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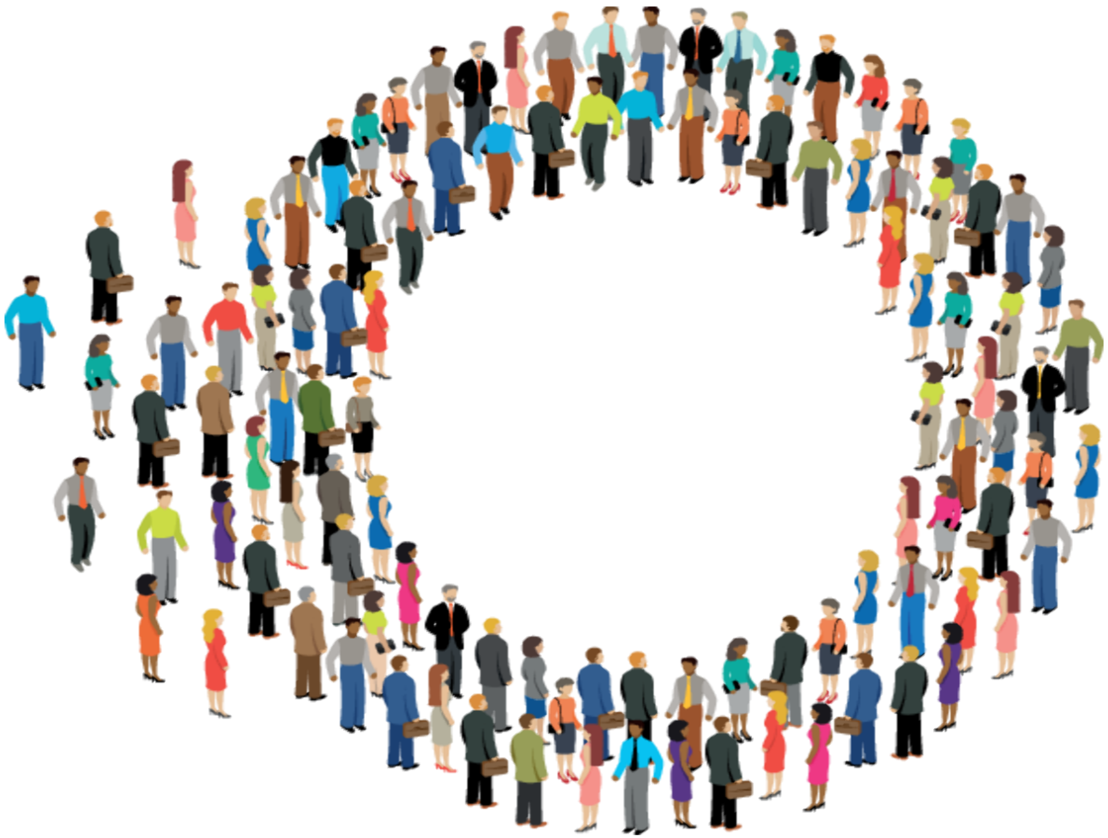

London Borough of Tower Hamlets

Report to the Audit Committee on the audit for the year ended 31 March 2020

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

Deloitte Confidential: Government and Public Services

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 2020.

Status of our work	Completion of the audit has been delayed well beyond the original deadline of 30 November due to the time to the impact of a delay to the audit of the council's 2018/19 statement of accounts, the time taken to investigate issues affecting both 2018/19 and 2019/20 accounts and the pace at which officers have responded to audit requests. We previously issued progress reports in November 2020 and April 2021 which described challenges encountered in the audit process for the 2019/20 audit and attended other meetings to give oral updates. Audit committee members have also received updates from officers. Whilst our audit is nearing completion, there are a number of procedures which remain outstanding, including: • Review of updated statement of accounts • Receipt of documentation for sample items and responses to other audit requests • Other matters as noted throughout this report • Other concluding procedures including review for subsequent events and receipt of management representation letter. In addition, we have not yet finalized our audit for 2018/19. Our final report on that audit is circulated alongside this report.
Key areas of audit judgement	The key judgements in the audit process related to: • The appropriateness of expenditure capitalised in the year • The valuation of properties • The valuation of a provision for the cost of settling appeals against rateable values made by business ratepayers • The valuation of the council's pension liabilities • The accounting for an indemnity given to Tower Hamlets Homes Limited (THHL) in respect of pension contributions • The recognition basis for grants and other contributions, including contributions by leaseholders to major works • The decision on whether to prepare group accounts. We report our conclusions on these areas in sections 3 and 4. This repeats some of the 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

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. 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. We expect to include information on the pension liabilities in the final version of this report to be circulated to the audit committee. We expect our opinion will be qualified in respect of the following matters: • 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 2019/20. 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. • Note 40 Pension Scheme discloses the plan assets and defined benefit obligations held by the Authority, both amounting £1,503m and £2,197m respectively at 31 March 2020. Within these figures are assets and liabilities of £110m 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. • The notes to the financial statements disclose the number of employees receiving remuneration of more than £50,000 in bands of £5,000. We were unable to confirm that all employees receiving remuneration of more that £50,000 have been represented in the note.
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. We recommend officers look to update for these matters which we have summarised in Appendix A.

Introduction
The key messages in this report

Duties as public auditor	We did not receive any questions or objections from local electors in respect of the 2019/20 statement of accounts. 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 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 We also expect our report to be qualified in respect of arrangements relating to managing risks effectively and ensuring a sound system of internal control.
Whole of government accounts (WGA)	HM Treasury have advised that any submission of returns for the purpose of WGA made after 17 December 2021 will not be included within the 2019-20 WGA. The National Audit Office have therefore advised that assurance statements need not be completed if not done so by that date. As a result, we will not be carrying out this work.

