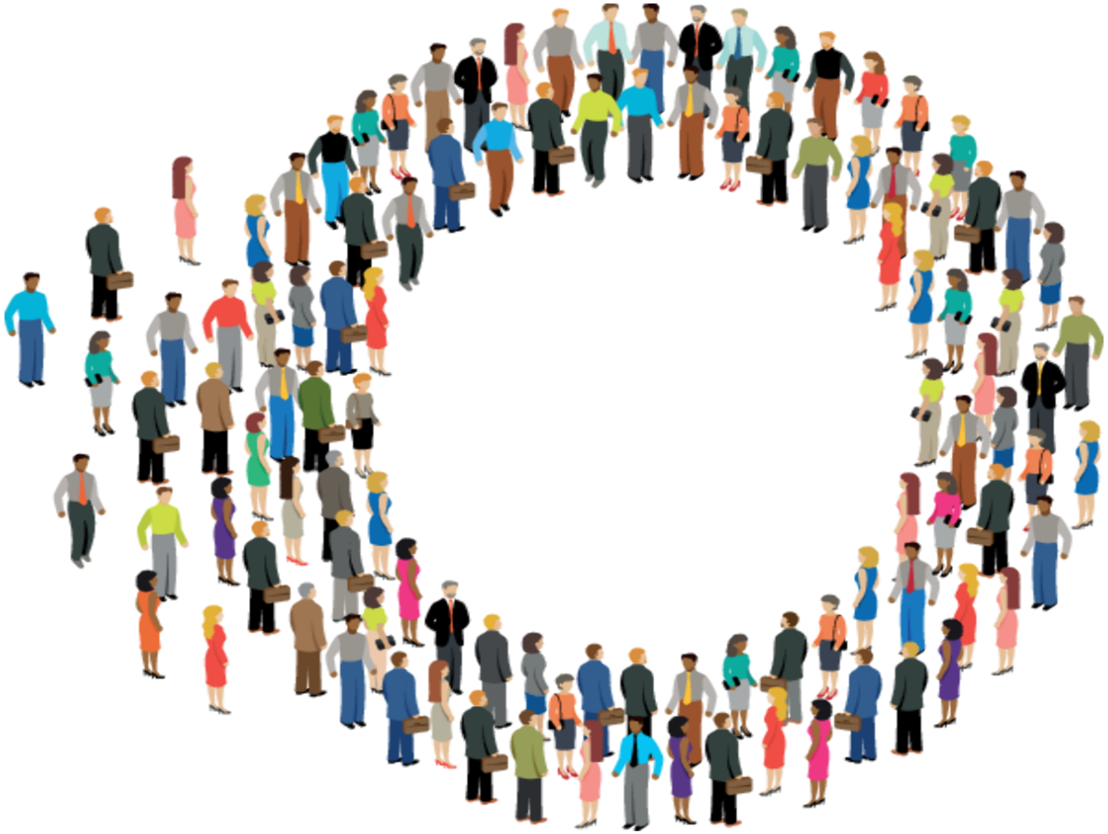

London Borough of Tower Hamlets

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 and re-issued on 20 January 2023 for the meeting on 26 January 2023

Deloitte Confidential: Government and Public Services

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1. Key messages

Key messages
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. This report should be read in conjunction with our earlier reports presented at meetings of the committee in November 2020, April 2021 and January 2022.

Status of our work	Our audit is now substantially complete with the following procedures remain outstanding. We anticipate that some of these matters will be completed by the Audit Committee meeting on 26 January and we will update the Committee accordingly: • Officers' assessment of the useful economic lives assigned to infrastructure assets in the light of recent guidance issued by CIPFA • Finalisation of our work on employee remuneration disclosures (as set out in the "Other issues" section of this report) following receipt of further information and confirmation of changes to be made to the disclosures in the draft statement of accounts • We have reported disclosure misstatements relating to income from service recipients in Appendix A, Audit Adjustments. We have discussed with officers whether these can be remediated in the final version and will conclude on the impact on our opinion if this is not possible. • There is an historic difference between the capital financing requirement and related balance sheet amounts of £16m which we are discussing with officers. • Completion of audit of related party disclosures where officers have recently submitted updated disclosures and supporting information in the light of previous audit challenges • Completion of a small number of other open items, in particular in relation to net pension liability, financial instrument fair value disclosure, schools reserves transfers, certain factual inputs to the valuation of non-current assets and performance of other procedures required at closedown of the audit • Finalisation of internal quality control review processes and internal consultations in relation the scope of our audit • Review of the final version of the draft statement of accounts, including: updates to disclosures on infrastructure assets taking into account recent guidance issued by CIPFA; additional disclosure in relation to explain issues giving rise to audit qualifications and the council's position on these; updates, if any, to employee remuneration disclosures and dedicated schools grant note comparative; updates to the Annual Governance Statement • Receipt and evaluation of memorandum documenting the process undertaken by officers to support representations, including any tailoring needed where officers conclude that the council is not in a position to provide the requested representation • Receipt of audit certificates for the years ended 31 March 2017 and 31 March 2018 • Finalisation of our audit report taking into account the actual and potential qualification items set out in the "Introduction" section of this report, any further items arising from completion of other open items and finalisation of wording • Update of our subsequent events review through to the date of signing and receipt of signed management representation letter. We will provide an oral update on these items at the meeting.

Introduction
The key messages in this report

Status of our work (continued)	Completion of the audit has been delayed well beyond the original deadline of 30 November 2020 due to the time taken by the council to investigate and resolve issues identified initially during the audit of the previous year's accounts and subsequently, the quality of the council's record keeping and the slow pace at which officers have responded to audit requests. More recently, it has taken time to complete the final stages of our audit due to the volume and significance of issues identified over the period of the audit, the time needed to evaluate the cumulative impact of these on our audit and changes made by officers to the accounts and the impact of this and other factors on our assessment of engagement risk and developing and executing our response plan to the heightened engagement risk. This report updates a report presented to the audit committee in January 2022. We previously issued progress reports in November 2020 and April 2021 which described challenges encountered during the audit process for the 2019/20 and preceding 2018/19 audit and attended other meetings to give oral updates. This report repeats information previously communicated, but we have reported in this way to provide a complete picture of our findings, areas of judgement and final conclusions. For reference, at Appendix D, we have provided a summary of the more significant matters which have arisen since the issue of the original version of this report which was presented to the committee in January 2022.
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 impact of deficiencies in records relating to officer remuneration and related party disclosures • The appropriateness of asset lives assigned to infrastructure assets • 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. We draw your attention to Appendix A which sets out the misstatements which remain uncorrected in the final version of the statement of accounts.

Introduction

The key messages in this report

Findings and conclusion

We have summarised uncorrected misstatements and significant uncorrected misstatements at Appendix A, Audit Adjustments. We will be requesting the council's confirmation that the effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole (see Appendix F, Draft management representation letter).

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 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 consolidated accounts been prepared, elements of these accounts would have been materially different to the council's single entity accounts. We expect our opinion on the council's financial statements will be 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 (the Code).
- We have identified several issues relating to the compilation of disclosures on employee remuneration. The issues are set out on page 31 and relate to the collection of information relating to staff employed at schools which use third party payroll providers and its consolidation with information relating to other employees. Officers have confirmed their intention to remediate for some of the issues. We are waiting for responses to certain questions and an updated version of the accounts before concluding on the scope of the qualification.
- In its analysis of movements on the council's net pension liability, the council recorded an experience item (which relates to the correction of assumptions to align with actual experience) of £116m and an adjustment to the council's share of pension assets of £29m. It is likely that all or most of these items relate to the true-up of estimates used during the three year inter funding valuation period to 31 March 2019 to actual experience and the correction of past data errors. As it provides information about circumstances present at 31 March 2019, this is an adjusting post balance sheet event. As the accounts have not been adjusted to account for these items in the correct period, our audit report will be qualified as the amounts involved are material. As the council has not commissioned revised actuarial reports for 2018/19 and 2019/20, we are not able to quantify the amount of the error. In addition, we have not been able to obtain sufficient evidence to support the amount of the experience item. This represents a limitation in the scope of our opinion.
- As set out in our report on the statement of accounts for the year ended 31 March 2019, we expect that our audit report will be qualified due to a limitation on scope in relation to related party disclosures. The accounts for the year ended 31 March 2020 will be qualified due to the impact of this qualification on comparative information.

Our January 2022 report also set out a further qualification point in relation to the accounting for an indemnity given to Tower Hamlets Homes Limited. As explained in our oral presentation to the audit committee meeting in January 2022, this matter was under review at that time and has now been resolved – further details are set out on page 23.

