London Borough of Tower Hamlets

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

Issued on 2 May 2023 for the meeting on 30 May 2023

Contents

Key messages

We have pleasure in presenting our report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audit of the financial statements for the year ended 31 March 2019. This report should be read in conjunction with our earlier reports presented at meetings of the committee in July 2019, November 2020, April 2021, January 2022 and January 2023.

Purpose of this update report	When we presented our Final Report to the audit committee on 26 January 2023, we identified that there were a number of matters outstanding. This report provides an update on those matters as well as an additional matter which has arisen relating to the effect of revised actuarial calculations commissioned by officers after the meeting.
Status of our audit	The time needed to audit changes to the financial statements in relation to this additional matter, together with slower provision of information on previously reported outstanding matters due to complexities encountered, have impacted on the timetable for completion of our audit which we discussed with the committee at the meeting on 26 January 2023. Further adjustments, in particular to disclosures, which were identified in the course of completing the remaining work, have also impacted on the timeline. Our audit is now substantially complete, but we still need to conclude on revised entries relating to the pension liabilities, finalise our internal quality reviews and close a small number of open points on individual procedures. We are aiming to complete these by the time of the meeting and will provide an oral update there. As normal for this stage of the audit, the following points are also outstanding which will be completed shortly after the meeting: • Receipt of management representation letter (after officers have addressed the remaining challenges raised by us on their process supporting the provision of the requested representations) • Update of post balance sheet review to the date of signing.
Changes to key findings and conclusion reported in January 2023	Our expected audit report is attached at Appendix B. There are two key changes to our expected opinion: • Following the meeting in January 2023, officers decided to commission the council’s actuaries to update their calculation of the pension liability at 31 March 2019 and related entries to take into account information collected and analysed as part of the triennial funding valuation process. The financial statements have now been revised to reduce pension liabilities from £690.9m to £506.2m in line with the revised actuarial calculation. As a result of the changes made, we expect that our report will no longer be qualified in respect of the timing of recognising the impact of the true-up of estimates to actuals. However, the revision to the accounts for this has resulted in an “experience gain”, originally included in 2019/20, being pulled forward into 2018/19. We have not yet received sufficient information to enable us to assess the reasonableness of the quantum this item. The audit report wording does not reflect any wording which might be necessary in concluding on this second issue. • We provided indicative wording for a qualification relating to disclosures on employee remuneration, but advised that our work was ongoing. The issue related to the completeness and accuracy of data included in the disclosure for schools which had opted out of the corporate payroll arrangement. After the last audit committee meeting, officers have decided to exclude these schools from the scope of the disclosure. This changes the nature of the qualification as the disclosure is now known to be incomplete, but the unreported amounts cannot be reasonably estimated. Changes have been made to the schedule of uncorrected misstatements included in our January 2023 reporting for new misstatements identified and previously reported misstatements which have now been corrected. We have attached the current version of the schedule of uncorrected misstatements at Appendix A. We have noted the more significant additional recorded adjustments made since the January 2023 meeting in the body of this report.

