London Borough of Tower Hamlets

Update to Final Report to the Audit Committee on the audits for the year ended 31 March 2020

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

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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 2020. This report should be read in conjunction with our earlier reports presented at meetings of the committee in 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, has also impacted on the timeline.

Our audit is now substantially complete, but we still need to finalise our internal quality reviews, as well as close a small number of open points on individual procedures. At the time of writing we had also not received officers' exercise to support requested written representations. 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 we have received and had the opportunity to challenge the supporting process)

- 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 2020 and 31 March 2019 and related entries to take account of information collected and analysed as part of the triennial funding valuation process. As a result, the 2019/20 financial statements have now been revised to reduce opening pension liabilities from £428.7m to £244.1m in line with the new 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. In addition, officers commissioned the council's actuary to carry out additional analysis of an experience item, originally recognised in the 2019/20 accounts, where we had reported that we had not received sufficient information. As explained in our equivalent update report on the 2018/19 audit, we have not yet received sufficient information to enable us to assess the reasonableness of the quantum of 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 meeting officers decided to exclude these schools from the scope of the disclosure. This changes the nature of the qualification, but does not remove it. 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 to the council's participation in the London Borough of Tower Hamlets Pension Scheme. This was firstly because we expected to qualify our opinion on the 2018/19 financial statements as the calculation of the pension liability at 31 March 2019 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. As a result, opening pension liabilities and other comprehensive income in 2019/20 were materially misstated. Secondly, we reported that we had been unable to obtain sufficient information in respect of the amount of an "experience item" relating to the true-up of estimates to actuals. After the meeting, officers decided they would remediate the position by commissioning the council's actuary to: • perform revised calculations of the pension liability at 31 March 2019 using information collected for the triennial valuation and revised calculations for 2019/20 based on the adjusted opening position; and • Analyse and provide further support for the experience item. This additional work has resulted in the following changes to the draft financial statements: a reduction in total pension liabilities at 1 April 2019 from £428.7m to £244.1m; a reduction in net interest on the pension liabilities from £16.9m to £12.4m; and a reduction in other comprehensive income arising on the remeasurement of the pension liabilities from £321.7m to £126.3m.	The effect of adjusting the pension liability at 31 March 2019 to true-up previous estimates to actuals was to substantially pull forward the experience item, which was originally recognised in 2019/20, to 2018/19. We therefore comment on the further work performed by the actuary in relation to the experience item in our equivalent report on 2018/19, as well as on the revised opening balance at 1 April 2019, and explain why we have not yet concluded on this. We have reviewed the updated actuarial report for 2019/20 and changes made to the draft 2019/20 financial statements which result from the revised actuarial report for 2019/20 and the adjustments made to the 2018/19 financial statements but have not yet concluded pending finalisation of the issue over the experience item now recorded in 2018/19 and described in more detail in our equivalent report for that year. The council's actuary adjusted the opening balances and made changes to in year transactions which result from this but did not make changes to other financial and demographic assumptions or the position previously taken on McCloud and Goodwin cases. Our report to the meeting on 26 January 2023 should be referred to for our comments on these judgements.

Update to the Final Report (continued)

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

Outstanding item in our 26 January 2023 report	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. 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 in CIPFA guidance issued in January 2023.
Finalisation of our work on employee remuneration disclosures following receipt of further information and confirmation of changes to be made to the disclosures in the draft statement of accounts	We explained in our report to the January meeting a number of concerns over employee remuneration disclosures, in particular About the information available to verified the accuracy and completeness of information relating to schools which had opted out of the corporate payroll arrangement ("opted out schools"). We explained that we expected to qualify our opinion but further information was needed before we could finalise the wording of that qualification. Officers have subsequently made changes to the disclosures, in particular to exclude all information relating to opted out schools from the disclosures on 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). Officers have chosen to exclude this information as they 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 council has also adjusted the disclosure to: • Remove information relating to voluntary aided/controlled and foundation schools' staff who are employed by the governing body and not by the council. • Take into account the money value of benefits in kind provided under salary sacrifice schemes. • Remove two employees from the count whose remuneration is now disclosed individually in the disclosure on senior officer remuneration. • Remove the reimbursement of expenses which have been incorrectly included in the calculation of staff remuneration. We have also agreed changes in relation to the incorrect exclusion of council employees on secondment to the Tower Hamlets Education Partnership and the incorrect inclusion of an employee of an academy trust which had not been reflected in the financial statements at the time of this report. An explanatory footnote regarding the exclusion of information relating to the opted out schools has also been added.