The accounts explain that there is a material valuation uncertainty at 31 March 2020 as a result of the covid-19 pandemic on property values. The council has made changes to further explain and give greater prominence to the disclosure. As explained in our April 2021 report, in view of the significance of this matter (and as is common with local authorities and other reporters with 31 March 2020 year end and significant property portfolios carried at market based valuations) we will include an additional paragraph drawing attention to the uncertainty and the Council's disclosure. Our audit report is not qualified in this respect.

Introduction
The key messages in this report

Findings and conclusion (continued)	We have set out the proposed wording of modifications to our audit report at Appendix E. We recommend the audit committee request a paper which provides assurance on the steps taken to ensure that the circumstances which gave rise to these qualification items have been addressed. We also recommend the council consider including narrative within the financial statements to explain the issues giving rise to the qualifications and its position on these.
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. Officers have updated the narrative report for the matters referred to in our January 2022 report and we have no further matters to report. We have reported on residual matters in relation to the annual governance statement in Appendix A, Audit Adjustments. The council is updating the Annual Governance Statement and we will conclude once we have received this.
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 January 2022 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 • arrangements for managing risks effectively and establishing a sound system of internal control. This is because of the significance of matters identified and reported through the internal audit programme and annual governance statement process relating to arrangements in place during 2019/20.
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.
Management representation letter	As required by auditing standards, we request written representations in connection with our audit. A draft of the representations we are requesting has been included in Appendix F, Draft management representations. In view of changes in council staffing and challenges experienced in providing information over the course of the audit, the council will need to devote sufficient time to, and take particular care in, implementing controls that will allow the council to verify the accuracy of the representations requested and thus to provide such representations faithfully and after due process. The council will also need to consider what changes are needed to the requested representations in areas where we expect to qualify our opinion.

Introduction
The key messages in this report

Control observations	We summarise significant and other control deficiencies which have come to our attention in Section 6, Control observations. Reflecting the volume, significance and pervasiveness of misstatements identified during the course of the audit, the number and significance of these control observations are greater than we report at most other local authorities. The common root cause of these observations has been a lack of capability and capacity with the finance function which has led to: a lack of capability and/or desire to understand and analyse the accounting basis for transactions; the failure to establish an effective system of quality assurance; and weaknesses in financial control and reporting, including controls over general ledger maintenance, documentation of key judgements and compliance with presentation and disclosure requirements in preparing the statement of accounts. Over the last two years, the interim Corporate Director – Finance and Resources has reported progress on an improvement plan which is designed to address these and other underlying systemic issues. The council has also invested time in investigating and responding to specific accounting issues identified in the course of the audit and building better processes to prevent their reoccurrence. However, as a result of the timing of many of these actions, we have needed to repeat many of the points first made in our equivalent report on the 2018/19 council audit. Notwithstanding this, there were clear improvements in the quality of information received for the purpose of our 2019/20 audit, although it is also apparent that some disciplines, including preparation of detailed accounting papers and effective quality assurance processes are yet to be embedded and the council still needs to demonstrate that it can carry out its annual financial reporting tasks at pace, including responding to audit requests. We recommend the committee request a report from officers on the status of actions already taken which address specific recommendations made by us in Section 6, together with the plan to address residual items.
Fees	We have set out 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 on page 66. This takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring both the 2018/19 and 2019/20 council audits to their current state (£312k in total for the 2018/19 and 2019/20 audits together in the period 1 February 2021 to 31 December 2022) and we will be seeking to agree a further fee variation in relation to this and further time incurred in finalising the audit.
Audit of pension scheme financial statements	We reported separately to the Audit Committee in January 2021 on our audit of the financial statements of the pension scheme. There are no additional key findings to report from further work performed subsequently and therefore we have not prepared an updated report for this meeting. There are a small number of points to close-off.

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.

This has been pinpointed to the (a) risk of inappropriate methodology or assumptions used in the valuation of schools and other specialised assets, in particular: the application of the modern equivalent assets principle; the judgement on land values; and the approach to estimating the allowance for the physical deterioration and obsolescence (b) the risk of inappropriate methodology or assumptions in the valuation of council dwellings in particular: the application of the beacon approach; and the selection of comparators; the risk that the carrying value is materially misstated because assets which have not been revalued at the reporting date have changed materially in value since the date of last valuation.

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 to respond to the significant risk or in support of that work:

- 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 valuation calculations.
- 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 has taken 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 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.
- There was a lack of control over key judgments in the valuation process, in particular how the modern equivalent asset principle was to be applied to each class of asset (see below).
- 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 which we have set out on the following pages.

Significant audit risks

Valuation of properties (continued)

Deloitte challenge and conclusion

Issues relating to land and building area assumptions

- 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, but we encourage the council to give valuers future instructions to follow the latest guidance on the use of the modern equivalent asset principle in depreciated replacement cost valuations.
- 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.

Issues relating to price per hectare for land assumption

- 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.

Issues relating to the classification of assets for valuation purposes

- 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.

Issues relating to the valuation methodology

- 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.
- In arriving at the valuation of assets recorded at depreciated replacement cost, an allowance is made for physical deterioration and all relevant forms of obsolescence. The valuer has adopted a straight line approach in applying obsolescence. Whilst this is not incorrect it is nonetheless a simplistic approach.

Significant audit risks

Valuation of properties (continued)

Deloitte challenge and conclusion

Issues relating to PPE which are required to be measured at current value but which were 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. Assets measured at current value which were not included in the 2019/20 valuation programme totalled £223m. 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. The analysis considered only general market changes and did not consider the possibility of material change caused by factors specific to individual properties. In addition, the analysis was based on a market review report prepared by the council's valuer which for properties recorded at existing use value, appeared to only provide a view as to whether there had been a material change during the year, but did not provide an estimate of any increase or decrease in value where the change was not considered to be material. As a result, it was not clear that the analysis took properly into account the possibility of cumulative change which was material. We performed additional procedures in response to these gaps and were satisfied that there had not been a material change.
- Whilst we have not yet commenced our procedures in relation to the 2020/21 valuation programme, we note that the gain or loss on assets which had not been revalued at 31 March 2020 were not indicative of an earlier, material change.
- 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.

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.

Notwithstanding that the council officers may not be subject to the same types of pressure and incentives in relation to financial statements when compared to the management of a corporate entity, we nevertheless concluded that there was a heightened level of risk of fraudulent financial statements as a result of:

- The increased opportunity for manipulation of the accounts as a result of weaknesses in control, in particular management review controls over estimates and approval of journals (see “Conclusion on the design and implementation of key controls” on the next page)
- The identification of transactions in the prior year where the rationale was not fully clear (see also “Significant transactions”, below).

Deloitte response and challenge

We have responded to the heightened risk of fraudulent financial statements as a whole by:

- Increasing the seniority of staff in the audit
- Carrying out an additional internal review process of the audit work performed
- Understanding the controls over member conduct.

Our response to particular areas of the audit is set out below.

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 audit risks

Management override of controls

Risk and our response

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 in that report why we had concluded the transaction was not intended to have substance as 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.

  We performed additional procedures to respond to the risk of similar transactions involving the local health body.

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 5, including the NNDR appeals provision; the pension liability and debt provisions. In designing our work we considered the overall sensitivity of the financial statements to different types of judgement.
- 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 valuation of schools and other specialised properties valued on a depreciated replacement cost basis 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. Conversely, council dwellings are at the higher end of the reasonable range.
  - 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 one estimate where we have proposed an adjustment – to increase provisions the NNDR appeals provision, 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 D 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 categorisation of amounts capitalised with the disclosure note and within the fixed asset register.

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 £3.0m 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 any 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 pension liabilities 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.

In the version of this report issued to the January 2022 meeting of the audit committee, we gave a provisional view on the accounting but highlighted in our oral presentation that we were considering this matter further.

We have concluded that the existing approach in the council financial statements is appropriate on the following basis:

- The London Borough of Tower Hamlets Pension Scheme involves the sharing of risks between entities under common control (i.e. the council and THHL), notwithstanding consolidated accounts are not currently prepared. As a result, guidance on the accounting for "group plans" is applicable.
- The letter sent on 31 March 2009 amounts to a "contractual agreement or stated policy" for charging the net defined benefit cost for the group plan as a whole to individual group entities.
- The council should, as a result, recognise in its individual financial statements the net defined benefit cost charged in accordance with the terms of the 31 March 2009 letter – i.e. the costs relating to both its section and the THHL section of the scheme.

At 31 March 2020, the actuary calculated that the TTHL staff related pension liability had moved into an asset position (£5.2m). In its accounts the council did not recognise an asset. As the council bears the cost of all pension contributions under the terms of the indemnity, future economic benefits are available to the council in the form of a reduction in future contributions. We have therefore included a proposed adjustment to recognise this asset in Appendix A, Audit Adjustments.