Update to the Final Report

1. Additional matter arising since the meeting on 26 January 2023

Item	Update
We reported to the meeting on 26 January 2023 that we expected to qualify our opinion in relation to pension liabilities relating to the council's participation in the London Borough of Tower Hamlets Pension Scheme. This was because the calculation of the pension liability did not take into account information on membership and other changes over the three year period to 31 March 2019 which had been collected and analysed as part of the triennial funding valuation process. After the meeting, officers decided they would commission the council's actuary to perform revised calculations using this information in order to remediate the position. This additional work has resulted in the following changes to the draft financial statements: a reduction in total pension liabilities at 31 March 2019 from £690.9m to £506.2m; and a change from other comprehensive expenditure of £75.5m arising on the remeasurement of the pension liabilities to income of £109.2m.	We have reviewed the updated actuarial report and resulting changes made to the draft financial statements. The council's actuary replaced estimates used in the original calculation with known actuals and also took the opportunity to change the assumption on indexation and equalisation of guaranteed minimum pension to bring into line with assumptions made in the funding valuation. Other financial and demographic assumptions and the position taken on McCloud and Goodwin cases were unchanged from the original calculation and our report on 26 January 2023 should be referred to for our comments on these. The effect of adjusting the pension liability at 31 March 2019 to true-up previous estimates to actuals is to pull forward an experience item, originally recognised in 2019/20, to 2018/19. The adjusted experience item in 2018/18 is £119.1m (split between a gain on re-measurement of pension assets of £24.9m and a gain on re-measurement of pension liabilities of £94.2m). We reported to the audit committee in January 2023, that we had not been able to obtain sufficient information to support the amount of the experience item and that this represented a material limitation in the scope of our audit. After the meeting in January 2023, officers also commissioned the council's actuary to carry out additional analysis of the experience item. The experience item represents the effect on the pension liability of replacing estimated inputs to the actuarial calculation (for example details of the scheme membership) with the actual data. As the gain is, in effect, determined as a balancing figure, we recognise that it is not straightforward for the council to provide an analysis of the gain which identifies the main differences between roll forward assumptions and actual experience and quantifies the effect of these differences on the pension liability. However, the further information which has been provided still does not provide sufficient detail to enable us to assess the reasonableness of the experience item or to understand, in material respects, its relationship with the experience item on a funding basis reported in the 31 March 2019 triennial valuation. Although the experience item is part of the reconciliation of movements between the opening and closing pension liability, it is not, for the reasons set out above, part of the actuary's calculation of the closing liability and therefore, in principle, the closing pension valuation is unaffected by this issue. Nevertheless, we need to consider the possibility that the failure to provide a full explanation for the experience item and its relationship to the funding valuation experience item may result from an undetected issue over the calculation of the closing liability. Discussions with officers and the council's actuaries were ongoing at the time of issue of this report and we will provide an oral update at the meeting. We have not finalised our work on the revised pension entries pending resolution of this issue.

Update to the Final Report

2. Update on items reported as outstanding in our report to the meeting on 26 January 2023

Item	Update
Officers' assessment of the useful economic lives assigned to infrastructure assets in the light of recent guidance issued by CIPFA	Officers completed their assessment of useful economic lives assigned to infrastructure assets in the light of the CIPFA research published in January 2023 and concluded that lives either fell within typical ranges or, where outside the typical range, were reasonable based on local circumstances and internal consultation with relevant service managers. We reviewed officers' paper and concurred with the conclusion reached. The council has also updated disclosures relating to infrastructure assets in line with the minimum standard disclosure recommended by CIPFA in their guidance issued in January 2023.
Finalisation of our work on employee remuneration disclosures on receipt of further information and confirmation of changes made to the disclosures in the draft statement of accounts	We explained in our previous reporting that, as a result of a management oversight, disclosures in the original version of the accounts of the number of employees paid over £50,000 (analysed in bands of £5,000) and the number and value of exit packages (analysed in bands of £20,000) did not include information for schools which had opted out of the corporate payroll arrangement (the "opted out schools") - 33 local authority maintained schools in 2018/19, of which six were voluntary aided schools where staff are employed by the governing body and not the council and are therefore not relevant to the disclosure on higher paid employees. Officers subsequently updated the disclosures to include the missing information for these schools. We explained in our January 2023 report that our work was ongoing but that we had identified a number of issues with the data which officers had used to update the disclosure and that these concerns amounted to a material limitation in the scope of our audit which we expected would result in the qualification of our opinion. Since the audit committee meeting in January 2023, officers have decided to make further adjustments to the financial statements, this time to exclude all information in these two disclosures relating to the opted out schools. This is because officers concluded that the information was unreliable and, as a consequence, its inclusion in the financial statements may be misleading and did not wish to delay the publication of the accounts further by requesting further or revised information from schools. The disclosure, including comparative information, has also been amended to: remove staff at voluntary aided and foundation schools who are not employees of the council; remove two employees who are now individually disclosed in the disclosure on senior officer remuneration; take into account the value of benefits received under a salary sacrifice scheme; and correct for clerical errors in the manual count of staff in the originally stated comparative information. An explanatory footnote regarding the restatement of comparative information and exclusion of information relating to the opted out schools has also been added.