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 £24m based on an estimate of gross expenditure. We have reported in this paper all uncorrected misstatements above £500k.

The materiality threshold is slightly lower than previously reported to you (£25m advised in our audit planning report). This is because of the impact of audit adjustments on the benchmark used in estimating materiality.

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. 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

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 management's 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.

Conclusions

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 2019/20 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 on this is given below.

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

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.

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. This, together with other issues relating to schools which had not been fully resolved prior to the preparation of the original version of the 2019/20 accounts, has resulted in an increase in the valuation of buildings of £44m.

Significant audit risks

Valuation of properties (continued)

Deloitte challenge and conclusion

- The valuation of land relating to assets valued on a depreciated replacement cost basis is at £11.1m per hectare for the vast majority of assets. The Modern Equivalent Asset principle involves estimating the cost of land where a replacement asset might be located on a least cost basis, which may not be at its existing location. The valuer has assumed that in view of the nature of the services provided, there are limited opportunities for locating a theoretical replacement away from existing higher cost residential locations and therefore has valued land on the assumption of residential land use. Our research indicates a wide range of values for larger residential developments with this value at the lower end of the range observed.
- 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 changes in their previously recorded values at 31 March 2020 of £14.3m (increase) and £1.8m (decrease). As the properties have been surplus for a number of years, the Council has also obtained revised valuation at earlier reporting dates. 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.
- In valuing the York Hall Leisure Centre, the valuer has deferred both the net replacement cost and land values for three years at 7%, to reflect the fact there is a lease in place, with an unexpired term of three years, at a peppercorn (i.e. nil), rent. The lease is granted to an operator and is in substance a service agreement which we would expect to be disregarded for valuation purposes and vacant possession assumed. The impact is to undervalue the asset by £2.0m. We reviewed the remaining valuation calculations and identified further leisure assets where a similar approach had been taken. An adjustment has now been made to correct this resulting in an increase in value of £9m.
- 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 £232m. 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 not revalued at the reporting date which is significantly below our materiality threshold.
- Whilst we have not yet commenced our procedures in relation to the 2020/21 valuation programme, we note that within that programme which had not been revalued at 31 March 2019 showed a net increase of £9m which is not indicative of an earlier material change prior to 31 March 2019.
- As explained further in our report April 2021 report, we will include an emphasis of matter paragraph in our audit report to draw attention to the material uncertainty in relation to the valuation of properties caused by market volatility at the balance sheet date caused by the pandemic.

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 Spotlight data analytics tools 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. In our report on the 2018/19 audit, we reported to you on a smaller transaction of £3m relating to a contribution paid by a local health body to the council. We explained there why we had concluded the transaction was not intended to have substance it was expected at the time of the original transaction that the amount to be repaid to the local health body in the next year - as in practice occurred. The original version of the accounts included expenditure relating to the repayment of the contribution. This has now been reversed. As a result, together with entries made in the 2018/19 accounts, which are still open, this series of transactions has no effect on income and expenditure in 2018/19 or 2019/20 or the balance sheet at 31 March 2019.

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, the "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 was similarly towards the prudent end of the range we consider reasonable at 31 March 2019. 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 2019.
  - 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 The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS). Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. 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. **Deloitte response and challenge** 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. 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** 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. We have responded to this deficiency by increasing the seniority of staff involved in this work. **Conclusion on our substantive audit procedures** Our testing identified one item which had been inappropriately capitalised as it included demolition costs relating to an existing part of a school. This should have been expensed as we regard this as part of the cost of disposal of the existing structure, rather than the cost of the extension. We also found that the larger payment which had been capitalised was made in advance of part of the works being carried out. The total adjustment which has been made for this item reduced capital expenditure by £7.9m. Our testing identified instances where additions had not been correctly coded, including: • An item which had been expensed as "Revenue Funded from Capital under Statute" (REFCUS) but which related to one of the council's assets and which should have been capitalised within Property, Plant and Equipment • Expenditure on commercial premises in a housing estate which had been incorrectly classified within "Council dwellings" within Property, Plant and Equipment • Expenditure on fixtures and fitting incorrectly classified within other land and buildings. We provide further detail in Appendix C on some of these points through an update given there to matters originally reported in our April 2021 report. Whilst these matters did not result in material error, we recommend, in addition to implementing controls over the appropriate classification of expenditure as capital or revenue, that the council review and strengthen controls over the correct classification of amounts capitalised.

Significant audit risks

Recognition of grant income and other contributions

Risk and Deloitte challenge and response

Risk

Recognition of grant income and contributions is not inherently complex nor does it involve significant judgement. However, issues were identified in our initial testing in 2018/19 of grants and contributions.

The errors principally arose as a result of applying the wrong recognition basis. In particular in 2018/19 and in previous years:

- Contributions by leaseholders to major works 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 were 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.

Since the issue of our audit planning report, 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.

Errors were also identified in 2018/19 where grant income had been deferred, although there were no outstanding conditions preventing its recognition.

There is a risk that grant income is recognised in the wrong period as a result of the incorrect application of recognition principles.

We also identified errors in 2018/19 relating to incorrect amounts on grant control accounts due to inadequate control over their reconciliation and in our audit planning report identified this as a distinct part of the significant risk of material misstatement of grant and contributions income. As control account balances were not in practice material, we did not pinpoint a significant risk in this area.

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 2019/20 included:

- Re-calculating accrued income at 1 April 2019 and 31 March 2020 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 2019/20 by tracing from the items in the capital programme to income records for the relevant year.