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 £0.5m at 31 March 2020 (with a difference on the opening balance at 1 April 2019 of £1.3m). It was apparent from these unresolved differences that correcting journals posted to the general ledger control account were incomplete. An adjustment has now been made to true up the control account balance at 31 March 2020 to the total of the individual cash books.
- 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. We have estimated the possible misstatement due to invalid reconciling items to be £1.2m at 31 March 2020 (£4.1m at 31 March 2019). We will request in the management representation letter confirmation of officers' view that these amounts, 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.

The two principal subsidiaries are THHL, a wholly owned subsidiary, and King George V Fields Trust, for which the council is corporate trustee. We have summarised information from their published accounts to the right. Other subsidiaries, individually and in aggregate, are less significant.

The analysis includes entries which would be made in preparing group accounts to eliminate transactions between group components. This is in order to illustrate the extent to which group accounts would be different to the council's single entity accounts.

£m	THHL	KGVFT	Eliminations	Other adjustments	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)	5.2	31.9
Total liabilities	(3.1)	(0.1)	1.4	-	(1.8)
Net assets	8.8	16.1	-	5.2	30.1

We presented a similar table in the version of this report presented to the audit committee's meeting in January 2022. The table has been updated to include adjustments (in the column "other adjustments" that would be required on consolidation to align KGVFT's accounting policies with the council's. This quantifies and resolves an issue relating to the treatment of expenditure on the Mile End Park which was also reported in our report to the January 2022 meeting.

Officers 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 did not consider all relationships which may fall within the group boundary and the analysis of whether entities fell within the group boundary was cursory and insufficient. The paper did not take into account other consolidation adjustments which may be required to achieve conformity with the council's accounting policies.

The net assets of 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 £14.0m for the anticipated cost of appeals made by business ratepayers to their bills, of which the council's share is £6.7m. This comprises a provision for appeals against the 2017 ratings list of £9.5m (council's share £4.6m) and appeals against the 2010 ratings list of £4.5m (council's share £2.2m).

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, of which the council's share is £3.3m higher than the amount recorded on the council's balance sheet. As the calculation provided an evidence based estimate, we focused our work on this.

Our procedures included making the following challenges in relation to the provision made for appeals against the 2017 ratings list:

- 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.

In our report to the January 2022 audit committee, we estimated the effect of adjusting for these matters would be to increase the provision for appeals against the 2017 ratings list by £19m, of which the council's share would be £8.8m. This was based on a data set at January 2021. We have subsequently obtained and analysed data through to September 2022. Whilst further appeals have been received in the intervening period, the amounts refunded have fallen well short of expectations based on experience to January 2022. As a result we have updated our estimate of the effect for adjusting for these matters to £5.2m (council share: £2.5m). 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

NNDR appeals provision

Area of judgement and conclusion
Our analysis found that more recent appeals against the 2010 ratings list are being settled at higher amounts than has been projected using the historic data used to calculate the provision. If this trend continues, this might result in refunds which were £2-3m higher than the council's share of the appeals provision, but have not proposed an adjustment as there is insufficient evidence to support that more emphasis should be placed on this more recent data than the historic record as a whole and as the recorded provision is in any case higher than the amount calculated by officers.

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 recognised under the terms of an indemnity. The liability is reported on separately on page 29.

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.

	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

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 £1.6m. We have reflected the impact of the delay in recognising this additional liability as an uncorrected misstatement in Appendix A of this report as well as in our equivalent report in respect of the 2018/19 audit as the accounts for that year have not yet been approved. 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.

Other areas of judgement

Pension liability relating to the Tower Hamlets Pension Fund

Deloitte commentary (continued)

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 (as well as in our equivalent report on the 2018/19 audit, which remains open at the time of writing).

In rolling forward the pension liability from 31 March 2019, the council has recorded other experience gains in 2019/20 of £114m. The actuary has not been able to provide a detailed analysis of the experience item, but has explained that it reflects: actual experience (in relation to, for example, membership movements and pay changes) being different over the period between funding valuations (i.e. from 1 April 2016 to 31 March 2019); the effect of data updates and corrections since the 2016 funding valuation; gains resulting from the pension increase order during the year ended 31 March 2020 being lower than assumed at 31 March 2019; and the inclusion of additional liabilities from allowing for full indexation in relation to the equalisation of guaranteed minimum pay benefits. It is likely that the majority of the experience gain relates to circumstances present at 31 March 2019. As it provides information about circumstances present at the previous reporting date, and those accounts have not yet been approved, this is an adjusting post balance sheet event for the purpose of the 2018/19 accounts and should therefore have been corrected in those accounts.

The 2019/20 accounts also include an adjustment to the council's share of pension assets of £25m.

As the 2018/19 and 2019/20 accounts have not been adjusted to account for the experience item in the correct period, our audit reports on both years will be qualified as the amount involved is material. As the council has not commissioned revised actuarial reports for 2018/19 and 2019/20, we are not able to quantify the adjustments needed.

In addition, we have not been able to obtain sufficient evidence to support the amount of the experience item. This represents a limitation in the scope of our opinion and our audit report will also be qualified in this respect.

Other areas of judgement

Infrastructure assets

Area of judgement and conclusion

There has been discussion at a national level on the accounting for subsequent expenditure on infrastructure assets (for example the cost of renewing a road surface) and specifically whether local authorities should be assessing if there is any undepreciated cost remaining on the balance sheet for the replaced components which need to be derecognised.

The council holds infrastructure assets of £108.6m at 31 March 2020, principally in relation to highways. It is worth noting that this is not the full cost of the council's infrastructure assets as assets in existence at the time of implementation of capital accounting systems at 1 April 1994 were brought in under transitional rules, often at nil or negligible value.

Similar to most local authorities, the council has adopted the network model for measuring depreciated replacement cost. Whilst the council's fixed asset register differentiates assets by year of purchase and by broad category (highways, street lighting, bridges, tunnels and other infrastructure), it does not differentiate by individual component. Entries are made to the records to add annual spend to the brought forward spend from previous years and to deduct depreciation. Replaced parts are generally assumed to have been fully depreciated with the result that their derecognition does not require an adjustment to the net book value. At a national level, CIPFA explains that this assumption is consistent with the economic model because local authorities have not had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of the infrastructure assets are worn out.

Whilst this assumption is not unreasonable, it relies on the assignment of appropriate useful economic lives to the broad categories of infrastructure asset to be effective. After further consideration we concluded we had insufficient assurance in relation to the assigned lives to be confident that there was not a material, undepreciated value of components at 31 March 2020 which had been replaced but which have not been removed from the register.

At a national level, retrospective changes have now been made to the financial reporting framework which resolve the issue of undepreciated cost remaining on the balance sheet for components which have been replaced:

- The government laid a statutory instrument (effective from 25 December 2022) which gives authorities the option of deeming disposals to be at nil carrying amount.
- CIPFA have issued an update to the Code which gives authorities the option of removing separate disclosure of the cost and accumulated depreciation in relation to infrastructure assets.

Officers have informed us of their intention to apply both these options and to make the necessary changes to disclosures in the draft financial statements. CIPFA have issued further guidance on disclosures and at the time of writing the council was updating the financial statements to incorporate this.

Whilst the changes to the financial reporting framework resolve the issue of infrastructure assets remaining on the balance sheet even though they have been replaced (because the period of use is shorter than the assigned UEL), it does not resolve the issue that depreciation and carrying amount reported will be incorrect up to the point of replacement if inappropriate UELs have been used. CIPFA have published information on typical UELs to assist authorities and auditors in assessing the reasonableness of UELs and the UELs selected by the council generally fall within these ranges. Officers are currently carrying out an exercise which looks more closely at the composition of the balance and we will conclude once we have received and reviewed this.

The dispensation in the statutory instrument relates only to financial years beginning on or before 1 April 2024 and will therefore require action by the council if the government does not extend this period. We therefore recommend the council remain alert to future pronouncements and ensure that its accounting records are updated and maintained in a way which enables it to comply with changes in the financial reporting framework from 1 April 2024 as well as forming a reliable basis for estimating an appropriate annual depreciation charge in the meantime.

Other areas of judgement
Officer remuneration

Area of judgement and conclusion

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

The disclosure (including comparative information) has been updated as the original version did not include information for staff at schools which had opted out of the corporate payroll arrangement and the comparative information has been restated for a similar misstatement.

We have raised a number of issues with officers over the adjusted disclosure note:

- Officers had prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers. For a number of schools there are variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts. We had requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences. We have been unable to obtain a reconciliation or other evidence which provides assurance over the completeness payroll reports.
- The council incorrectly included national insurance contributions in its calculation of individuals salary resulting in individuals being incorrectly included in the disclosure or included in too high a band.
- Remuneration disclosures are stipulated by the Accounts and Audit Regulations. These Regulations require information to be disclosed based on the legal form of contractual arrangements of staff. Therefore, even though the Code requires that staff costs for all local authority maintained schools are reported in the Comprehensive Income and Expenditure Statement, where the council is not the employer (and the person is not the employee of the council), then for the staff of schools, typically voluntary aided and foundation schools, their contract of employment will take precedence in the disclosures. We have challenged the council on how this guidance has been applied in drafting the disclosure. The council has advised that it intends to correct the disclosure for this error and we have therefore not included in the scope of our expected qualification or in Appendix A, Audit Adjustments.