Update to the Final Report

Item	Update
Employee remuneration disclosures (continued)	The key factors in officers' decision to exclude opted out schools' staff from the disclosure were: • Information was not collected for the comparative period and therefore in updating the disclosure officers had assumed that the numbers of opted out school staff paid over £50,000 was identical to 2018/19 and that no exit payments had been made. These assumptions were not substantiated. • Although the council obtained returns were obtained for 2018/19, the returns were not in a suitable format because schools had been asked to provide information about staff paid over £50k in bands of £10,000, rather than bands of £5,000. • As a result of discrepancies between the returns provided by schools and detailed pay records which had been obtained from a sample of schools for the purpose of our testing of employee benefit expenditure, differences between detailed pay records and totals in the general ledger system and unexpected changes in numbers of higher paid staff reported by some schools between 2018/19 and 2019/20, officers were concerned that the data on numbers of employees paid over £50,000 provided by schools was unreliable. • The council previously provided to us a list of individual exit packages paid to employees of opted out schools in 2018/19, but have informed us that they are not able to determine, as a result of staff changes, the source of that information or whether it is based on a complete set of returns from opted out schools. The council is required to make the disclosure on employees paid over £50,000 by the Accounts and Audit Regulations 2015 and the disclosure on exit packages by the Code of Practice on Local Authority Accounting. Based on the information in returns from schools (which may not be reliable), there were 226 staff at opted out schools who were paid over £50,000. According to the schedule originally provided by officers, there were 35 staff members employed by these schools who received exit packages totalling £636,054, which may not be complete. We have determined that users of the accounts have a closer interest in disclosures on employee remuneration and therefore apply a lower materiality in testing and evaluating misstatements relating to them. In view of the number of relevant individuals who are likely to have been incorrectly omitted, we have concluded that, in material respects, the council has not complied with the disclosure requirements and therefore will qualify our opinion in this respect. At the time of the January 2023 meeting, we also considered it might be necessary to qualify our opinion in respect of the disclosure on senior officer remuneration due to the possibility that there might be staff at opted out schools whose remuneration was over £150,000 and therefore would require individual disclosure. Subsequent to the meeting officers have surveyed the schools concerned and confirmed with each that there were no such circumstances. The disclosure on senior officer remuneration has been updated since the January 2023 meeting to include the remuneration of two individuals who report direct to the chief executive officer and require individual disclosure on that basis.

Update to the Final Report

2. Update on items reported as outstanding in our report to the meeting on 26 January 2023

Item	Update
We have reported disclosure misstatements relating to the comparative amounts for dedicated schools grant and 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.	Officers have calculated the changes needed to the dedicated schools grant disclosure. As the disclosure is required by the Accounts and Audit Regulation 2015 and the error in the previously stated information for 2017/18 was material, officers have now restated the comparative information. Officers have also updated the financial statements to include disclosures about the amount and analysis of income from contracts with service recipients and amount of related balance sheet items, together with comparative information. This procedure highlighted additional errors in the presentation of prior period comparative information, both in the comprehensive income and expenditure statement and in the disclosure of income and expenditure analysed by nature and adjustments have been made to this information, as well as to the note on prior period restatements.
There is an historic difference between the capital financing requirement and related balance sheet amounts of £16m which we are discussing with officers.	The capital financing requirement has been increased by £16m in the final version of the financial statements to correct the historic difference with related balance sheet amounts. The opening capital financing requirement and comparative information has also been restated to correct for this error. The council uses the regulatory method in its calculation of its minimum revenue provision ("MRP"). The formula for this method includes adjusting the capital financing requirement by an historic amount ("Adjustment A") which was fixed on implementation of the prudential borrowing regime in 2004. In error, this adjustment has not been applied by the council in calculating its MRP. However, as the amount of Adjustment A (a reduction of £17m to be applied to the capital financing requirement in the MRP calculation) is similar to the value of the discrepancy between the capital financing requirement and the balance sheet values, officers concluded that, overall, there is no significant impact on MRP calculations due to the combination of the discrepancy in the capital financing requirement and the error in applying the regulatory method in calculating MRP - indeed it is likely that the error originally arose as a result of incorrectly setting off Adjustment A against the capital financing requirement in the disclosure, as opposed to solely within the MRP calculation.

