

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF TOWER HAMLETS

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Matters on which we are required to report by exception

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we had nothing to report in respect of the matters that we are required to report on by exception.

Issue of value for money conclusion

In our audit report for the year ended 31 March 2018 issued on 30 July 2018 we reported a qualified value for money conclusion in the following terms:

Basis for qualified conclusion

In considering whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources we have reviewed the progress made against the findings of the Best Value Inspection of the London Borough of Tower Hamlets Report (the Report) published on 4 November 2014, as well as the evidence gathered from our own audit work. The Report concluded that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas of the payment of grants and connected decisions; the disposal of property and the granting of leasehold interests; and spending on publicity. Subsequently the Secretary of State for Communities and Local Government ('the Secretary of State') appointed independent Commissioners to undertake an executive decision-making role in relation to all grant decisions, and to oversee the work of the Authority in these areas of operation.

The Authority developed and published comprehensive action plans including a programme of cultural change (the "BV Action Plans") and these have been developed into a Best Value Improvement Plan ("BV Improvement Plan") under five areas: elections; communications; property; grants; and organisational culture. In March 2017 the Secretary of State decided not to extend the appointment of the Commissioners beyond 31 March 2017 in recognition of the Authority's progress. In light of the remaining actions identified in the BV Improvement Plan, the Secretary of State issued three new Directions, in force until 30 September 2018, which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV Improvement Plan to the Secretary of State and set up an independent review of achievement of the BV Improvement Plan with a report to the Secretary of State by 1 August 2018.

We have considered the quarterly reporting by the Authority to the Secretary of State and the extent to which the actions in the Authority's BV Implementation Plans were reported as completed.

The reports show that Authority considers that the majority of the actions identified are completed or on track with majority of short-term and medium-term milestones having been delivered. Where there are delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year. Whilst we note the continuing progress made further time is required to fully implement and embed the improvements required under the BV Improvement Plan.

An Ofsted inspection undertaken in January and February 2017, which reported in April 2017, rated the Authority's services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The Ofsted report raised concerns in relation to poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care.

The Authority has established a Children's Services Improvement Board led by a Chair and an Improvement Plan was submitted to the Department for Education in July 2017. The consequent Improvement Plan aims to achieve a standard of at least 'good' by April 2019. Progress is reviewed regularly by Ofsted. The findings from the Ofsted monitoring visits indicate a positive trajectory of change.

Having considered the findings and conclusions of the above inspections together with the results of our audit work, we have concluded that the Authority did not have proper arrangements in place to meet the requirements of the sub-criteria relating to 'informed decision making' and 'working with partners and other third parties'.

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General 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, 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 2018.

Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until consideration of a matter brought to our attention by a local authority elector under the Local Audit and Accountability Act 2014 relating to the year ending 31 March 2017 had been duly considered.

In addition, we reported that had not completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack; and that the Authority had yet to approve its Pension Fund Annual Report and Accounts (on which we are required to give an opinion on the consistency of the Pension Fund Annual Report and Accounts with the Authority's pension fund included in its annual financial statements).

We have now completed this work.

Formal recommendation

As part of the work undertaken in relation to the issue raised by the local government elector relating to the year ended 31 March 2017, we issued a formal recommendation to the Council under Schedule 7 of the Local Audit and Accountability Act 2014. Although the recommendation was made in relation to the year ending 31 March 2017, we have also included the recommendation in this certificate as the matters referred to in the recommendation were also present in the year ending 31 March 2018:

- We recommend that the Council should commission a detailed independent review of the operation of the Private Finance Initiative (PFI) contracts to satisfy itself that they are appropriate and operating effectively and that the results are reported to a Council public meeting by 30 November 2019. This should include consideration of:
 - health, safety and welfare issues;
 - the day-to-day quality of the PFI contract operation; and
 - actions taken to address the lessons to be learned (set out in the 'Learning the Lessons' paper to Corporate Director of Resources, dated November 2018, relating to the Grouped Schools PFI contract material document).

Restatement of 2017/18 financial statements

The Council has made adjustments to restate figures previously reported in 2017/18 in its 2018/19 financial statements.

The four that we consider to be material adjustments are explained below. The impact on the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement – Usable Reserves, Balance Sheet, and Cashflow Statement are outlined in the tables that are annexed to this certificate.