We are also not able to determine for similar reasons whether all individuals paid over £150,000 have been separately disclosed in the disclosure on senior officer remuneration.

Taking into account the enhanced user interest disclosures relating to staff remuneration, we regard these issues as material in the context of this disclosures and therefore expect to qualify our audit report in respect to this matter. We have included wording on the audit report modification in Appendix F which we will update once we have concluded our remaining enquiries and testing and received the final version of the disclosure.

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 are 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 3 years 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 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 £42m.

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.

The expected wording of our qualified report is set out in Appendix E.

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 our observations and recommendations. 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.

Reflecting the volume, significance and pervasiveness of misstatements identified during the course of the audit, the number and significance of these control observations are greater than we report at most other local authorities.

The common root cause of these observations has been a lack of capability and capacity with the finance function which has led to: a lack of capability and/or desire to understand and analyse the accounting basis for transactions; the failure to establish an effective system of quality assurance; and weaknesses in financial control and reporting, including controls over general ledger maintenance, documentation of key judgements and compliance with presentation and disclosure requirements in preparing the statement of accounts.

Over the last two years, the interim Corporate Director – Finance and Resources has reported progress on an improvement plan which is designed to address these and other underlying systemic issues. The council has also invested time in investigating and responding to specific accounting issues identified in the course of the audit and building better processes to prevent their reoccurrence. However, as a result of the timing of many of these actions, we have needed to repeat many of these same points which were originally reported in our equivalent report on the 2018/19 council audit.

Notwithstanding this, there were clear improvements in the quality of information received for the purpose of our 2019/20 audit, although it is also apparent that some disciplines, including preparation of detailed accounting papers and effective quality assurance processes are yet to be embedded and the council still needs to demonstrate that it can carry out its annual financial reporting tasks at pace, including responding to audit requests.

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. We make additional specific observations about the management position paper on group accounts at page 25. **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

Control observations (continued)

Area	Observation
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.
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
Accounting estimates	**Observation** Typically for key estimates: • Calculations were not accompanied by management papers to explain assumptions or the evidence considered in forming those assumptions (see separate observation in relation to this) • On enquiry, assumptions (e.g. percentage of taxpayer debt for different age categories assumed collectible) were often explained as representing officers' experience but were not derived from or compared to available data (e.g. data on historic debt collection) or reconsidered to assess whether they remained pertinent in the light of current circumstances • Controls were not established to ensure the completeness, relevance and accuracy of data used in the calculation of the estimate, including data provided to the Council's property valuation expert. • The calculation of estimates and their posting to the accounting records (such as the calculation and posting of gains and losses on revaluation of properties) were not subject to a review by a second officer or reviews were not sufficiently detailed or were not documented. **Recommendation** Design/formalise controls over key accounting estimates, including controls over selection of assumptions, controls to ensure the completeness and accuracy of factual inputs, and controls over the integrity and maintenance of spreadsheet models.
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
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. This resulted in errors in information given to the valuer in respect of building areas. We also identified an instance where information on a lease given in respect of part of a property had not been provided to the valuer and which as a result was not taken into account in the valuation. 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. In our April 2021 report we made a number of observations about the valuer's reports. In addition we note in relation to the valuation of council dwellings that, where only limited comparable evidence is available and/or an expected value range is used to determine appropriate beacon values, it would be useful for any comments from agents to be summarised in the spreadsheet to demonstrate the valuer's reasoning in selecting the beacon value. 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 (see pages 12 and 42).

Control observations (continued)

Area	Observation
Valuation of properties (continued)	**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. • Designs and documents officers' 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. • Discusses the various points made about the valuation report and supporting working papers and request that these are addressed in future years. • Implements 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. • Prepares a paper to support the decision not to value particular assets prior to publishing its draft statement of accounts.
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.
Infrastructure assets	**Observation** Whilst the changes to the financial reporting framework resolve the issue of infrastructure assets remaining on the balance sheet for the purpose of the 2019/20 financial statements, as explained on page 30, the dispensation in the statutory instrument relates only to financial years beginning on or before 1 April 2024 and will therefore require action by the council if the government does not extend this period. **Recommendation** We recommend the council remain alert to future pronouncements and ensure that its accounting records are updated and maintained in a way which enables it to comply with changes in the financial reporting framework from 1 April 2024 as well as forming a reliable basis for estimating an appropriate annual depreciation charge in the meantime.

Control observations (continued)

Area	Observation
Journals	**Observation** Journals either pass through a workflow approval process or through what officers refer to as the "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 within the Chief Accountant's team have also been given access to raise this journal type. 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. In relation to other journal types which pass through a workflow approval process, some processes use CSV files which are picked up by automated processes on Agresso. If inappropriate users were given access to the CSV files, then the contents can be altered prior to being picked up by the automated processes scheduled and posted to general ledger. Documentation to corroborate a journal involving income recognised from the local CCG of £504k relating to three mental health services hosted by the Council and jointly funded by the Council and CCG was poor. **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 as well as controls over workflow processes. Remind staff of the need to obtain and maintain documentation to fully explain and support all transactions.

Control observations (continued)

Area	Observation
Other matters	We note the following additional observations: • 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 15, the payment was, in substance, a return of an advance made in the previous year. • 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. • Incorrect classification of non current assets was identified in our testing including fixtures, fittings and equipment purchased as part of a larger project (for example a refurbishment) were incorrectly classified as other land and buildings and as a consequence written out when the buildings was not revalued. • 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 not presented in a way which readily showed which items represented valid timing 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. • No user access reviews were undertaken in the year on applications. Password complexity was not enforced on Open Revenues and SX3 applications. The history configuration was not configured for four applications.

Low Priority | Medium Priority | High Priority

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

Deloitte LLP

St Albans

20 January 2023

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).

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Factual and judgemental current period misstatements						
Provision for appeals against rateable values	[1]	2.5	-	(2.5)	-	-
Error in recording audit journal (£0.6m)	[2]	-	-	-	-	-
Demolition costs	[3]	0.8	-	(0.8)	-	-
Assets not in operational existence	[4]	1.1	-	(1.1)	-	-
Late cut-off on capital expenditure (£1.1m)	[5]	-	-	-	-	-
Income from the Building Council Homes fund	[6]	1.5	-	(1.5)	-	-
Internal receivable not eliminated (£1.0m)	[7]	-	-	-	-	-
Section 31 income recognition	[8]	(2.4)	-	2.4	-	-
Apportionment between preceptors (£0.8m)	[9]	-	-	-	-	-
Invalid NNDR debtor raised in year	[10]	0.5	-	(0.5)	-	-
Error in unit building cost input	[11]	-	(1.4)	1.4	-	-
Impact of Goodwin case	[12]	4.0	-	(4.0)	-	4.0
Overstatement of H&SE penalty provision	[13]	(1.6)	-	1.6	-	(1.6)
Total factual and judgemental current period misstatements		**6.4**	**(1.4)**	**(5.0)**	**-**	**2.4**

Appendix A: Audit adjustments

Unadjusted misstatements

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Factual and judgemental misstatements identified in the prior period						
Impact of Goodwin case	[12]	(4.0)	-	-	4.0	(4.0)
Provision for appeals against rateable values	[1]	(3.0)	-	-	3.0	-
Roll forward of valuation of council dwellings	[14]	(4.0)	-	-	4.0	(4.0)
Pension assets valued using stale prices	[15]	-	(1.1)	-	1.1	-
Impact of McCloud/Sargeant rulings	[16]	(1.6)	-	-	1.6	(1.6)
Unreconciled difference on schools cash control account	[17]	1.3	-	-	(1.3)	1.3
Error in unit building cost input	[11]	-	1.4	-	(1.4)	-
Overstatement of H&SE penalty provision	[13]	1.9	-	-	(1.9)	1.9
Total misstatement identified in the prior year		**(9.4)**	**0.3**	**-**	**9.1**	**(6.4)**
Total current and prior year misstatements		**(3.0)**	**(1.1)**	**(5.0)**	**9.1**	**(4.0)**

[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 £5.2m, of which the council's share would be £2.5m. 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] 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 debtors - HM Revenue & Customs by £585k.

[3] An existing building was demolished prior to the year end with a replacement extension under construction at the year end. Demolition costs of £0.8m were inappropriately capitalised.

[4] As explained in our January 2022 report, officers carried out a further review of the fixed asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

[5] Capital expenditure of £1.1m incurred prior to 31 March 2020 was not recognised in 2019/20.

[6] Income and expenditure are each understated by £5.4m because a journal to eliminate amounts recharged by the council to schools included amounts recharged to academies which are external to the council and because a second elimination journal had been duplicated.