Update to the Final Report

Item	Update
Clearance of a small number of open points, in particular in relation to net pension liability, financial instrument fair value disclosure, schools reserves transfers, and certain factual inputs to the valuation of non-current assets, together with performance of other procedures required at closedown of the audit	Certain of these procedures remain outstanding. We are aiming to complete these by the time of the meeting and will provide an oral update there. In relation to the net pension liability, we concluded that the council had incorrectly applied an asset ceiling in determining the amount of a pension surplus to be recognised in respect of the LPFA scheme as recognition of the surplus should not have been restricted following a change to the Local Government Pension Scheme Regulations 2013 made in 2018. We have therefore proposed a new adjustment to create a new pension asset of £1,242k and reduce the net pension liability by £2,261k. This has not been corrected and has been added to the schedule of uncorrected misstatements in Appendix A.
Finalisation of internal quality control review processes and internal consultations in relation the scope of our audit	Our internal quality control review processes are at an advanced stage but are not yet complete, in particular where they are dependent on the finalisation of other items noted as outstanding in this report.
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 disclosures 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	We read and performed other checks on the final version of the accounts, as well as checking we were satisfied with adjustments made in relation to the issues discussed above. We identified a number of inconsistencies within the document and brought these to officers' attention. Officers have generally not resolved these issues and internal inconsistencies are therefore present in the version expected to be signed. The remaining differences are below the threshold we set for reporting to you (£1250k) and, in some cases, are rounding differences. Whilst we have concluded that these discrepancies do not materially undermine the clarity of reporting, we bring this matter to your attention as the issues will be apparent to a user of the accounts from a detailed inspection of the document. We recommend the council build automated consistency checks into the excel version of its financial statements to enable officers to detect and resolve such issues during the accounts preparation process. We agreed an adjustment to reduce the reported member allowances by £81k. This is because the original disclosure included employer costs such as employer national insurance contributions and similar expenses. Our procedures included cross checking with the information separately published on individual member allowances. We note this information also contained errors, including the omission of an elected councillor from the list of allowances paid. We recommend the council re-considers controls to ensure the accuracy and completeness of information on individual member allowances which is published separate to the statement of accounts.
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	We reviewed an initial version of the memorandum prepared by officers which officers have subsequently updated to provide better explanation of their due diligence process which included obtaining confirmation. We challenged the scope of officers' process in the revised version as well as instances where it the description of the process was inconsistent with our understanding or other information held. Officers have not yet provided a full response on all these matters and our procedures are therefore not complete and at the time of writing we have not seen the finalised version which will be circulated to this meeting.

Update to Final Report (continued)

Item	Update
Receipt of audit certificates for the years ended 31 March 2017 and 31 March 2018	The predecessor auditor has now issued their certificates for the years ended 31 March 2017 and 31 March 2018. We have concluded that there are no changes required to the draft financial statements or our expected opinion resulting from this procedure. Both certificates refer to the issue of a formal recommendation made under Schedule 7 of the Local Audit and Accountability Act 2014 in relation to their audit for the year ended 31 March 2017. The recommendation was sent by the auditor on 5 August 2019 and recommended the council commission a detailed independent review of the operation of the Private Finance Initiative ("PFI") contracts to satisfy itself that they are appropriate and operating effectively and that the results are reported to a Council public meeting by 30 November 2019 and setting out areas which should be included in the scope of the review. Weaknesses in arrangements in the operation of the grouped schools PFI contract had given rise to serious health and safety and other concerns reported in an earlier independent report commissioned by the council in 2016. The purpose of the recommendation was to determine if these weaknesses had now been adequately addressed. The action taken by the council in relation to the substance of the recommendation has been for the head of internal audit to carry out an internal audit, Grouped PFI Schools - Contract Monitoring, which was reported in summary form to the audit committee 29 July 2021 alongside summarises of other internal audit reports issued in the period. The report gave a limited assurance rating to the council's arrangements. A subsequent follow-up report made further recommendations, in particular to give oversight of contractor performance issues at a senior level and escalate overdue health and safety recommendations. The legislation places various obligations on the council in relation to the consideration of a written recommendation made under Schedule 7, including requirements to: • Consider the recommendation at a public meeting within one month of it being sent to the council (or later date agreed with the auditor) • Agree at the meeting whether the recommendation is accepted and what action will be taken in response • Notify the local auditor of these decisions and publish a notice containing a summary of the decisions. We understand that a public meeting was not held to agree whether the recommendation was accepted and, if so, how it would be implemented, such as whether the investigation would be carried out by internal audit, the areas to be covered and the meeting at which the results would be reported and on this basis the council has not complied with its obligations under the legislation in relation to the process to be followed on receipt of such a recommendation. In relation to the failure of the council to comply with its obligations under Schedule 7: • We recommend the audit committee consider whether it is satisfied with the actions which have been taken in response to the Schedule 7 recommendation. • We recommend the council consider what mechanism is needed, in the event that recommendations or reports are issued under Schedule 7 in the future, to ensure the council follows the process laid down in legislation.