Update to the Final Report (continued)

Outstanding item in our 26 January 2023 report	Update
Employee remuneration disclosures (continued)	Factors taken into account in officers' decision to remove information about the opted out schools included: • For certain opted out schools, information on actual remuneration was collected for only Months 1-11 and estimates for their remuneration were used for Month 12. • For the remaining schools, information was obtained from a bespoke report provided by the third party payroll provider and the chief accountant team were unable to determine from records held centrally whether the information was complete and accurate. • Officers were unable to resolve differences between detailed pay records and totals in the general ledger system or explain large changes in numbers of higher paid staff reported by some schools between 2018/19 and 2019/20. • The council previously provided to us a list of individual exit packages paid to employees of opted out schools in 2019/20, 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. The council is required to make the disclosure on employees paid over £50,000 by the Accounts and Audit Regulations 2015. Based on the information in returns from schools (which may not be reliable), there were 177 staff at opted out schools who were paid over £50,000. We concluded that as a result of excluding information on staff employed by opted out schools, the council had not in material respects complied with the disclosure requirement set out in regulations in respect of higher paid employees. The council is required to give the disclosure on exit packages by the Code of Practice on Local Authority Accounting. According to the schedule originally provided by officers, there were 5 staff members employed by these schools who received exit packages totalling £50,567. We do not regard this as material to the disclosure, but as we are not able to determine whether this original schedule is complete, as the council is unable to provide copies of the return or other information inspected in compiling the schedule, we are unable to determine whether the note on exit packages is complete in all material respects. 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 all 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 also 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 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 (continued)

Outstanding item in our 26 January 2023 report	Update
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.	The council has updated the accounts to disclose the amount and analysis of income under contracts with service recipients and related balance sheet amounts. We agreed changes to the initial version of this disclosure which had not been updated in the latest version of the accounts provided to us.
There is an historic difference between the capital financing requirement and related balance sheet amounts of £16m which we are discussing with officers.	The memorandum disclosure in the draft financial statements showed a capital financing requirement which was £16m lower than the amount calculated by reference to the capital related account balances in the council balance sheet. The council has now adjusted the opening capital financing requirement at 1 April 2019 in the 2019/20 financial statements, following adjustments also made to the 2018/19 financial statements). 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 there is no significant impact on MRP calculations due to either the discrepancy in the capital financing requirement or 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.
Completion of audit of related party disclosures where officers have recently submitted updated disclosures and supporting information in the light of previous audit challenges	As set out in our reporting to the meeting on 26 January 2023, our report will be qualified in relation to the comparability of prior year information as a result of the matters set out in our expected opinion on the 2018/19 financial statements. We have completed our work on this disclosure and, following adjustments made to the disclosure, we expect our opinion will be unqualified in respect of the current year information as, unlike the previous year, returns on member interests were obtained and retained for all members.

Update to Final Report (continued)

Outstanding item in our 26 January 2023 report	Update
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	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.
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 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	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 (£500k) and, in some cases, are rounding differences. There are also references to account balances not present in the accounts and an incorrect cross reference. Whilst we do not consider that these discrepancies 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 builds 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 £85k. This is because the original disclosure included employer costs such as employers national insurance contributions and similar expenses.