Appendix A: Audit adjustments
Unadjusted misstatements

[4] As explained in our January 2022 report, officers carried out a further review of the fixed asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

[5] Capital expenditure of £1.1m incurred prior to 31 March 2020 was not recognised in 2019/20.

[6] Income from the GLA's Building Council Homes fund was recognised in advance of conditions being met.

[7] The council recorded an internal receivable of £1.0m due from schools in respect of teacher pension scheme contributions paid by the council on behalf of schools. The internal payable was recorded by schools as a deduction from cash. These amounts should be eliminated.

[8] An accrual of £2.4m for the repayment of section 31 grant which had been overpaid at 31 March 2019 was not released on repayment during 2019/20.

[9] There was an error in the apportionment of council tax receivables between preceptors resulting in the understatement of Council Tax receivables by £0.8m and corresponding understatement of amounts due to other preceptors of £0.8m.

[10] A business rate demand was raised in the wrong amount. This was confirmed in a subsequent court case. The council's share of the overstated demand was £0.5m.

[11] In the revised valuation for certain schools, the build cost for the wrong category of school (secondary, primary etc) was used. This had the effect of undervaluing schools by £1.4m at both 31 March 2020 and 31 March 2019.

[12] 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. As the 2018/19 accounts are still open, this is a misstatement at both 31 March 2019 (in the 2018/19 accounts) and at 31 March 2020.

[13] A provision for penalties payable in relation to a possible Health and Safety Executive prosecution at 31 March 2020 was £1.6m higher than the amount determined during 2020/21 (£1.0m higher at 31 March 2019. In addition, a provision at 31 March 2019 for penalties in a second case of £0.9m was released during 2019/20 as, taking into account the elapse of time, a prosecution is no longer expected.

[14] Council dwellings were revalued by a valuer with an effective date of 1 April 2018. The council's finance team rolled this forward to 31 March 2019 by adjusting for additions, disposals, depreciation and transfers to other categories during 2018/19, together with applying an index, advised by the valuer, to take account of market change over the year. The approach results in adding to the original valuation the excess of additions over depreciation (£4m). This methodology does not allow for the effect of the social housing discount applied in arriving at the existing use valuation for social housing and assumes that the effect on the valuation of spend on replacements has outweighed the impact of wear and tear and passage of time – which is not supported.

[15] Stale prices were used by a custodian to value one of the pension scheme's assets, resulting in an overstatement of plan assets at 31 March 2019.

[16] 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.

[17] The total of the cash books for individual schools at 31 March 2019 is £1.3m higher than the general ledger control account. Officers have not been able to reconcile this difference. As the council is only able to support the individual cash book amounts, we have proposed adjustments to agree to the totals of the individual cash book amount.

Appendix A: Audit adjustments

Unadjusted misstatements

In addition, we bring to your attention the following possible misstatements. We have not proposed that the financial statements are adjusted for these items as these are projections or other estimates of the possible misstatement and we are not able to quantify the actual adjustment, if any, which is required. We have taken account of these in evaluating whether the accounts are materially misstated as a whole and included a representation in the management representation letter to confirm management's view that any adjustment required to correct these misstatements is not material individually or in aggregate with proposed adjustments in the previous table.

	Note	Debit/ (credit) in surplus on provision of services £m	Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Current period projected misstatements						
Overstatement of business rates debtors	[1]	1.5	-	(1.5)	-	-
Business rates debtors and creditors – difference to breakdown	[2]	1.1	-	(1.1)	-	-
Invalid or overstated accruals	[3]	(0.8)	-	0.8	-	(0.8)
Differences between detailed pay records and general ledger (£1.2m)	[4]	-	-	-	-	-
Invalid items in schools bank account reconciliations	[5]	(1.2)	-	1.2	-	(1.2)
Incorrect inputs for area information in property valuations	[6]	-	3.1	(3.1)	-	-
Total current year projected misstatements		**0.6**	**3.1**	**(3.7)**	**-**	**(2.0)**
Projected misstatements identified in prior year						
Accruals which are not valid or in excess of amount due	[7]	2.5	-	-	(2.5)	2.5
Invalid items in schools bank account reconciliations	[5]	4.1	-	-	(4.1)	4.1
Incorrect inputs in area information for valuations	[6]	-	(3.1)	-	3.1	-
Total prior year projected misstatements		**6.6**	**(3.1)**	**-**	**(3.5)**	**6.6**
Total projected misstatements		**7.2**	**-**	**(3.7)**	**(3.5)**	**4.6**

Appendix A: Audit adjustments
Unadjusted misstatements

[1] An error was identified in our sample testing of business rates which resulted in an over statement of business rate debtors by £1.0m, of which the council’s share is £0.5m. The council’s share of the projected error is £1.5m

[2] There is a difference between the detailed breakdown of amounts owed to business rate payers and the total recorded in the general ledger account. The difference is unreconciled and may relate to timing differences between the running of the two reports (which may not require any adjustment) or may relate to non timing differences which require adjustment. As a result, net assets may be overstated by £1.1m.

[3] Sample testing identified accruals which were not valid or which were incorrectly calculated. The amount of the error identified was an overstatement of accruals of £78k. The projected error across all accruals was £797k

[4] Detailed payroll reports for a sample of schools which had opted out of the council’s corporate payroll arrangement could not be reconciled to the council’s general ledger. The amounts recorded in the detailed payroll records for this sample was £196k more than the amount recorded in general ledger. The projected variance across all schools which had opted out of the corporate payroll arrangement was £1.2m. As we are not able to determine a correction is needed and if so the other accounts, in addition to payroll control accounts, which would be impacted, we have shown as a memorandum item in the table.

[5] Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half) at both 31 March 2020 and 31 March 2019, where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries which should be released to revenue accounts. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented cheques and BACS at 31 March 2020 and 31 March 2019 was £2,348k and £8,127k, respectively, representing the maximum amount of error at each reporting date and the projected error approximately half of this amount.

[6] Discrepancies between information given to the valuer and site plans were identified in our sample testing of the valuation at 31 March 2019 during our 2018/19 audit. The projected error was £3.1m. As the valuation at 31 March 2020 relied on the same information on floor areas, there is also a potential misstatement of the same amount at 31 March 2020.

[7] Officers carried out an exercise to evaluate whether accruals were valid and recorded in the correct amount in response to errors identified by our sample testing. The exercise did not cover the whole of the population. Errors identified by the exercise were corrected. The projected error in the part of the population not covered by officers’ exercise was £1,450k. In addition, the exercise identified accruals totalling £687k where we were not able to obtain sufficient information to determine whether the accrual amount was valid and recorded in the correct amount.

The further projected error relating to items which could not be supported is £363k. The total projected error for accruals which are not valid or could not be substantiated is £2,499k.

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	2,704.5	47.2	• Removal of Millennium Project asset (-£16.2m) [See page 25] • Removal of other assets owned by KGVFT (-£10.5m) [See page 25] • Reclassify advance payment to short-term debtors (-£7.9m) [See page 18] • Removal of other duplicated assets (-£2.6m) [See April 2021 report] • Recognise cottages not previously recorded in fixed asset register (+£4.7m) • Correct schools valuations (+£44.2m) [See pages 12-14] • Change basis of valuation for surplus assets (+£13.5m) [See April 2021 report] • Correct error in valuation of the Bow School (+£4.8m) [See note 1] • Correct depreciation of infrastructure assets (+£6.1m) [See note 2] • Correction of error of principle in valuation of leisure assets (+£8.7m) [See pages 12-14] • Recognise parcels of council owned land at voluntary aided school sites not previously recorded (+£3.6m) • Other non significant net adjustments to Property, plant and equipment (-£1.2m)
Long term investments	59.7	64.7	5.0	• Reclassify fixed term deposits from Short-term investments (£5.0m) [See note 3]
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]