Update to Final Report (continued)

Item	Update
Receipt of audit certificates for the years ended 31 March 2017 and 31 March 2018	• We have considered whether this instance of non compliance with legislation is indicative of a material weakness in governance which should be referred to in our value for money conclusion. As a result of the elapse of time and departure of key individuals, it is not clear whether the breach results from individual failure or systemic weakness. Additionally, whilst we regard the failure to comply with legislation as serious, we acknowledge that, in practice, officers undertook actions which were broadly consistent with the recommendation (except in relation to timetable), thereby mitigating the impact of the non compliance. We therefore do not propose to modify our conclusion specifically in relation to this. Nevertheless, together with previous concerns expressed by senior officers and audit committee members that external reports on financial processes had not been provided to the corporate leadership team or audit committee and the council had lost sight of the recommendations made, it is apparent there are weaknesses in the arrangements for handling recommendations made by external parties. We recommend a register is maintained of recommendations relating to the internal control environment made by external parties and action planned and taken. As a minimum, there should be reporting on this to the audit committee as part of the annual review of internal control effectiveness. We have updated the wording in our audit report regarding the existing qualification in relation to internal controls to make reference to the additional weakness in arrangements for handling recommendations made by external parties. We have also considered whether the findings of the original 2016 Report and subsequent internal audit report and follow-up indicate weaknesses in contract management which impact on our expected VFM conclusion and concluded that this issue is most appropriately dealt with through the previously communicated proposed qualification on risk management and internal control.

Update to Final Report (continued)

Item	Update
Finalisation of our audit report, taking into account the actual and potential qualification items, any further items arising from completion of other open items and finalisation of wording	As explained above, as a result of further analysis which officers commissioned the actuary to perform after the meeting in January 2023, we no longer expect to qualify our report in relation to the recognition of the pension "experience" item. The audit report wording does not reflect any wording which might be necessary in concluding on a second issue in relation to the quantum of an pension experience item. There are no additional qualification matters which have arisen since the previous meeting, but as explained above, the nature and scope of the qualification in relation to staff remuneration disclosures has changed as a result of officers' decision to exclude information returned by certain schools from the disclosure. The expected wording of our audit report is set out in Appendix B.
Update of our subsequent events review through to the date of signing and receipt of signed management representation letter.	We have substantially completed this work, but will need to extend these to the date of signing. As set out above, the council has now adjusted pension liabilities to take account of information which has become available since the authorisation for issue of the original unaudited version of the statement of accounts as a result of the triennial valuation process. Our review of officers' commentary within final outturn reports for later years identified variances which related to the true up of estimates made, or correction of misstatements present, at 31 March 2019 which should have been corrected in the 2018/19 accounts. We have included these in aggregate in the schedule of uncorrected misstatements in Appendix A.

Purpose of our report and responsibility statement

This report should be read in conjunction with the "Final Report to the Audit Committee" circulated to you on 17 January 2023 for the meeting on 26 January 2023 and sets out an update on those audit matters of governance interest which came to our attention during the audit and were outstanding at the time of our final report or have arisen since that date. Our audit was not designed to identify all matters that may be relevant to the Audit Committee and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Audit Committee and the 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. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

St Albans

2 May 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). **New or amended misstatements (and related commentary) since our final report in January 2023 are highlighted in purple.**