Significant audit risks

Recognition of grant income and other contributions (continued)

Risk and Deloitte challenge and response

Similarly, we carried out focused testing on the exercise carried out by officers to implement the correct recognition basis for community infrastructure levy across all periods. Our procedures in respect of 2019/20 included:

- Re-calculating accrued income at 1 April 2019 and 31 March 2020 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 2019/20 by tracing from the items in the capital programme to income records for the relevant year.

We also carried out a focused exercise on community infrastructure levy, again to test the exercise carried out by officers. Our procedures included:

- Understanding the Council's process for capturing and recording the commencement of developments
- Testing accrued income at 1 April 2019 and 31 March 2020 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.

We also selected a sample of grants and contributions and tested whether they had been recognised in the correct period.

Significant audit risks

Recognition of grant income 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

Officers had not finalised certain aspects of their exercise in relation to leaseholder income at the time of publishing the draft 2019/20 statement of accounts and therefore adjustments were required to that version of the accounts, including to opening balances. We completed our procedures on the completed exercise without exception.

Similarly officers identified developments which had commenced during 2019/20 where income had been omitted from the initial version of the accounts published in draft in August 2020. This resulted in an additional accrual of income at 31 March 2020 of £31.1m which was incorporated into the version of the working paper submitted to us for review. In relation to the 2019/20 accounts, our testing identified one further error where an incorrect accrual of income of £3.3m at 31 March 2020 had been made relating to levy collected on behalf of the Mayor of London which is therefore not income of the Council. These errors have been corrected in the updated version of the accounts published on 19 October 2021.

Agreements governing planning contributions received from developers typically contain stipulations on how and by when the contribution is to be applied by the council and with the requirement that any unspent amounts are returned to the developer on expiry of the agreement. This is likely to represent a condition which would prevent recognition of income until and to the extent that the contribution has been applied.

However, not all agreements are in this format and the guidance notes which accompany the Code make clear that the accounting for planning contributions needs to be assessed on an agreement by agreement basis. Previously, and in the draft 2019/20 statement of accounts, the council treated all planning contributions as containing such conditions, without an accounting assessment of individual agreements being made. Our sample testing identified agreements which, whilst they contained stipulations on how the amounts should be spent (i.e. "restrictions") did not require the amount to be spent by a particular date or contain a contractual mechanism for unspent amounts to be repaid to the developer. We concluded in these cases that there was no condition preventing recognition and income had been inappropriately deferred. Officers have carried out an exercise to quantify the effect and have made adjustments in the version of the accounts published on 19 October 2021 to release £12.9m and £17.1m at 1 April 2019 and 31 March 2020, respectively. As the 2018/19 statement of accounts has not yet been finalised, those accounts have also been amended to correct the error at 31 March 2019. We have carried out tests on this exercise and did not identify and exceptions.

Our testing also identified other, smaller errors relating to the recognition of other grants. These have also been corrected except for an error in relation to section 31 funding which we have included in the schedule of uncorrected misstatements in Appendix A.

We have concluded that after making these adjustments, grant income and contributions are not materially misstated.

4. Other areas of judgement

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.

In the original version of the accounts, a pension asset of £5.6m was recognised as a deduction from the pension liability in relation to the main section of the scheme administered by the council. An adjustment has now been made to remove this asset as the council does not have any rights to this. At 31 March 2020, plan assets and liabilities included in respect of this section were £110m. The accounts state that "The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes". The basis on which this obligation is recognised is not explained and in practice the cost of benefits accrued after transfer are also included.

We are not able to quantify any further 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 conclusion 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.

Officers have made changes to cash and cash equivalents and other balances in the original version of the accounts following an investigation.

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.

We found that:

- There are differences between the reconciled cash position and amended general ledger control account balance of £699k at 31 March 2020 (with a difference on the opening balance at 1 April 2019 of £934k). It was apparent from these unresolved differences that correcting journals posted to the general ledger control account were incomplete.
- The reconciled cash position at 31 March 2020 incorrectly included amounts due from HMRC of £1,246k. Similar amounts were present at previous year ends (£1,644k, £1,189k and £1,499k at 31 March 2019 and 31 March 2018, 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 (£3.1m).
- Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half at 31 March 2020), 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. The amount of unpresented cheques and BACS at 31 March 2020 is £2,348k, representing the maximum amount of error at each reporting date.

As we are not able to quantify the precise amount of the error, we have not proposed an adjustment but draw audit committee members attention to the fact that there is uncertainty over the cash balance, the amount of the uncertainty is at a reduced level at 31 March 2020 compared to earlier reporting periods and is in the range of up to £2-3m. We will request in the management representation letter confirmation of officers' view that this amount, individually and in aggregate with other uncorrected misstatements (as summarised in Appendix A, Audit Adjustments), is immaterial.

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 (being the amount in the total column).

£m	THHL	KGVFT	Eliminations	Total
Revenue	(33.2)	(1.1)	33.2	(1.1)
Expenditure	33.5	1.6	(33.2)	1.9
Deficit on provision of services	0.5	0.5	-	1.0
Total comprehensive income	(4.7)	0.5	-	(4.2)
Total assets	11.9	16.2	(1.4)	26.7
Total liabilities	(3.1)	(0.1)	1.4	(1.8)
Net assets	8.8	16.1	-	24.9

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. 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 to 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 material 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

The council has made a provision of £6.7m for the anticipated cost of appeals made by business ratepayers to their bills.

In our April 2021 report we reported that:

- The supporting calculation used information on lodged appeals and an assumption on the expected proportion of successful appeals and there were aspects of the methodology and data sources which were not clear.
- In reviewing the appropriate level of provision, officers had had regard to a comparison with other authorities made using 2018/19 data. The comparison showed that the opening provision was towards the bottom end of the range - but other points on that range might give a provision that was materially higher.