Appendix A: Audit adjustments
Corrected misstatements

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Short term debtors	150.0	204.5	54.5	• Correct errors in the recognition of CIL (+£28.1m) [See pages 19-21] • Adjustments involving schools cash balances (+£2.0m) [See page 24] • Reclassify advance payment from Property, plant and equipment (+£7.9m) [See page 18] • Adjustments relating to the recognition of leaseholder contributions (+£1.9m) [See pages 19-21] • Adjustments to bad debt provisions (+£8.2m) [See note 5] • Correct error in accounting for Council Tax collection costs (+£3.1m) [See note 6] • Write-off errors on control accounts (-£1.1m) [See note 7] • Reclassify VAT receivable incorrectly included in schools cash balances (+£3.1m) [page 24] • Other non significant net adjustments to Short-term debtors (+£1.3m)
Cash and cash equivalents	169.0	186.7	17.7	• Reclassify fixed term deposits to short-term investments (-£30.0m) [See note 4] • Reclassify bank overdrafts to current liabilities (+£53.2m) [See note 12] • Reclassify VAT receivable incorrectly included in schools cash balances (-£3.1m) [page 24] • Adjustments involving schools cash balances (-£2.8m) [See page 24] • Other non significant net adjustments to cash and cash equivalents (£0.4m)
Bank overdrafts	-	(53.2)	(53.2)	• Reclassify bank overdrafts from current assets (-£53.2m) [See note 12]
Short term borrowings	(4.2)	(1.2)	3.0	• Reclassification of PFI/finance lease to short term creditors (+£3.0m) [See note 8]
Short term creditors	(180.8)	(177.1)	3.7	• Reclassification of PFI/finance lease from borrowings (-£3.0m) [See note 8] • Correct error in housing capital receipts payable (+£1.2m) [See note 9] • Adjustments involving schools cash balances (+£2.2m) [See page 24] • Correct error in recording of NNDR, including transactions with the London pool (+£1.9m) • Reverse accumulated interest on developer contributions (+£1.5m) [See note 10] • Other non significant net adjustments to short-term creditors (-£0.1m)

Appendix A: Audit adjustments
Corrected misstatements (continued)

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Provisions (current and non current)	(13.2)	(22.6)	(9.4)	• Recognise additional provisions (-£10.0m) [See note 11] • Other non significant net adjustments to provisions (-£0.6m)
Capital grants receipts in advance	(119.2)	(96.1)	23.1	• Correct errors in the recognition of grants and contributions (+£23.1m) [See pages 19-21]
Deferred income – receipts in advance	(0.5)	-	0.5	• Other non significant net adjustments to Deferred income (+£0.5m)
General Fund	(20.4)	(24.6)	(4.2)	• Correction of errors in the calculation of the council's share of business rates, including transactions with the London pool (-£4.9m) • Adjustment to bad debt provisions (-£2.3m) [See Note 5] • Reverse accumulated interest on developer contributions (-£1.5m) [See note 10] • Correct error in accounting for Council Tax collection costs (-£3.1m) [See note 6] • Write-off errors on control accounts (+£1.1m) [See note 7] • Adjustments involving schools balances (-£2.6m) [See page 24] • Changes to council decisions on earmarking (+£11.0m) • Other non significant net adjustments to unallocated General Fund reserve (-£1.9m)
Earmarked reserves	(125.7)	(132.1)	(6.4)	• Changes to council decisions on earmarking (-£6.4m)
HRA reserve	(52.8)	(48.2)	4.6	• Recognise additional provisions (+£9.0m) [See note 11] • Changes to decisions on earmarking (-£4.6m) • Other non significant net adjustments to the HRA reserve (+£0.2m)
Schools reserve	(26.8)	(25.8)	1.0	• Adjustments involving schools balances (+£1.0m) [See page 24]
Capital grants unapplied	(127.9)	(194.2)	(66.3)	• Correct errors in the recognition of grants and contributions (-£66.3m) [See pages 19-21]
Capital receipts reserve	(133.0)	(134.2)	(1.2)	• Correct error in housing capital receipts payable (-£1.2m) [See note 9]

Appendix A: Audit adjustments

Corrected misstatements (continued)

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Capital adjustment account	(1,489.5)	(1,503.4)	(13.9)	• Correct depreciation of infrastructure assets (-£6.1m) [See note 2] • Adjustment to the capital grants used to finance capital expenditure (+£7.9m) [See page 18] • Valuation and other adjustments to Property, Plant and Equipment (-£15.7m) [see pages 12-14 and 25]
Revaluation reserve	(759.7)	(793.4)	(33.7)	• Valuation adjustments to Property, Plant and Equipment (-£30.1m) [see pages 12-14] • Recognise parcels of council owned land at voluntary aided school sites not previously recorded (-£3.6m)
Collection Fund adjustment account	21.4	24.3	2.9	• Correction of errors in the calculation of the council's share of business rates (+£2.9m)
Pooled investment adjustment account	-	6.3	6.3	• Reclassify measurement category for pooled investments (+£6.3m) [See April 2021 report]
Financial instrument revaluation reserve	6.3	-	(6.3)	• Reclassify measurement category for pooled investments (-£6.3m) [See April 2021 report]
Net cost of services	346.0	324.0	(22.0)	• Correct depreciation of infrastructure assets (-£10.6m) [See note 2] • Reclassify income from CIL from taxation and non-specific grant income to net cost of services (-£7.8m) [see note 13] • Adjustments involving schools balances (+£4.0m) [See page 24] • Adjustment to bad debt provisions (+£1.9m) [See note 8] • Reclassify covid-19 grant income from net cost of services to taxation and non-specific grant income (+£10.5m) [See note 14] • Correct opening balance in relation to a transaction with a local health body (£3.0m) [See page 16] • Valuation and other adjustments to Property, Plant and Equipment (-£7.2m) [see pages 12-14 and 25] • Correct errors in the recognition of grants and contributions (-£7.8m) [See pages 19-21] • Other non significant net adjustments to Net cost of services (-£2.0m)

Appendix A: Audit adjustments

Corrected misstatements (continued)

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Other operating income	18.2	17.4	(0.8)	• Correct error in housing capital receipts payable (-£1.2m) [See note 9] • Other non significant net adjustments to Other operating income (+£0.4m)
Financing and investment income	21.6	27.3	5.7	• Reclassify measurement category for pooled investments (+£5.7m) [See April 2021 report]
Taxation and non specific grant income	(329.7)	(376.7)	(47.0)	• Correction of errors in the calculation of the council's share of business rates, including transactions with the London pool (-£2.1m) • Reclassify covid-19 grant income from net cost of services to taxation and non-specific grant income (-£10.5m) [See note 14] • Reclassify income from CIL from taxation and non-specific grant income to net cost of services (+£7.8m) [see note 13] • Adjustment to bad debt provisions (-£3.4m) [See note 5] • Correct errors in the recognition of grants and contributions (-£37.8m) [See pages 19-21]
Other comprehensive income – valuation of Property, Plant and Equipment	(184..6)	(214.0)	(29.4)	• Valuation adjustments to Property, Plant and Equipment (-£29.4m) [see pages 19-21]
Other comprehensive income – valuation of financial instruments	5.7	-	(5.7)	• Reclassify measurement category for pooled investments (-£5.7m) [See April 2021 report]

Appendix A: Audit adjustments
Corrected misstatements (continued)

[1] Part of an existing building was demolished prior to the year end and a replacement structure was under construction across 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 were incorrectly classified in other land and buildings and not in assets under construction and, as a result, were written out on comparison to the valuation. Because of this, assets under construction was 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 was overstated by £0.9m (i.e. the value of the part of the building demolished before the year end).

[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 (-£4.5m). 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 (+£10.6m).

[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 which have a maturity date of three months or less on acquisition within cash and cash equivalents; 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] The bad debt provision for housing benefit overpayments receivable were calculated at 70% of the gross amount due. The percentage selected was not supported. Officers have now re-calculated the provision based on past collection experience. This resulted in a reduction in the provision of £2.3m. The provision at 31 March 2019 was similarly reassessed resulting in a reduction in the opening balance at 1 April 2019 of £4.2m. As a result, the recorded bad debt expense increased by £1.9m. Officers have also 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 concluded that this is not consistent with the approach taken in practice to collection, including agreement of payment plans. Officers also concluded that it was not consistent with past experience of non collection or 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. As a result, the provision has been reduced by £5.9m. The provision at 31 March 2019 was similarly revisited resulting in a reduction in the opening balance at 1 April 2019 of £2.5m and a reduction in the bad debt expense in 2019/20 of £3.4m.

[6] 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.

[7] 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 occupy 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.

[8] 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.

[9] 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.

[10] This reverses an accumulated notional interest charge on unspent developer contributions as agreements do not require the council to maintain the value of contributions in real terms or pay interest to the developer in the event that contributions remain unspent on expiry of the agreement and need to be repaid.

Appendix A: Audit adjustments

Corrected misstatements (continued)

[11] 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.

[12] In the original version of the accounts, bank overdrafts were set-off against deposit amounts. This was incorrect as the conditions for set off had not been met (the council did not have a legally enforceable right of set-off and/or the council did not intend to settle net). The adjustment transfers bank overdrafts to current liabilities.

[13] The council has reclassified income of £7.8m from CIL from taxation and non specific grant income to the service costs where income is used to finance improvements in the Borough other than expenditure on council infrastructure or is retained to finance administration costs involved in the raising and collecting the levy.

[14] A grant was provided to meet additional costs and/or income foregone as a result of the covid-19 pandemic. The grant offer letter did not contain any stipulations or other guidance as to how the grant should be spent. As such it the amount should have been classified within taxation and non specific grant income but was classified within net cost of services in the original version of the accounts.

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).