		Debit/ (credit) in surplus on provision of services £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m	Gross expenditure on services £m
Current year misstatements						
Impact of McCloud/Sargeant rulings	[1]	1.6	(1.6)	-	-	1.6
Impact of stale prices in pension assets	[2]	-	(1.1)	-	1.1	-
NNDR appeals provision	[3]	3.0	(3.0)	-	-	-
Roll forward of valuation of council dwellings	[4]	4.0	(4.0)	-	-	4.0
Impact of Goodwin case	[5]	4.0	(4.0)	-	-	4.0
Unreconciled difference on schools cash control account	[6]	(1.3)	1.3	-	-	(1.3)
Incorrect net down of income and expenditure (£1.5m)	[7]	-	-	-	-	(1.5)
Error in unit building cost input	[8]	-	1.4	-	(1.4)	-
Reduce provision for H&SE penalties	[9]	(1.9)	1.9	-	-	(1.9)
Recognise LPFA pension surplus in full	[10]	-	3.5	-	(3.5)	-
Total current year misstatements		**9.4**	**(5.6)**	**-**	**(3.8)**	**4.9**
Prior year misstatements identified in the current year						
Invalid PFI grant balance	[11]	(2.2)	-	2.2	-	-
Error in unit building cost input	[8]	-	-	(1.0)	1.0	-
Unreconciled difference on schools cash control account	[6]	(2.7)	-	2.7	-	(2.7)
Total prior year misstatements identified in the current period		**(4.9)**	**-**	**3.9**	**1.0**	**(2.7)**
Total		**4.5**	**(5.6)**	**3.9**	**(2.8)**	**2.2**

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[1] As explained on pages 35-36, the pension liability does not take into account the impact of the McCloud/Sargeant rulings.

[2] Stale prices have been used by a custodian to value one of the pension scheme's assets, resulting in an overstatement of plan assets.

[3] As explained on pages 33-34, the NNDR appeals provision does not take into account information received after the reporting date which is relevant to the circumstances at the reporting date.

[4] 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.

[5] 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. Although tribunal ruling was not made until 2020/21, in our view the tribunal decision should be treated as an adjusting event, with the estimated impact recognised as a past service cost in the 2018/19 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.

[6] The total of the cash books for individual schools at 31 March 2019 is £1.3m higher than the general ledger control account and at 31 March 2018 is £2.7m lower than the general ledger control account. Officers have not been able to reconcile these differences. 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.

[7] A journal was incorrectly posted which had the effect of reducing income and expenditure in the service analysis in the Comprehensive Income and Expenditure Statement by £1.5m on the Corporate costs and central items line.

[8] 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, £1.0m and £2.7m at 31 March 2019, 31 March 2018 and 1 April 2017, respectively.

[9] The council made provision for possible Health and Safety Executive penalties. One case was determined in 2020/21 for a lower amount than provided and in a second case a penalty is no longer considered probable given the elapse of time.

[10] The full amount of the pension asset calculated by the actuary was not recognised, but should have been following changes to the Local Government Pension Scheme Regulations 2013 in 2018.

[11] PFI grant is received in full in the year to which it relates and should be recognised in full in that year. As a result, no amounts should be carried forward at year end. Amounts were incorrectly carried forward in short term debtors at 31 March 2018 and 1 April 2017 of £2.2m and £3.1m, respectively.

Appendix A: Audit adjustments (continued)

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 in aggregate with proposed adjustments in the previous table.

	Note	Debit/ (credit) in CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m	Expenditure on gross services £m
Accruals which are not valid or in excess of amount due	[1]	(2.5)	2.5	-	-	(2.5)
Expenditure in excess of amount payable	[2]	(6.8)	6.8	-	-	(6.8)
Precepts recorded twice in expenditure analysis (£1.9m)	[3]	-	-	-	-	-
Incorrect set of income against expenditure (£14.1m)	[4]	-	-	-	-	14.1
Invalid items in schools bank account reconciliations (£4.6m)	[5]	-	-	-	-	-
Differences between detailed pay records and general ledger (£1.4m)	[6]	-	-	-	-	-
Discrepancies between floor plans and build areas provided to valuer	[7]	3.1	(3.1)	-	-	-
Total current year projected misstatements		**(6.2)**	**6.2**	**-**	**-**	**4.8**

In addition, The council has restated opening balances and comparative information as follows:

- An increase in schools' reserves at 1 April 2018 by £2.1m to agree to the aggregate of individual returns from schools, after correcting adjustments for known errors in the returns.
- A reduction in the General Fund balance at 1 April 2018 by £7.8m to account for the impact of adjustments made to other asset, liability and reserve accounts.
- An increase in expenditure for the year ended 31 March 2018 by £7.0m and reduced income by £0.3m.