We did not receive responses to our enquiries about the original methodology, but 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 £6.9m 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 2020 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 2020 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 £19m, of which the council's share would be £8.8m. 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 accounts for pension liabilities in relation to both its section of the Tower Hamlets scheme and the section relating to its subsidiary under the terms of an indemnity. The liability is reported on separately on page 19.

Deloitte response

Our procedures include:

- Obtaining a copy of the actuarial report for the Council Pension Fund produced by Hymans Robertson, the scheme actuary, and agreeing in the disclosures to notes in the accounts.
- Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Reviewing and challenging the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite.
- Assessing the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- Performing substantive analytical procedures on movements.
- Reviewing the disclosures within the accounts against the Code.

Some procedures are in progress and we will provide an update at the meeting if there any changes to our conclusions as a result of completing this work.

	Council	Reasonable range	Comments
Discount rate (% p.a.)	2.30%	2.15-2.60%	Centred
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90%	1.80-2.30%	Slightly optimistic
Salary increase (% p.a.)	2.10%	Employer specific	See below

Deloitte commentary on findings to date

Overall, based on market conditions at 31 March 2020 and the benchmarking information collated by our internal actuarial specialists, the assumptions used are within a reasonable range and are centred within that range.

The real salary increase assumption of 0.20% p.a. above CPI inflation is relatively low (more optimistic) compared to that used by other public sector employers, but is not unreasonable. We have requested confirmation in the management representation letter that this is consistent with the council's long term view of salary future salary growth.

Assumptions on current and future improvements to mortality are reasonable. Whilst Covid-19 has resulted in a significant number of 'excess' deaths this year, these unusual figures and fluctuations are likely to be (at least partially) smoothed out in mortality models. The true impact on longevity will only be known when the long term impacts of COVID-19 are known, for which we are still a long way from both epidemiologically and economically. Therefore, it is not clear that the data is yet available to robustly support an adjustment to the mortality assumption for COVID-19.

As reported in our 2018/19 report, the council did not adjust 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. As a result, a past liability has been recognised this year (and not in 2018/19) of £1.2m. MHCLG issued a consultation in July 2020, which clarifies that the ruling does not apply to members joining an LGPS after March 2012. We are not clear whether allowance has been made for the consultation in the calculation of the liability, but estimate the effect to be clearly trivial.

Although the council is aware of the Goodwin case, we understand that it has not allowed for any additional costs as a result of the ruling. In our view, it should be allowed for, as a past service cost. Based on general information that we have for LGPSs, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m, and have recorded this as a judgemental, uncorrected misstatement in Appendix A, Audit Adjustments.

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 two further risks which required further evaluation to determine if they were significant risks:

- A risk relating to 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 2019/20 Annual Governance Statement and internal audit reports issued as part of the 2019/20 internal audit programme. 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.

Our 2018/19 value for money conclusion will be qualified in relation to arrangements for childrens services. Ordinarily, when our report is qualified in the prior year, we would expect the subject matter of that qualification to represent a significant risk to our conclusion in the following year. However, in view of the improvement trajectory shown in Ofsted monitoring reports during 2018/19, confirmed by the results of a re-inspection in the first quarter of 2019/20 which rated the service as "Good", we do not consider this to be the case here.

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	Financial reporting arrangements
Risk description	The Council's statement of accounts for 2018/19 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. This delay and uncertainty has caused similar delays and uncertainty around the 2019/20 process. The Council has recognised in its draft annual governance statement for 2019/20 that there significant deficiencies in controls over financial reporting. 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: • the volume, size and significance of adjustments required to the original version of the statement of accounts and their cause. • the control observations made in the course of our work. • 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 of the following factors relating to the 2018/19 accounts and audit process: • 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 18 months for the target date for issue of our opinion of 31 July 2019 (see reports to audit committee meetings in July 2019, December 2020 and April 2021 for information on the nature and cause of delays). • 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). Matters of particular note are set out in out report in to the April 2021 meeting. Whilst relating to the 2018/19 accounts, these factors are relevant to our value for money conclusion as the council's financial reporting arrangements primarily operate annually and during 2019/20 primarily involved the closure of the 2018/19 financial statements. In addition, we note the following matters in relation to the 2019/20 accounts and audit process: • The 2019/20 statement of accounts has also been significantly delayed beyond the original target date for issue of the audit opinion of 30 November 2020 • The preparation and provision of supporting working papers was delayed significantly beyond the original start date as well as beyond the deadline for initial publication of the draft statement of accounts • The response time to requests for information has been very slow • The opening balances had not been confirmed at the start of the audit and was subject to change during the audit • Whilst the number of errors it was less than in relation to the 2018/19 statement of accounts it was still substantial • Changes have been agreed during the process which have had the effect of increasing usable reserves by £73m and increasing unusable reserves by £27m.

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	In his annual opinion for 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council has adequate systems of governance, risk management and internal control and provided limited assurance opinions on approximately half the reviews in the 2019/20 internal audit programme, including in respect of risk management. Further, the annual governance statement reports twelve “significant governance issues” identified in 2019/20 and reports on progress on a further nine identified in 2018/19. The report concludes the draft annual governance statement as follows: “Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so”. There is a risk that these circumstances represent a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control.
Procedures performed	We have evaluated: • The significance of the subject matter and findings reported for individual audits given a limited assurance rating by internal audit • The significance of governance issues reported in the annual governance statement • Other matters in relation to the system of internal control, including the control observations made in the course of our work on the council’s statement of accounts.
Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because: • Whilst the council has designed and implemented risk management arrangements these are not operating effectively • The internal audit programme and annual governance statement process has identified a significant number of governance issues and internal controls deficiencies in areas which are significant either quantitatively or where the council is exposed to material reputational damage.

