a legally enforceable right to do so and intends to exercise the right of set-off (i.e. to settle net), or to settle simultaneously. In this case, the Council only has a legally enforceable right to offset certain of its accounts and not all and is also not able (because of the way the accounts are operated) to assert that it intends to settle net. The way in which the restatement has been calculated does not take into account this second condition. | A correction has been made in the version of the accounts published in draft on the council's website on 19 October 2021.<br><br>However, as explained further on page 21, the adjustment made does not take into account three accounts which were not included in the trial balance presented to us for audit. |
| We are not able to quantify the adjustments needed in relation to the Indemnity given to Tower Hamlets Homes Limited in respect of future pension costs as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37. | We have provided our conclusion on this in Section 4, Other areas of audit judgement. |
| At the time of writing we are waiting for information in relation to changes made to other account balances in relation to schools postings.<br><br>In view of the uncertainty over the correct balance, we have not proposed an adjustment in relation to schools balances but will evaluate the impact of the uncertainty on the scope of our audit and on our opinion in aggregate with other issues identified. | We have provided our conclusion on this in Section 4, Other areas of audit judgement. |
| In relation to disclosures relating to higher paid employees, in view of the quantum of the change and the closer interest some users of the accounts have in this information, we agree with officers that the prior year error is material and the comparative information should therefore be restated. Where a material prior period error is corrected, the Code requires disclosure of the nature of the error. This has not been done. | The accounts have not been updated for this points. We have included this in Appendix A, Audit Adjustments. |

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| In relation to disclosures relating to higher paid employees, officers have prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers. For a number of schools there are large variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts. We have requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences and will complete our testing once we have this. | We have provided our conclusion on this in Section 4, Other areas of audit judgement. |
| Schools building areas: The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. We requested information to support a sample of building areas. Officers have informed us that they:<br>• Have identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools<br>• Estimated the impact of all errors identified at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017 respectively.<br>• Propose to adjust the accounts to correct for these errors.<br>As the information on this further adjustment was provided at the time of preparing this report, we have not yet tested this information. | We have not yet received information for some of our sample items which we requested to enable us to verify building area information provided to the valuer.<br>We will provide an oral update to the meeting. |

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| Properties not subject to valuation at the reporting date: The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change.<br><br>The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. On the basis of this review, officers have concluded that there has not been a material change in the value of non dwelling properties which were not subject to valuation at the year end. The Council has not determined the level of change it considers to be material or evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year). We have requested this assessment to be prepared before we finalise our conclusion. | We have provided our conclusion on this in Section 3, Significant audit risks. |
| Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. We have asked officers how they are assured that there are no other surplus assets included in operational categories, but have not yet seen information relating to this. | We have provided our conclusion on this in Section 3, Significant audit risks. |
| One property which was recorded twice on the fixed asset register (once in its current use and once in a previous use), resulting in the overstatement of other land and buildings by £2.4m. Again, this error impacts on earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. We have again asked officers to provide information on how they are assured that all properties are in operational existence. | Officers have completed an exercise to compare the fixed asset register to the council's asset management system. The exercise identified a further £1.1m of assets which were no longer in operational existence. These should therefore be removed from the register, but as the amount of the misstatement is clearly trivial, we have not proposed this as an adjustment to the 2018/19 accounts. |

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| An item of £276k was incorrectly coded to a school which had previously converted to an academy, rather than a school which remained under the control of the Council. This resulted in the amount being accounted for as REFCUS and expensed, rather than being capitalised. If the error rate in our sample was found in the remainder the population, this would give an error of £16m. | Officers have performed a review and concluded that there are no further errors of this nature. This is consistent with our expectation as the majority of this balance relates to expenditure on leaseholder shares of housing improvements as well as disabled facility grants. |
| Expenditure relating to refurbishments included expenditure on fixtures, fittings and equipment, but was classified in its entirety within other land and buildings. Our inspection of assets included within fixtures, fittings and equipment, which is substantially limited to previous purchases of refuse collection vehicles, suggests that this practice is common and has operated for a number of years. In addition to the impact on disclosure information, the practical consequence of coding expenditure on fixtures, fittings and equipment in this way is that the expenditure will be written out of the Property, Plant and Equipment balance when next subject to valuation where the type of expenditure falls outside the scope of what is considered by the valuer in their valuation. We have not yet received officers' assessment of this point. | The council performed an exercise to estimate the effect of this and concluded that this was not a material matter. The exercise involved interrogating the breakdown of capital expenditure in 2018/19 and 2019/20 for the words "fixtures", "fittings" and "equipment". We do not expect that this technique is likely to identify the full extent of any issue.<br>We had recommended to officers that as a starting point officers discuss with the valuer what types of work are included or excluded from his valuation and comparing to the council's internal practices in relation to the classification of expenditure between fixed asset categories.<br>We will provide an oral update to the meeting. |
| The Council has recorded the incorrect amount of "business rate related grant" in 2019/20 because an entry of £2.4m to true-up the initial 2017/18 allocation to bring income into line with the final calculated entitlement amount was not accrued at 31 March 2018 or 31 March 2019. This resulted in an understatement of short term creditors at 31 March 2018 and 31 March 2019 and an understatement of income in 2019/20. | We will provide an oral update to the meeting. |
| Amounts of £2.1m carried in short term debtors at 31 March 2018 in relation to the PFI grant. As all amount are paid in year, we would not expect there to be a remaining balance on this account and therefore proposed an adjustment to write-out this amount. | This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021. |

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| The Council has principally estimated bad debt provisions by applying percentages to categories based on age.<br><br>We have requested information on how percentages selected have been derived and/or how they compare to past experience. We have received information in respect of Council Tax and Business Rates but the data is not at a level of detail which allows us to test whether it is accurate. We have not received information for other types of receivables.<br><br>With one minor exception the Council has not modified its approach or assumptions in the light of the pandemic or explained why this is not required.<br><br>IFRS 9 as adopted by the Code requires substantial disclosures to measure both quantitative and qualitative information about amounts arising from expected credit losses and credit risk exposure. We consider further information should be provided in relation to the Council's investments. | The council is now provided an analysis for business rates and council tax arrears which compares the amount provided against a calculation based on historical collection experience. This provides both support for the amount of the original provision.<br><br>As a result of a similar analysis for housing benefit overpayments repayable, the bad debt provision at 31 March 2019 has been reduced by £4.2m.<br><br>The council has not provided a similar analysis for accounts receivable, but the comparatively small provision is consistent with the low level of past write offs and the ageing of the debt at the reporting date. Similarly an analysis has not been provided for amounts outstanding from tenants or in respect of parking penalty charge notices. However, these debtors have been substantially provided against which is consistent with the profile of the debt, including its ageing.<br><br>Officers have re-looked at the provision against amounts outstanding from leaseholders in respect of major works. The original provision was calculated by applying percentages to categories based on age. Officers have concluded that this is not consistent with the approach taken in practise to collection including agreement of payment plans. Officers also concluded that it was not consistent with the leverage which the council has by virtue of its ability to decline to approve the transfer of the leasehold while there are amounts outstanding on the leaseholder's account with the council. Officers have reversed a provision made against accrued income of £2.4m and we have proposed a further adjustment to release a further £2.0m against billed amounts. |