The council has not been able to provide full information on the changes made to income and expenditure in 2017/18 or to the amount of reserves at 31 March 2018, including a full reconciliation of opening to closing schools reserves. As a result, the allocation of these entries between schools and general fund reserves and between income and expenditure may not be accurate.

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[1] 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.

[2] Sampling of other service expenditure identified a payment which was £155k higher than the amount due but had been expensed in full. The projected error across all accruals is £6.8m. No similar errors were identified in our sample.

[3] In expenditure analyses provided to us, expenditure on precepts and other levies of £1,859k is included twice. We have not been able to determine what adjustment, if any, is required in respect of this item.

[4] Sampling of other service expenditure identified grant income which had been incorrectly set off against expenditure of £521k. The projected error across all credits to other service expenditure is £14.1m.

[5] Our sample 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. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented 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, this projection being the amount included in the table. Note that in the January 2023, we included this as a possible adjustment to expenditure, but on further investigation, all errors in our sample related to balance sheet classification errors. We have also amended the quantum of the projected error by using the precise error rate observed in our sample.

[6] 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. The projected variance across all schools which had opted out of the corporate payroll arrangement was £1.4m.

[7] Discrepancies were identified between floor plans and build area information provided by the council to the valuer and used as an input in the valuation. The projected variance across remaining assets was £3.1m.

Appendix A: Audit adjustments (continued)
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 and other errors relating to Note 42, Income and Expenditure analysed by nature There are differences between income and expenditure on services per CIES and the amounts shown in Note 42, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 42 is £2.0m lower than the amount shown in the CIES. Similarly, in respect of the restated comparative information, gross income from services and gross expenditure on services using information extracted from the Note 42 is £0.6m lower than the amount shown in the CIES. We are not able to determine whether the CIES or Note 42 requires correction. From our review of the other service expenses ledger, we identified that the precepts and levies expense of £1,859k had incorrectly been double counted in both other service expenses and the precepts and levies note line within Note 42. Due to the deficiencies identified in the initial version of the accounts and lack of information available, officers were unable to whether there is an equal and opposite credit within other service expenses to offset this amount or if a true double count, where the other side of the entry would be. In addition, whilst an adjustment has been made to correct for an error in the Comprehensive Income and Expenditure Statement involving the incorrect classification of an item of service cost within other comprehensive income, Note 42 has not been similarly adjusted. As a result, employee benefit expenses are understated in Note 42 by £2,205k.
Revaluation reserve The unusable reserves note disclosure contains a reconciliation of the opening and closing revaluation reserve: • 'Upward revaluation of assets' note line is overstated by £5,166k • 'Downward revaluation of assets' note line is understated by £4,123k.
Pooled budgets The Pooled Budgets note discloses expenditure equal to income from the Better Care Fund of £23,165k. The council has not separately monitored expenditure which, based on a high level review of account codes, may be £1.3m higher than the amount assumed and disclosed.

Appendix A: Audit adjustments (continued)

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 discloses instead the aggregate of these two amounts [Code: 8.2.4.2]. This is because the council has not been able to analyse movements on the provision for appeals against business rates, in turn because the council has not been able to distinguish between adjustments to business rates income as a consequence of a successful appeals and other adjustments to business rates income. Adjustments to business rates income as a consequence of a successful appeals and other adjustments to business rates income are presented on separate lines within the supplementary collection fund statement (being “Impairment of debts/appeals for non-domestic rates” and “Income from non-domestic rates”, respectively. As the council has not been able to extract information to determine the correct allocation of adjustments between these lines, it has done so on the basis of estimates. Based on information provided to us, we estimate that income from non-domestic rates and the charge for appeals for non-domestic rates in the collection fund supplementary statement may have been understated by £6.9m.
Disclosures relating to the transition to IFRS 9 The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code’s adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code’s adoption of IFRS 9 [Code: 7.4.3.16].