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 two matters:

- Financial reporting arrangements in view of the volume and size of changes required to the original version of the 2018/19 statement of accounts, time taken to resolve issues identified and impact of these matters on the 2019/20 accounts and audit process.
- 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 years ended 31 March 2019 and 31 March 2020 have been significantly delayed from their original target dates of 31 July 2019 and 30 November 2020, respectively. This is due to the time needed to investigate issues identified during the 2018/19 audit process and to prepare amended accounts and the consequent impact on the 2019/20 accounts and audit process. 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 by £42m, unusable reserves by £58m, assets by £128m and liabilities by £28m at 31 March 2019 and increasing usable reserves by £73m, unusable reserves by £27m, assets by £112m and liabilities by £15m at 31 March 2020.

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 and concludes that the council has had "significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council". In his annual opinion for 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council has adequate systems of governance, risk management and internal control and provided limited assurance opinions on approximately half the reviews in the 2019/20 internal audit programme, including in respect of risk management.

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.

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.

As the 2018/19 audit process was ongoing at the time of the 2019/20 accounts close and audit process, the control observations are substantially the same as in our 2018/19 final report, except that the quality of the first draft of the statement of accounts was of higher quality and did not contain internal consistency and similar errors.

Area	Observation and recommendation
Preparation of accounting papers	**Observation** 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. 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. **Recommendation** 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 quality assurance processes	**Observation** Very few of the requested documents were provided at the start of our original audit visit. Responses to audit requests were not made on a timely basis and/or were of poor quality. Errors, for example in the accounting for community infrastructure levy, the recognition of grant income and contributions, the preparation of school bank reconciliations and classification of financial instruments provide evidence that officers did not have a full understanding of the tasks assigned to them or that insufficient quality checks were performed on the supporting information. **Recommendation** We recommend that the Council considers the resourcing of the closure process, the assignment of tasks, the training needs of those involved in the process and the quality assurance processes that will apply. 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
Reconciliation of general ledger control accounts and segregation of duties	**Observation** 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. **Recommendation** We recommend: • Responsibility for each control account is assigned to a named preparer and reviewer (with those roles allocated to different officers) • The frequency and timescale for preparation and review of reconciliations is set down in written instructions to staff • 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.
Completeness of disclosures	**Observation** The draft version of the accounts did not include all of the disclosures required by the Code. **Recommendation** We recommend a detailed review of the completed CIPFA disclosure checklist is carried out.

Control observations (continued)

Area	Observation
Valuation of properties	**Observation** 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). There are also no formal controls operating to ensure the completeness and accuracy of other information provided to the valuer. We have not been provided with information about the Council's review of the reasonableness of the outcome of the valuation in 2019/20, including how changes in individual asset values have been scrutinised and followed up with the valuer. 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. The process to support the assumption in the original version of the accounts that there had not been a material change in valuation of assets not selected for revaluation at the reporting date was not adequate. **Recommendation** 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. We recommend the Council design and document their review of the outcome of the valuation. 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. We recommend the council implement standard spreadsheet controls within the fixed asset register. This principle should be applied to any other spreadsheets used in the preparation of any other significant information in the statement of accounts. We recommend the Council prepare a paper to support the decision not to value particular assets prior to publishing its draft statement of accounts.

Control observations (continued)

Area	Observation
Journals	**Observation** 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. 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. 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. **Recommendation** 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** Errors were identified in the recognition of grants and contributions. 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. **Recommendation** We recommend: • 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 • The decision is reflected in the type of general ledger code set-up to record the grant • 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.
Classification of expenditure as capital	**Observation** We were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. 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. **Recommendation** We therefore recommend the Council implements such a control.

Control observations (continued)

Area	Observation
Other matters	We note the following additional observations: • Employment contracts held by the council for three sampled employees had not been signed by the employee. This may cause issues in enforcing particular contractual terms. • A payment was made to a local NHS body of £3m. Such payments should be subject to proper financial management practices which provide the council with assurance that the recipient will secure the most efficient and effective use of the payment. This was not done. As explained further on page 12, the payment was, in substance, a return of an advance made in the previous year. • The fixed asset register does not contain information on original cost for assets held at depreciated historic cost and therefore cannot be readily reconciled to cost and accumulated depreciation information and does not include date of acquisition which would enable this information to be re-constructed. • Assets in Vehicles, Plant and Equipment and infrastructure categories do not always contain detailed descriptions and in some cases have been aggregated by type and year of acquisition. As a result, it is not readily possible to determine whether assets remain in operational existence. Further comments on infrastructure assets was included in our April 2021 report. • The coding structure within the council's main accounting system has codes designated for recharge income and expenditure. These were not consistently used. This complicated the year end process for eliminating internal income and expenditure amounts and incomplete elimination of such income and expenditure in the initial version of the accounts. We understand the council proposes to discontinue or limit the system of recharges going forwards. We also identified instances where internal trading between the council and schools had not been correctly eliminated. • Bank reconciliations were not carried out for all corporate accounts and for others the analysis of reconciling items was presented in a way which readily showed which items represented true reconciling differences at the reporting date. The reconciliation of schools bank accounts was complicated by the use of a single general ledger control account and reconciling items included amounts which were not valid reconciling items, including amounts relating to input VAT to be reclaimed and outstanding creditors. • Sample items included land which was still registered in the name of the previous holder (the London Residuary Body and the Inner London Education Authority). We recommend the position is regularised.