- **Property Plant and Equipment Adjustments**
It was identified that there were errors in the methodology used to produce the valuations for some properties. This required a revaluation of assets, primarily the maintained schools, resulting in increases in valuations of £442.7 million as at 1 April 2017 and £307.8 million at 31 March 2018.
- **Leaseholder contributions**
It was identified that billing leaseholders for their share of the costs of major works on housing blocks had fallen behind. This was due, in particular, to the expanded programme of Decent Homes, and the need to obtain final completion information from contractors. An exercise of catch-up billing was put in place. However, at 31 March 2018, £10.5 million of contributions should have been accrued for, and a further £15.7 million should have been recognised (rather than held as receipt in advance) and these are now adjusted for in the accounts.
- **Academy Conversions**
During 2018/19 it was identified that four schools had transferred out of Council control to academy status during 2017/18. The book value of the non-current assets of those schools was £75.9 million at 31 March 2018 prior to the revaluation exercise described in the Property Plant and Equipment Adjustment bullet above.
- **Community Infrastructure Levy (CIL)**
It was identified that final details in the planning process were causing delays in the raising of invoices for the CIL. Whilst some payments on account for initial instalments had been received, the full debt had not formally been raised in the accounts. The additional income has now been correctly recognised in the balance at the end of 2017/18, increasing debtors by £10.2 million (£9.4 million in 16/17), reducing receipts in advance by £1.6 million and

increasing CIL Receipts in the Capital Grants Unapplied Reserve by £11.8 million (£9.4 million in 16/17).

No other matters have come to our attention since 31 July 2018 that would have a material impact on the financial statements on which we gave an unqualified opinion, or a significant impact on our qualified value for money conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness and value for money conclusion.

We certify that we have completed the audit of the financial statements of the London Borough of Tower Hamlets in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Andrew Cardoza for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH, UK

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Effect on the Comprehensive Income and Expenditure Statement 2017/18

All values in £'000s	Previously stated 2017/18	PPE revaluations	Leaseholder contributions	Academy conversions	CIL	Restated 2017/18
Gross Expenditure						
Children's Services	538,699	(25,395)				513,304
Health, Adults and Communities	162,076					162,076
Place	154,392					154,392
Governance	18,372					18,372
Local Authority Housing (HRA)	83,387					83,387
Resources	296,760					296,760
Corporate Cost and Central Items	6,592					6,592
Total Gross Expenditure	1,260,278	(25,395)	-	-	-	1,234,883
Gross Income						
Children's Services	(406,776)					(406,776)
Health, Adults and Communities	(66,068)					(66,068)
Place	(82,636)					(82,636)
Governance	(2,641)					(2,641)
Local Authority Housing (HRA)	(91,030)					(91,030)
Resources	(266,133)					(266,133)
Corporate Cost and Central Items	(8,262)					(8,262)
Total Gross Income	(923,546)	-	-	-	-	(923,546)
NET COST OF SERVICES	336,732	(25,395)	-	-	-	311,337
Other Operating Expenditure	(11,268)			75,850		64,582
Financing and Investment Income and Expenditure	23,253					23,253
Taxation and Non-Specific Grant Income	(327,304)		(2,155)		(2,448)	(331,907)
(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES	21,413	(25,395)	(2,155)	75,850	(2,448)	67,265
Other Comprehensive Income and Expenditure						
(Surplus)/Deficit on revaluation of non-current assets	(216,962)	103,450				(113,512)
Actuarial (gains) or losses on pension assets and liabilities	(51,679)					(51,679)
OTHER COMPREHENSIVE INCOME AND EXPENDITURE	(268,641)	103,450	-	-	-	(165,191)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	(247,228)	78,055	(2,155)	75,850	(2,448)	(97,926)

ANNEX

Effect on the Movement in Reserves Statement 2017/18 – Usable Reserves

All values in £'000s	As previously stated	PPE revaluations	Leaseholder contributions	Academy conversions	CIL	Restated
Balance as at 31 March 2017	(478,489)	-	(24,107)	-	(9,413)	(512,009)
(Surplus) or Deficit on the Provision of Services	21,413	(25,395)	(2,155)	75,850	(2,448)	67,265
<u>Reversal of items debited or credited to the Comprehensive I&E</u>						
Charges for depreciation and impairment of non-current assets	(37,992)					(37,992)
Revaluation losses on PPE	(19,985)	25,395				5,410
Capital grants and contributions applied	34,746					34,746
Revenue expenditure funded from capital under statute	(20,855)					(20,855)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(44,984)			(75,850)		(120,834)
<u>Inclusion of items not debited or credited to the Comprehensive Income & Expenditure Statement</u>						
Capital expenditure charged against the General Fund and HRA balances	10,593					10,593
All Other Adjustments	11,971					11,971
Total Adjustments between accounting basis and funding basis under regulations	(58,594)	25,395	-	(75,850)	-	(109,049)
(Increase) or Decrease for year	(37,181)	-	(2,155)	-	(2,448)	(41,784)
BALANCE AS AT 31 MARCH 2018	(515,670)	-	(26,262)	-	(11,861)	(553,793)

