

Appendix A: Draft Letter of Management Representations to be made to Deloitte regarding 2018/19

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 2019 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 2019 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 2018/19 (“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 2018/19 (“the Code”) with the exception of those matters as raised in your report to the Audit Committee of 26 January 2023. However, we are of the opinion that these accounts still provide assurance regarding the Council’s overall financial position, notwithstanding the shortcomings in some of the required disclosures, which are more of an informational nature and therefore less likely to make significant impacts on the main statements. We have also considered the impact of the experience item, as recorded in the 2019/20 movements on the net pension liability, and acknowledge that there may be material error within both 2018/19 and 2019/20 accounts, but understand that the balance sheet as at 31 March 2020 is a reasonable estimate of the cumulative impacts, and therefore provides a reliable starting point for the following year. We understand that the lack of group accounts poses little risk to the financial well-being of the authority, since there are no complex financial arrangements between group entities, and as such the financial interactions are straightforward, transparent and unlikely to cause misrepresentation of the financial position of the Council.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. At the time of writing, officers are still looking into the detail of this and will update at the meeting.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures” with the exception arising from an incomplete set of Member returns to Finance.
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 with the exception of the possible adjustment arising from the need to recognise a proportion of the experience item that has been taken through the 2019/20 accounts.
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 [Note: the final version of the schedules of uncorrected misstatements and disclosure deficiencies shown in Appendix A, Audit

Adjustments in this report will be added to the final version of the management representation letter as the appendix referenced here].

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.
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) 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 as a result of climate change, and we do not consider any changes are required to assumptions at this time;
 - d) 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.
 - e) 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.
 - f) the disclosures are complete and appropriate; and
 - g) 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 (at the time of writing this report, officers are still investigating the detail of this item and will update at the meeting);
 - e) the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology (at the time of writing this report, officers are still investigating the detail of this item and will update at the meeting); and
 - f) the amounts included in the financial statements derived from the work of the actuary are appropriate with the probable exception of the experience item recorded against the movements in the net pension liability of the 2019/20 accounts, a proportion of which should probably be recorded in the 2018/19 accounts.
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 made the following restatements to correct material misstatements in prior period financial statements that effect the comparative information:
 - a) "PPE adjustments" as set out in Note 2 of the financial statements to correct errors in building and land areas used in valuation calculations; to remove assets which the council does not own or which duplicated other assets on the fixed asset register; to reclassify assets misclassified in other land and buildings to surplus assets and revalue at fair value; and to recognise assets which had been incorrectly omitted.

- b) "Leaseholder contributions" as set out in Note 2 of the financial statements to correct errors in the recognition of contributions from leaseholders to major works.
 - c) "Government grants" as set out in Note 2 of the financial statements to correct errors in the recognition of grants and to correct errors in the maintenance of grant control accounts.
 - d) "Schools balances" as set out in Note of the financial statement to correct errors arising from transactions with and relating to schools and to their consolidation into the financial statements
 - e) "Community Infrastructure Levy" as set out in Note 2 of the financial statements to correct errors in the recognition of community infrastructure levy.
 - f) "Teachers pension" as set out in Note 2 of the financial statements to correct an error relating to the omission of a pension liability relating to future direct payments to pensioners in respect of past discretionary enhancements to benefits.
 - g) "Bank offset" as set out in Note 2 of the financial statements to correct the incorrect set-off of bank overdrafts against deposits on the balance sheet.
 - h) "Other corrections" as set out in Note 2 of the financial statements
 - i) Restatement of information relating to employees receiving more than £50,000 in Note 32 Officers' remuneration to correct for the omission of certain higher paid staff and to remove from the disclosure senior staff disclosed in a separate disclosure
 - j) Restatement of information in Note 16 Financial Instruments relating to the maturity of financial liabilities to correct the basis on which the information is prepared to an undiscounted basis.
15. We have provided you with information on all subsidiaries, joint ventures and associates of the Council. We confirm our view that the Council's interests in subsidiaries, joint ventures and associates are individually and in aggregate not material and that as a result the preparation of group accounts is not required.
16. You have informed us of the following matters:
- a. 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.
 - b. Sampling of other service expenditure identified a payment which was £155k higher than the amount due but had been expensed in full. You have informed us that the projected error across all accruals is £6.8m.
 - c. In expenditure analyses provided to us, expenditure on precepts and other levies of £1859k is included twice. We have not been able to determine what adjustment if any is required in respect of this item.

- d. Your sampling of other service expenditure identified grant income which had been incorrectly set off against expenditure of £521k. You have informed us that the projected error across all credits to other service expenditure is £14.0m.
- e. You have informed us that your sampling of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half) at 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. The amount of un-presented cheques and BACS at 31 March 2019 was £8,127k, representing the maximum amount of error at each reporting date and the projected error approximately half of this amount.
- f. 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 £184k more than the amount recorded in general ledger. You have informed us that the projected variance across all schools which had opted out of the corporate payroll arrangement was £1.4m.

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

Information provided

- 17. We have provided you with all relevant information and access as required by the Local Audit and Accountability Act 2014.
- 18. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
- 19. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 20. 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.
- 21. 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.
- 22. 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.
- 23. 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
- 24. 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 [with the exception of not being able to evidence a complete set of Member returns to Finance.](#)