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 Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements.

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					
Provision for appeals against rateable values	[1]	8.8	(8.8)	-	-
Major works provision in excess of requirement	[2]	(2.0)	2.0	-	-
Cash entries not recorded	[3]	(0.5)	0.5	-	-
Error in recording audit journal	[4]	-	-	-	-
Demolition costs	[5]	0.7	(0.7)	-	-
Assets not in operational existence	[6]	1.1	(1.1)	-	-
Incorrect valuation of Bow school	[7]	(3.4)	4.6	-	(1.2)
Impact of Goodwin case	[8]	4.0	(4.0)	-	-
Misstatements identified in prior year					
Provision for appeals against rateable values	[1]	(6.4)	-	6.4	-
Major works provision in excess of requirement	[2]	2.0	-	(2.0)	-
Impact of McCloud/Sargeant rulings	[9]	(1.6)	-	1.6	-
Total		**2.7**	**(7.5)**	**6.0**	**(1.2)**

Appendix A: Audit adjustments
Unadjusted misstatements

[1] In estimating the provision for the cost of appeals by ratepayers against rateable values, the council has not taken into account information available on historical experience of such appeals or information which has become available after the reporting date about appeals lodged or determined. We have estimated the effect of taking these matters into account would be to increase the provision by £19m, of which the council's share would be £8.8m. For similar reasons (and as set out in more detail in our report to this meeting on the 2018/19 accounts) we proposed an adjustment to the equivalent provision at 31 March 2019.

[2] 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 at 31 March 2020 and 31 March 2019.

[3] Four bank accounts had not been reconciled. In one case, no entries had been made to the general ledger since January 2019. We estimate as a result of this control deficiency that cash is understated by £529k in relation to that account. It is possible that there is a further adjustment required in relation to 3 other accounts which might increase this misstatement by £223k. However, officers need to carry out further work to determine whether in one case funds are held on trust and for the remaining 2 accounts to reconcile them in full. Given this, and that the amount involved is clearly trival, we have not proposed an adjustment in relation to the 3 other accounts.

[4] An audit journal to correct an error relating to the omission of VAT from a sales invoice was incorrectly posted. The correcting journal is to increase Short term creditors - HM Revenue & Customs and reduce Short term creditors - HM Revenue & Customs by £585k.

[5] In our sample, costs of demolishing part of an existing building were incorrectly capitalised. As these are part of the disposal of the existing building, they should have been expensed.

[6] As explained in Appendix D, officers carried out a further review of the fixed asset asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

[7] An existing building was demolished prior to the year end with a replacement extension under construction at the year end. The valuer did not take into account in his valuation that part of the building had been demolished. Works on the new extension prior to the year end of £5.5m was incorrectly included in other land and buildings and not in assets under construction, and was as a result written out on comparison to the valuation performed. As a result, assets under construction is understated by £5.5m (i.e. the amount of the works on the extension carried out at the balance sheet date) and other land and buildings is overstated by £0.9m (i.e. the value of the part of the building demolished before the year end.

[8] A legal challenge has been made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. An Employment Tribunal on 30 June 2020 has upheld the claim. This should result in an additional liability being recognised in FY20 DBO, as the ruling gives raise to a post balance sheet adjusting event. In our view this should be treated as a post balance sheet adjusting event, and the estimated impact should be recognised as a past service cost in the 2019/20 Comprehensive Income and Expenditure Statement. Based on general information that we have for LGPS's, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m.

[9] As explained in more detail in our report to this meeting on the 2018/19 statement of accounts, the pension liability at 31 March 2019 does not take into account the impact of the McCloud/Sargeant rulings.

Appendix A: Audit adjustments
Unadjusted 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.

		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*					
Incorrect set-off of a bank overdraft set-off against deposit amounts	[1]	-	-	-	-
Total		**-**	**-**	**-**	-

[1] A bank overdraft of £25.2m has been set-off against deposit amounts where the council has no legal right of set-off and the amount should therefore be reclassified to bank overdrafts in current liabilities (see also page 59).

* Misstatements identified in prior years which officers have agreed will be corrected in the final version of the 2018/19 statement of accounts and in the comparative information in the 2019/20 accounts are shown in our separate report on the 2018/19 statement of accounts presented to this meeting.

Appendix A: Audit adjustments

Corrected misstatements

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.

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Property, plant and equipment	2,657.3	2,689.9	32.6	• Removal of Millennium Project asset (-£22.6m) [See page 21] • Removal of other assets owned by KGVFT (-£10.5m) [See page 21] • Reclassify advance payment to short-term debtors (-£7.9m) [See page 14] • Removal of other duplicated assets (-£2.6m) [See April 2021 report] • Recognise cottages not previously in fixed asset register (+£4.7m) [See note 1] • Correct schools valuations (+£44.2m) [See pages 10-11] • Change basis of valuation for surplus assets (+£13.5m) [See April 2021 report] • Correct depreciation of infrastructure assets (+£6.1m) [See note 2] • Correction of error of principle in valuation of leisure assets (+£8.7m) [See pages 10-11] • Other non significant net adjustments to Property, plant and equipment (-£1.0m)
Heritage assets	18.8	18.8	-	
Intangible assets	0.7	0.7	-	
Long term investments	59.7	64.7	5.0	• Reclassify fixed term deposits from Short-term investments (£5.0m) [See note 3]
Long term debtors	1.6	1.6	-	
Short term investments	75.9	100.9	25.0	• Reclassify fixed term deposits to Long-term investments (-£5.0m) [See note 3] • Reclassify fixed term deposits from Cash and cash equivalents (+£30.0m) [See note 4]
Short term debtors	150.0	207.1	57.1	• Correct errors in the recognition of CIL (+£28.2m) [See page 17] • Adjustments involving schools cash balances (+£3.1m) [See page 20] • Reclassify advance payment from Property, plant and equipment (+£7.9m) [See page 14] • Adjustments involving leaseholder contributions (+£3.6m) [See page 17] • Adjustments to bad debt provisions (+£8.2m) [See note 5] • Correct error in accounting for Council Tax collection costs (+£3.1m) [See note 5] • Write-off errors on control accounts (-£1.1m) [See note 6] • Other non significant net adjustments to Short-term debtors (+£4.1m)