ANNEX

Effect on the Closing Balance Sheet as at 31 March 2018

All values in £'000s	31 March 2018	PPE revaluations	Leaseholder contributions	Academy conversions	CIL	Restated 31 March 2018
Long term assets						
Property, Plant & Equipment	2,486,991	307,831		(75,850)		2,718,972
Heritage assets	18,835					18,835
Total Long-term assets	2,506,416	307,831		(75,850)		2,737,807
Current assets						
Investments	359,126					359,126
Debtors	100,800		10,543		10,263	121,606
Cash and Cash Equivalents	114,524					114,524
Total Current assets	574,450	-	10,543	-	10,263	595,256
Current liabilities						
Borrowing	(4,426)					(4,426)
Creditors	(157,986)				1,598	(156,388)
Provisions	(7,373)					(7,373)
Total Current liabilities	(169,785)	-	-	-	1,598	(168,187)
Long Term liabilities						
Provisions	(7,160)					(7,160)
Borrowing	(83,293)					(83,293)
Liability related to defined benefit pension schemes	(562,923)					(562,923)
Capital grants receipts in advance	(104,772)		15,719			(89,053)
Deferred liabilities	(61,455)					(61,455)
Deferred Income - Receipt in Advance	(835)					(835)
Total Long term liabilities	(820,438)	-	15,719	-	-	(804,719)
NET ASSETS	2,090,643	307,831	26,262	(75,850)	11,861	2,360,747
Usable Reserves						
General Fund	(33,258)					(33,258)
Housing Revenue Account	(47,560)					(47,560)
Earmarked reserves	(118,605)					(118,605)
Schools reserves	(23,373)					(23,373)
Capital Receipts Reserve	(194,556)					(194,556)
Capital Grants Unapplied	(92,836)		(26,262)		(11,861)	(130,959)
Major Repairs Reserve	(5,485)					(5,485)
Total Usable Reserves	(515,673)	-	(26,262)	-	(11,861)	(553,796)
Unusable Reserves						
Revaluation Reserve	(665,233)	(280,207)		36,775		(908,665)
Capital Adjustment Account	(1,513,792)	(27,624)		39,075		(1,502,341)
Pensions Reserve	591,841					591,841
Other reserves	12,214					12,214
Total Usable Reserves	(1,574,970)	(307,831)	-	75,850	-	(1,806,951)
TOTAL RESERVES	(2,090,643)	(307,831)	(26,262)	75,850	(11,861)	(2,360,747)

ANNEX

Effect on the Cash Flow and notes

All values in £'000s	As previously stated 2017/18	PPE revaluations	Leaseholder contributions	Academy conversions	CIL	Restated 2017/18
Net surplus or (deficit) on the provision of services	(21,413)	25,395	2,155	(75,850)	2,448	(67,265)
Adjustments to surplus or deficit on the provision of services for noncash movements						
Depreciation	37,992					37,992
Impairment and downward valuations	19,985	(25,395)				(5,410)
Increase/(decrease) in creditors	16,744					16,744
(Increase)/decrease in debtors	(33,395)					(33,395)
Movement in pension liability	(3,990)					(3,990)
Contributionsto/(from) provisions	2,505					2,505
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	44,984			75,850		120,834
Total adjustments	84,825	(25,395)	-	75,850	-	135,280
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities						
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(59,785)					(59,785)
Any other items for which the cash effects are investing or financing cash flows	(10,811)		(2,155)		(2,448)	(15,414)
Total adjustments	(70,596)	-	(2,155)	-	(2,448)	(75,199)
Net Cash flows from operating activities	(7,184)	-	-	-	-	(7,184)
Net Cash flows from Investing Activities	(58,900)	-	-	-	-	(58,900)
Net Cash flows from Financing Activities	(3,691)	-	-	-	-	(3,691)
Net increase or (decrease) in cash and cash equivalents	(69,775)	-	-	-	-	(804,717)
Cash and cash equivalents at the beginning of the reporting period	184,299	-	-	-	-	184,299
Cash and cash equivalents at the end of the reporting period	114,524	-	-	-	-	114,524