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.
Classification of commercial rent deposits Commercial rent deposits of £835k have been classified within Short term creditors – receipts but should be classified within Short term creditors - Other entities and individuals.
Disclosure on number of council dwellings Medium-rise flats are understated and high-rise flats overstated by c.40 flats.
Presentation of grant income A grant of £506,402 in relation to the Levy Account Surplus Allocation was credited to service accounts. This is a business rate related grant which is not specific to a particular service and therefore should be presented within 'Taxation and Non-Specific Grant Income.
Pooled budgets The Council has disclosed equal and opposite income and expenditure within the Pooled Budgets note. Actual expenditure may be up to £2m less but cannot be accurately quantified as the general ledger codes have not been set up to monitor in this way.
Related parties The note discloses that Ocean Regeneration Trust received £0.118m funding and rental income from the council. The amount reported does not include a grant amount of £0.080m.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

Disclosure
Operating lease commitments (council as lessee) The total commitment disclosed was overstated for a sample of leases tested by £1.1m as a result of an error in the calculation. The projected error across all leases is £1.6m.
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 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].
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].
Annual governance statement The annual governance statement records a significant issue in relation to the 2018/19 accounts closure which continues to require remedial action. The description of the significant issue is not complete and does not correspond to the final position from the 2018/19 audit and we recommend it is updated for this. In addition, whilst the annual governance statements covers the governance arrangements in place during the financial year, it should reflect significant developments in the period between the report date and date of approval of the statement of accounts and is given at that final date. The statement should be updated for subsequent events and information including status of action plans.

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	212
London Borough of Tower Hamlets pension scheme audit	16
Total audit	228
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	240

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.

Additional costs in the period from 1 February 2021 to 31 December 2022 across both 2018/19 and 2019/20 council audits have been £312k. We will be seeking to agree a further fee variation in relation to this, as well as the further costs of finalising these audits incurred in 2023.

Appendix D: Summary of the more significant updates since the issue of the January 2022 version of this report

Item	Update
In our January 2022 report, we gave a provisional view on the accounting for an indemnity given by the council to THHL in respect of pension contributions for current and former staff of THHL and reported that this was a potential qualification matter. We also highlighted in our oral presentation that we were considering this matter further.	We have concluded that the existing approach is appropriate and explain the basis of this on page 23.
Since the issue of our report in January 2022, there has been a debate at a national level over the accounting for infrastructure assets and in particular over the possibility that infrastructure asset balances may include parts of the infrastructure which have been replaced and are no longer in operational existence.	The council is impacted by this issue as it does not have a process to identify and derecognise parts of its infrastructure which have been replaced. As a result, infrastructure assets which may contain parts which have been replaced, but we are not able to quantify the adjustment required. Further explanation is given on page 34.
We explained in previous reports: • How the accounting for a lump sum contribution to the London Borough of Tower Hamlets Pension Scheme in 2017/18 of £43.4m was dependent on the resolution of a question of its lawfulness which had been raised by legal advice received by the council. • The council had received a second piece of legal advice which contradicted the initial advice and concluded that the wording in the rates and adjustment certificate provided the council with the necessary flexibility to make the lump sum payment. • The accounting adopted in the version of the accounts presented to the January 2022 committee for approval was consistent with the second piece of legal advice.	We have discussed the issue within the sector and consulted internally. We concluded that the approach taken by the council was reasonable and consistent with other local authorities.
Our January 2022 set out in an appendix a schedule of uncorrected misstatements and disclosure recommendations identified up to the date of that report. We presented these items into two tables, showing separately (A) those which officers did not propose to correct in the final version and (B) those misstatements which officers agreed would be corrected in the final version of the statement of accounts.	Officers have substantially updated the statement of accounts to correct the misstatements which they had undertaken to correct. We have included residual matters in a single schedule of uncorrected misstatements in Appendix A, which includes additional matters identified since the issue of our previous report.

Appendix D: Summary of the more significant updates since the issue of the January 2022 version of this report

Item	Update
In our January 2022 report we noted that some procedures in relation to pension liabilities were in progress.	We have reported on additional issues relating to the accounting for experience gains and losses at page 25. We also reported on an additional issue in relation to the non recognition of the net pension asset which relates to Tower Hamlets Homes staff at page 25.
We had not received information for some of our sample items which we had requested to enable us to verify building area information provided to the valuer.	This has now been received.
In our January 2022 report we reported that: • Our sample testing had identified expenditure relating to refurbishments which included expenditure on fixtures, fittings and equipment, but which had been 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. • 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.	The council has performed a further exercise which looked at expenditure on office accommodation and schools over a four year period. Officers concluded from their analysis that no significant spend on Fixtures, Fittings and Equipment had been capitalised in relation to office accommodation in this period but approximately £0.8m (representing c 2% of spend) had been capitalised within other land and buildings in relation to schools. Officers' exercise looked only at spend over the last four years and considers only certain categories of building and not all categories which may be impacted by this issue. Nonetheless we concluded that it provided better insight into the possible quantum of the issue and based on further analysis concluded that the extent of the issue was not likely to exceed £1-2m and concluded on this basis that this is not a material issue.

Appendix D: Summary of the more significant updates since the issue of the January 2022 version of this report

Item	Update
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 been incorrect, but do not propose to restate opening balances as the amount involved is immaterial (£3m).
Further investigation was needed to quantify adjustments, if any, needed to the recognition of "business rate related grant".	Further work identified that the business related grant (made under section 31) income in 2019/20 was understated by £2.4m as a result of incorrectly repeating a journal from the prior year. We have included a proposed adjustment in the schedule of uncorrected misstatements in Appendix A.
In our report to the January 2022 audit committee, we estimated the effect of adjusting for information on appeals against the 2017 ratings list received after the reporting date and for information on the outcome of appeals determined after the reporting date would be to increase the provision for by £19m, of which the council's share would be £8.8m. This estimate was based on a data set at January 2021. Whilst we concluded that the council's provision falls within a range of possible outcomes (taking into account variability within the historical data), as the recorded amount (a) did not take account of the analysis which the council has performed (b) officers' analysis ignores information subsequent to the reporting date which should have been taken into account, we proposed an adjustment.	We have subsequently obtained and analysed data through to September 2022. Whilst further appeals have been received in the intervening period, the amounts refunded have fallen well short of expectations based on experience to January 2022. As a result we have updated our estimate of the effect for adjusting for these matters, and therefore our proposed adjustment, to £5.2m (council share: £2.5m).

Appendix E: Proposed wording of the modifications to our audit report

We set out below the proposed wording of the modifications to our audit report.

Item and page reference to explanation of circumstances that led to the expected modification	Proposed wording of modification
Failure to prepare group accounts (see page 25)	The group has not prepared group accounts. Under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Authority should prepare group accounts as its interests are material in aggregate. Had group accounts been prepared, 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. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019. In addition, the strategic report and directors' report do not consider the effects of the failure to prepare group accounts.

Appendix E: Proposed wording of the modifications to our audit report

We set out below the proposed wording of the modifications to our audit report.

Item and page reference to explanation of circumstances that led to the expected modification	Proposed wording of modification
Measurement of pension obligations (see page 29)	Note 38 Pension Scheme discloses the plan assets and defined benefit obligations held by the Authority. The note discloses remeasurement gains relating to other experience of £116m for the year ended 31 March 2020. Included within remeasurement gains relating to return on plan assets for the year ended 31 March 2020 is a gain of £25m relating to a remeasurement of the assets attributable to the Authority. The Authority's estimate of the defined benefit obligations of the Authority and the Authority's share of pension assets at 31 March 2019 did not take into account information collected and analysed for the purpose of the triennial funding valuation of the London Borough Tower Hamlets Pension Scheme published on 31 March 2020 including: differences between past actuarial assumptions and actual experience and updates to membership information in the three year period to 31 March 2019; past errors in membership data; the effect of assuming that all increases on Guaranteed Minimum Pensions for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers; and the allocation of pension assets between participating employers. In our opinion, under International Accounting Standard 10 Events after the Reporting Period, the Authority should have adjusted its financial statements for the year ended 31 March 2019 for the effect of information which was available from the triennial valuation exercise at 31 March 2019 and, as a result, the opening amount of plan assets and defined benefit obligations at 1 April 2019 would have been different. This caused us to qualify our opinion on the financial statements relating to the year ended 31 March 2019. It is not possible to determine with reasonable certainty the exact value of the adjustments which would be required to comparative information in respect of the year ended 31 March 2019 or to other comprehensive income for the year ended 31 March 2020 as the Authority has not performed a calculation of the pension liability using this information. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard. The effect of this is also not disclosed in the narrative report. In addition, we were unable to obtain sufficient appropriate audit evidence about the amount of the experience gain as sufficient analysis of this item had not been undertaken by the Authority. As the pension liability is calculated by rolling forward from the opening balance including the experience item, we were also unable to obtain sufficient appropriate audit evidence about the amount of the pension liability at 31 March 2020. Consequently, we were unable to determine whether any adjustments to these amounts were necessary

Appendix E: Proposed wording of the modifications to our audit report

We set out below the proposed wording of the modifications to our audit report.