Appendix B: Expected wording of our audit report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified opinion

In our opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of our report, the financial statements of London Borough of Tower Hamlets ('the Authority'):

- give a true and fair view of the state of the Authority's affairs as at 31 March 2019 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We have audited the financial statements which comprise:

- the Comprehensive Income and Expenditure Statement;
- the Balance Sheet;
- the Movement in Reserves Statement;
- the Cash Flow Statement;
- the related notes 1 to 43;
- the Housing Revenue Account Income and Expenditure Account and related notes 1 to 10;
- the Statement of Movement on the Housing Revenue Account Balance; and
- the Collection Fund and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19).

Appendix B: Expected wording of our audit report (continued)

Basis for qualified opinion

Failure to prepare group accounts

As explained in note 45, the Authority has not prepared group accounts, which consolidate the results and financial position of its subsidiary undertakings, including Tower Hamlets Homes Limited and King George's Field, Mile End. Under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, the Authority is required to prepare group accounts as its interests are material in aggregate. Had group accounts been prepared, net assets and subsidiary reserves would have been £26.5m higher as a result of consolidating Tower Hamlets Homes Limited and King George's Field, Mile End and £27.1m higher at 31 March 2018. In addition, the narrative report does not consider the results and financial position of the subsidiary undertakings.

Related party disclosures

As explained in note 31. we were unable to obtain sufficient appropriate audit evidence concerning whether information disclosed in note 37 for the year ended 31 March 2019 in respect of all relevant relationships had been reported as returns used to collect information on the interests of elected members and members of their close family were not obtained at the time or cannot now be located due to the passage of time and as it was not possible to obtain subsequently due to changes in council membership. Consequently, we were unable to determine whether any adjustments to the information disclosed were necessary.

Officers' remuneration

Note 31 discloses information about the number of employees paid over £50,000. As explained in note 31, the Authority has not included information about the Authority's employees working in 28 local authority maintained schools during the year ended 31 March 2019 and 29 local authority maintained schools during the year ended 31 March 2018 as this information is not held centrally, the Authority did not obtain returns from all of those schools in respect of the year ended 31 March 2018 and returns obtained in respect of both the years ended 31 March 2019 and 31 March 2018 were not in a suitable form and were assessed by the Authority to be unreliable. The returns received in respect of these schools showed 226 employees with remuneration over £50,000 during the year ended 31 March 2019.

Note 31 also discloses information about the number, type and value of exit packages. As explained in note 31, the Authority has not included information about the number and cost of exit packages given to staff at 33 local authority maintained schools during the year ended 31 March 2019 and 35 schools during the year ended 31 March 2018 as information for these schools is not held centrally and other information obtained in respect of the year ended 31 March 2019 was assessed by the Authority to be incomplete and unreliable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Appendix B: Expected wording of our audit report (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

The going concern basis of accounting for the Authority is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, group financial statements have not been prepared for the group. Where the results and financial position of the Authority are discussed in the other information, we have concluded that the other information is materially misstated for the same reason.

Appendix B: Expected wording of our audit report (continued)

Chief Financial Officer's responsibilities

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for: the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matters reported in the basis for qualified conclusion section below, we are satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Appendix B: Expected wording of our audit report (continued)

Basis for qualified conclusion

The finalisation and publication of the council's statement of accounts for the year ended 31 March 2019 has been significantly delayed from the original target date of 31 July 2019. This is due to the time needed to investigate issues identified during the audit process and to prepare accounts. The Council's investigation of these matters resulted in a period of prolonged uncertainty over the amount and timing of recognition of usable reserves available to meet future spending requirements and the council's strategic objectives and a significant volume of corrections to the originally published draft statement of accounts. The corrections had the effect of increasing usable reserves at 31 March 2019 by £42m, unusable reserves by £58m, assets by £128m and liabilities by £28m and increasing usable reserves at 31 March 2018 by £48m, unusable reserves by £186m, assets by £262m and liabilities by £27m.

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

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

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

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

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

Appendix B: Expected wording of our audit report (continued)

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the London Borough of Tower Hamlets had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Tower Hamlets put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the accounts of the London Borough of Tower Hamlets in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Appendix B: Expected wording of our audit report (continued)

USE OF OUR REPORT

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.