Appendix A: Audit adjustments
Corrected misstatements (continued)

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Cash and cash equivalents	169.0	161.5	(7.5)	• Reclassify fixed term deposits to short-term investments (-£30.0m) [See note 4] • Reclassify bank overdrafts to current liabilities (+£28.0m) [See page 59] • Adjustments involving schools cash balances (+£5.5m) [See page 20]
Bank overdrafts	-	(28.0)	(28.0)	• Reclassify bank overdrafts from current assets (+£28.0m) [See page 59]
Short term borrowings	(4.2)	(1.2)	3.0	• Reclassification of PFI/finance lease to short term creditors (+£3.0m) [See note 7]
Short term creditors	(180.8)	(179.7)	1.1	• Reclassification of PFI/finance lease from borrowings (-£3.0m) [See note 7] • Correct error in housing capital receipts payable (+£1.2m) [See note 8] • Correct error in recording of NNDR (+£1.9m) • Other non significant net adjustments to short-term creditors (+£1.0m)
Provisions (current)	(10.2)	(9.2)	1.0	• Other non significant net adjustments to provisions (+£1.0m)
Provisions (non current)	(3.0)	(13.4)	(10.4)	• Recognise additional provisions (-£10.0m) [See note 9] • Other non significant net adjustments to provisions (-£0.4m)
Long term borrowing	(71.5)	(71.5)	-	
Pension liabilities	(428.7)	(433.9)	(5.2)	• De-recognise asset relating to THH section of council scheme (-£5.2m) [See note 10]
Capital grants receipts in advance	(119.2)	(96.1)	23.1	• Correct errors in the recognition of grants and contributions (+£23.1m) [See page 17]
Deferred liabilities	(55.6)	(55.6)	-	
Deferred income – receipts in advance	(0.5)	-	0.5	• Other non significant net adjustments to Deferred income (+£0.5m)

Appendix A: Audit adjustments

Corrected misstatements (continued)

[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] As explained in the April 2021 report, we challenged the council on the useful economic lives (UELs) selected for infrastructure assets during our 2018/19 audit. The 2018/19 accounts were updated for this change but this was not done until after publication of the initial version of the draft 2019/20 statement of accounts. As a result an adjustment was required to the opening balances in the 2019/20. In addition, the new UELs were not correctly implemented in the fixed asset register and as a result an adjustment was also needed to the 2019/20 depreciation charge to correct this.

[3] A fixed term deposits with maturity dates falling after 12 months of the relevant reporting date had been classified within short term (i.e. current) investments. As this is not held for trading and was not, given its remaining period to maturity, expected to be realised within twelve months of the reporting date, this should have been classified within long term (i.e. non current) investments.

[4] The council's policy is to classify fixed term deposits within cash and cash equivalents which have a maturity date of three months or less on acquisition; where the period to maturity is greater than three months, the instrument is classified within investments. This adjustment corrected an error in the application of this policy.

[5] 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 arrears and debtors relating to the recovery of collection costs from taxpayers.

[6] 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.

[7] This is an adjustment officers chose to make to reclassify the current portion of PFI and finance lease obligations from short term borrowings to short term creditors.

[8] This corrects a discrepancy between the control account balance and the amount payable to the housing capital receipts pool based on the detailed return information.

[9] 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 (£9.0m). In addition, further provisions for other legal cases was made (£1.0m) following circularisation of the in house legal team.

[10] This removed a pension asset relating to the Tower Hamlets Homes section of the London Borough of Tower Hamlets scheme as the council does not have rights to this asset. Further background to the accounting is set out at page 19.

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
Inconsistencies between the Comprehensive Income and Expenditure Statement and Note 13, Income and Expenditure analysed by Nature There are differences between income and expenditure on services per CIES and the amounts shown in Note 13, Income and Expenditure analysed by Nature. Gross income from services using information extracted from the Note 13 is £3539k higher than the amount shown in the CIES and gross expenditure (£3358k) and capital grants (£181k) is also higher by the same amount. We are not able to determine whether the CIES or Note 13 requires correction.

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
Components of cash and cash equivalents 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 only 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 items within cash flow statement The adjustment to exclude capital creditors from the increase/decrease in creditors includes amounts due to the housing capital receipts pool. Payments to the housing capital receipts pool are presented within cash flows from operating activities. As a result, the amount should be included within and not excluded from the increase/decrease in creditors line. The effect of correcting the error would be to reduce inflows from investing activities and reduce outflows from operating activities. The amount of the error is £4,015k.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

Disclosure
Classification of rechargeable works deposits within short term creditors Amounts received on account from individuals and businesses for rechargeable works (£12.1m) 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
Auditors' remuneration The disclosure differs to our records. Further information is included in page 55.
Income and expenditure analysed by nature Employee benefits expenses are understated and Other service expenses are overstated by £14,462k as a result of the incorrect classification of a journal item.
Related parties note The note includes the disclosure of amount due to the council at 31 March 2020. The amounts are in agreement with the Accounts Receivable ledger tested as follows: East End Homes: Amount due per disclosure note: £388k; per Accounts Receivable ledger: £741k; and Mulberry School for Girls: Amount due per disclosure note: £11k; per Accounts Receivable ledger: £811k.
Narrative report – inconsistencies with financial statements The report includes a table setting out the Council's reserves at each of the last three reporting dates. The General Fund earmarked reserve reported there at 31 March 2020 is £7.8m lower than the amount shown in the financial statements.