Item and page reference to explanation of circumstances that led to the expected modification	Proposed wording of modification
Officer remuneration (see page 31)	Note 31 Officers Remuneration discloses the number of employees receiving remuneration of more than £50,000 in bands of £5,000. We were unable to obtain sufficient appropriate audit evidence regarding the headcount figures for the year ended 31 March 2020 because we were unable to determine the effect of differences between the Authority's main accounting system and detailed payroll records provided to us on the headcount figures disclosed. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. Note 31 Officers Remuneration also discloses the remuneration of individual senior officers. As a result of the differences between the Authority's main accounting system and detailed payroll records, we were also unable to determine whether there were staff paid over £150,000 in the year ended 31 March 2020 who had not been disclosed in the note.

Appendix E: Proposed wording of the modifications to our audit report

We set out below the proposed wording of the modifications to our audit report.

Item and page reference to explanation of circumstances that led to the expected modification	Proposed wording of modification
Emphasis of matter – material uncertainty related to the valuation of council dwellings and other land and buildings (see April 2021 report)	We draw attention to note 4 which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's dwellings and other land and buildings. As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the Council's dwellings and other land and buildings at the balance sheet date. Our opinion is not modified in respect of this matter.

In addition, as a result of our expected qualification on the accounts for the year end 31 March 2019 due to a limitation on scope in relation to related party disclosures, we expect our report on the accounts for the year ended 31 March 2020 will be qualified in relation to comparative information in the 2019/20 accounts.

These modifications have the following implications for other sections of the audit report:

- Non preparation of group accounts - We have concluded that other information in the narrative report is materially misstated for the same reason with respect to the amounts or other items in the annual report affected by the failure to consolidate the Authority's subsidiaries.
- We were unable to satisfy ourselves concerning the pension plan liabilities as at 31 March 2020. We have concluded that where the other information refers to these, it may be materially misstated for the same reason.

Appendix E: Proposed wording of the modifications to our audit report

We set out below the proposed wording of the modifications to our audit report.

Item and page reference to explanation of circumstances that led to the expected modification	Proposed wording of modification
Value for money conclusion – financial reporting (see pages 34-35)	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 2019/20 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 corrections to the originally published draft statement of accounts which had the effect of increasing usable reserves by £42m and unusable reserves by £68m at 31 March 2019 and increasing usable reserves by £73m and increasing unusable reserves by £45m 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.
Value for money conclusion – risk management and internal control (see page 36)	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.

Appendix F: Draft management representation letter

We set out below the draft representations requested from management for your information. We have highlighted in red those representation which in particular the council may consider need tailoring in the light of expected audit qualifications.

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Tower Hamlets (the council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Tower Hamlets as of 31 March 2020 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the CIPFA/LASAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code").

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA/LASAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code").
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the council, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures.
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the council's ability to continue as a going concern, including principal conditions or events and our plans. In making our going concern assessment we have adopted the 'continuing provision of service' approach and accordingly we are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the council's ability to continue as a going concern. There are no circumstances that we are aware of that would affect the appropriateness of the 'continuing provision of service' approach. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. All grants or donations, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. We have evaluated whether the restrictions, terms or conditions on grants or donations have been fulfilled with and deferred income to the extent that they have not.

Appendix F: Draft management representation letter

8. With respect to the revaluation of properties in accordance with the Code:
   a. the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
   b. the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the council where relevant to the accounting estimates and disclosures;
   c. we confirm that the effects of the Covid-19 pandemic have been fully considered by our valuation experts and are reflected in the property valuations disclosed in the financial statements;
   d. where assets have been valued on a Modern Equivalent Asset basis, we have considered whether any changes are required to the Modern Equivalent Asset assumed in the valuation, or to the depreciated extent of the existing asset:
      i. following the experience of the Covid-19 pandemic and do not consider any changes are required to assumptions at this time;
      ii. as a result of climate change and do not consider any changes are required to assumptions at this time;
   e. the information supplied for the valuation of the council's property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such as issues with condition) that have not been shared with the valuer.
   f. we have considered the valuation of the council's Property, Plant and Equipment, and we are not aware of any other errors or inconsistencies, and the overall valuation movement recognised is in line with that expected from the work of the valuer.
   g. the disclosures are complete and appropriate; and
   h. there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.
9. We have considered the valuation of the Council's Property, Plant and Equipment that have not been subject to revaluation in year, and are not aware of any circumstances indicating an impairment or volatility in asset values (either in year, or on a cumulative basis since the last revaluation of the assets) that would suggest the carrying value is materially misstated as a result of it not being revalued.
10. We have reconsidered the remaining useful lives of the Council's Property, Plant and Equipment and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.
11. We confirm that:
    a. all retirement benefits and schemes, including funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
    b. all settlements and curtailments have been identified and properly accounted for;
    c. all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    d. the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the Council's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
    e. the real salary increase assumption is consistent with our long term view of future salary growth;
    f. the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
    g. the amounts included in the financial statements derived from the work of the actuary are appropriate.

Appendix F: Draft management representation letter

12. We have reviewed our provisioning for Non-Domestic Rates appeals and consider that the assumptions used reflect our best assessment of the liability in respect of appeals. There are no relevant facts or circumstances of which we are aware that we have not disclosed to you.
13. We have reviewed our provisioning for recoverability of non-exchange debtors, including in respect of Non-Domestic Rates, Council tax and Housing benefit overpayments, and consider the assumptions in respect of recoverability to reflect our best assessment of the recoverable amount of these balances. There are no relevant facts or circumstances of which we are aware that we have not disclosed to you.
14. We have provided you with information on all subsidiaries, joint ventures and associates of the Council.
15. You have informed us of the following matters:
    a. There are differences between the aggregate reconciled cash book position for all schools and the related general ledger control account balance of £699k at 31 March 2020 and £934k at 31 March 2019. Your test 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. The amount of unpresented cheques and BACS at 31 March 2020 and 31 March 2019 is £2,348k and £8,127k, respectively.
    b. Sample testing identified accruals which were not valid or which were incorrectly calculated. The amount of the error identified was an overstatement of accruals of £78k. You have informed us that the projected error across all accruals was £797k.
    c. Sample testing identified the overstatement of amounts due from taxpayers, of £980k of which the council's share is £470k. You have informed us that the projected error in the remainder of the population is a further £3,082k, of which the council's share is £1,479k.
    d. There is a difference between the detailed breakdown of amounts owed to business rate payers and the total recorded in the general ledger account. The difference is unreconciled and may relate to timing differences between the running of the two reports (which may not require any adjustment) or may relate to non timing differences which require adjustment. As a result, net assets may be overstated by £1.1m.
    e. Detailed payroll reports for a sample of schools which had opted out of the council's corporate payroll arrangement could not be reconciled to the council's general ledger. The amounts recorded in the detailed payroll records for this sample was £196k more than the amount recorded in general ledger. The projected variance across all schools which had opted out of the corporate payroll arrangement was £1.2m.
    f. Discrepancies between information given to the valuer and site plans were identified in your sample testing of the valuation at 31 March 2019 during your 2018/19 audit. You have informed us that the projected error was £3.1m. As the valuation at 31 March 2020 relied on the same information on floor areas, there is also a potential misstatement of the same amount at 31 March 2020.

In addition, you have informed us of the following additional matter in the prior year:

g. Officers carried out an exercise to evaluate whether accruals were valid and recorded in the correct amount in response to errors identified by your sample testing. The exercise did not cover the whole of the population. Errors identified by the exercise were corrected. The projected error in the part of the population not covered by officers' exercise was £1450k. In addition, the exercise identified accruals totalling £687k where we were not able to obtain sufficient information to determine whether the accrual amount was valid and recorded in the correct amount. The further projected error relating to items which could not be supported is £363k. The total projected error for accruals which are not valid or could not be substantiated is £2499k.

We confirm our view that misstatements relating to these items, individually and in aggregate with other items summarised in the Appendix, are immaterial.

Appendix F: Draft management representation letter

Information provided

16. We have provided you with all relevant information and access as required by the Local Audit and Accountability Act 2014.
17. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
18. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We are not aware of any fraud or suspected fraud that affects the entity and involves:
    a) management;
    b) employees who have significant roles in internal control; or
    c) others where the fraud could have a material effect on the financial statements.
21. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
22. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
23. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
24. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
25. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
26. We confirm that:
    a. we consider that the council has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
    b. we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.

Value for Money

27. We acknowledge our responsibility for ensuring the Council has put in place arrangements for securing economy, efficiency and effectiveness in its use of resources.
28. We have disclosed to you all deficiencies of which we are aware in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.