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
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 instead presents the aggregate of these amounts [Code: 8.2.4.2].
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 contracts [Code: 7.3.3.7].
Revenue from contracts with service recipients Revenue recognised from contracts with service recipients has not been disclosed separately from 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 2.7.4.5]. 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].

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 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 [Code 3.4.2.91 and Code 3.3.4]. The disclosure refers to a material uncertainty in relation to the valuation of properties at 31 March 2020. This has not been fully explained or given suitable prominence.
Disclosure of comparative information 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 2019); and disclosures in relation to PFI and similar contracts.
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) such assets and liabilities. The Council has not included financial assets measured at fair value within the fair value hierarchy table. 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].

Appendix A: Audit adjustments
Disclosures

Other disclosure deficiencies

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: 3.8.4.1]
Disclosures in relation to trust funds 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 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.
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
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].

Community infrastructure levy (CIL)

The Code recommends that authorities consider separate disclosure of material CIL income and expenditure, and material balances on the capital grants unapplied account [Code 2.2.4.3]. As balances are material, we recommend the council consider separate disclosure.

Contingent liability

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.

Narrative report

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].

The Code also requires a commentary on cash flows during the year and the factors that may affect future cash flows [Code 3.1.1.15].

Appendix B: 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.

Appendix C: 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 the appendix. 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 2019/20 audit, as well as the 2018/19 audit, 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. We have carried out assurance work on two grants/returns made by the council in respect of 2018/19. The fees relating to this work are reported in our final report on the 2018/19 audit. We did not carry out equivalent work on the 2019/20 grants/returns which has been performed by another reporting accountant. During 2019/20 we also provided property related services which commenced prior to our appointment. Details of the fees earned during 2019/20 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 C: Independence and fees

The professional fees expected to be charged by Deloitte for the period from 1 April 2019 to 31 March 2020 are as follows:

	Current year £'000
Audit of the council	227
Total audit	
Other non-audit services not covered above (Property related service – see previous page)	12
Total other non-audit services	12
Total non-audit services	12
Total fees	239
London Borough of Tower Hamlets pension scheme audit	17

As set out on the fees for the audit 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 2019/20 audit, as well as the 2018/19 audit, to its current state and we will be seeking to agree a further fee variation in relation to this.

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: • The Council had a statutory duty under Regulation 62(1) to “contribute” the amount set out in certificate. • The regulations are highly prescriptive and require payment to be according to the timetable set out in the certificate. • It was not lawful for the Council to pre-pay the amount on its certificate. • 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. • 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: 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. 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. 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. 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.
Losses of £5.8m in 2019/20 and £0.5m in 2018/19 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.
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.

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
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 instruments, we have not received officers' assessment of their classification. As a result we have not concluded on this area.	Our work on this is complete. Adjustments have been made as set out in Appendix A, Audit Adjustments.
In relation to the valuation of properties, officers have added wording to the January 2021 version to refer to a material uncertainty due to the impact of the pandemic – although, as this is a key point, we recommend that this is explained in greater detail. The remainder of the narrative 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.	The council has not updated the disclosure. We have included this as a disclosure deficiency in Appendix A, Audit Adjustments.

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
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.
We have noted to officers that the disclosure on movements in the provision in 2019/20 accounts, which shows usage of the provision in 2019/20 of £34m, is inconsistent with information provided on payments made to ratepayers following a successful appeal in 2019/20.	The inconsistency related to errors in the disclosure of movements. The disclosure has been corrected in the version of the accounts published in draft on the council's website on 19 October 2021.

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
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. However, the adjustment made does not take into account 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 of £25.2m should not be set-off against the deposit on the balance sheet. We have included this in Appendix A, Audit Adjustments.
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. 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.

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
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: • 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 • Estimated the impact of all errors identified at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017 respectively. • Propose to adjust the accounts to correct for these errors. 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 areas provided to the valuer. We will provide an oral update to the meeting.

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
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. 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 and we have proposed this as an adjustment.
There are several non school assets where the valuation has increased as consequence of changes in floor area information which the Council had provided to the valuer. We have requested the Council verify that these changes reflect extensions or other changes to the occupied space since the last valuation, rather than the correction of an error in previous information.	The council have investigated whether changes in floor area information are consistent with works carried out in the period since the previous valuation. This identified several instances where there had been a change in floor area information but no apparent change to the underlying asset. Officers concluded that the previous information is likely to have correct, but do not propose to restate opening balances as the amount involved is immaterial (£3m).

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
In valuing the York Hall Leisure Centre, the valuer has deferred both the net replacement cost and land values for three years at 7%, to reflect the fact there is a lease in place, with an unexpired term of three years, at a peppercorn (i.e. nil), rent. The lease is granted to an operator and is in substance a service agreement which we would expect to be disregarded for valuation purposes and vacant possession assumed. We have requested the Council verify with the valuer whether there are similar circumstances where the same approach has been taken.	This error has been quantified and adjusted in the 19 October 2021 version of the accounts. See the corrected misstatements section of Appendix A, Audit Adjustments.
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. 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. 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 a oral update to the meeting.

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
The Council has principally estimated bad debt provisions by applying percentages to categories based on age. 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. 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. 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. 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. 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.

Deloitte.