Update to Final Report (continued)

Outstanding item in our 26 January 2023 report	Update
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	Officers have not yet provided us with their memorandum. We will provide an oral update at the meeting.
Receipt of audit certificates for the years ended 31 March 2017 and 31 March 2018	As explained in more detail in our equivalent report on the 2018/19 statement of accounts, we have now received the audit certificates for these years and on the issue of our own certificate for the year ended 31 March 2019 expect to issue our certificate for the year ended 31 March 2020. Following consideration of an issue over the council's handling of a formal recommendation made by the previous auditor, we have added wording to an existing qualification of our value for money conclusion dealing with risk management and internal controls. This is explained further in our equivalent report on the 2018/19 audit.
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	As explained above, after the meeting the council's actuary was commissioned to carry out further work aimed at addressing the issues giving rise to the expected qualification reported to you in the previous meeting. 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 (subject, in particular, to any changes resulting from the conclusion of our review of the changes made to the 2018/19 and 2019/20 financial statements in relation to pension liabilities) is set out in Appendix 2.
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 our procedures to the date of signing. 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 2020 which should have been corrected in the 2019/20 accounts. We are waiting for information to quantify these.

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 since our report to the committee in January 2023 are in purple in the tables and commentary in the rest of this appendix.**

		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)
Tenant arrears and credit loss calculation	[14]	(0.8)	-	0.8	-	0.7
Other differences between estimates and actuals	[14]	2.6	-	(2.6)	-	1.9
Total factual and judgemental current period misstatements		**8.2**	**(1.4)**	**(6.8)**	**-**	**5.0**

Appendix A: Audit adjustments (continued)

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	[15]	(4.0)	-	-	4.0	(4.0)
Pension assets valued using stale prices	[16]	-	(1.1)	-	1.1	-
Impact of McCloud/Sargeant rulings	[17]	(1.6)	-	-	1.6	(1.6)
Unreconciled difference on schools cash control account	[18]	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
Recognition of full LPFA pension asset	[19]	-	3.5	-	(3.5)	-
Total misstatement identified in the prior year		**(9.4)**	**3.8**	**-**	**5.6**	**(6.4)**
Total current and prior year misstatements		**(1.2)**	**2.4**	**(6.8)**	**5.6**	**(1.4)**

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

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[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] These relate to the correction of an error on the tenant control account identified by reconciliation processes performed after the closure of the 2019/20 accounts, offset by an error in the methodology for calculating the related credit loss allowance; and the true up of estimates to actuals identified through budget analysis in 2020/21.

[15] 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.

[16] 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.

[17] 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.

[18] 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.

[19] The full amount of the pension asset calculated by the actuary was not recognised at 31 March 2019, but should have been following changes to the Local Government Pension Scheme Regulations 2013 in 2018. The full amount was recognised at 31 March 2020.

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 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 (continued)

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 (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 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.
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.

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 and contributions to provisions and transfers between current and non-current provisions. The disclosure does not distinguish between these amounts and instead presents the aggregate amounts used and unused amounts reversed in the year and the aggregate of contributions to provisions and transfers between current and non-current provisions [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 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 £15.3m. We reported in respect of the 2018/19 financial statements that these lines may be understated by £6.9m for that year. Within the note on provisions, the amount disclosed as used or written back of £12.6m is consistent with the council’s reporting to the Department in Form NNDR3, the Form is not consistent with the Collection Fund as the credit in the Collection Fund of £7.9m is the movement on the total allowance for appeals and not the amount described in Form NNDR3 as charged to the Collection Fund.

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 of the matters described in the basis for adverse opinion section of our report, the financial statements of the Authority:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its 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 2019/20.

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 42;
- the Housing Revenue Account Income and Expenditure Account and related notes 1 to 8;
- 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 2019/20).

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

Basis for qualified opinion

Failure to prepare group accounts

As explained in note 42, the group 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 2019/20, 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 £30.1m higher at 31 March 2020 as a result of consolidating Tower Hamlets Homes Limited and King George's Field, Mile End and £26.5m higher at 31 March 2019. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019. In addition, the narrative report does not consider the results and financial position of the subsidiary undertakings.

Related party disclosures

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. Our audit opinion on the financial statements for the year ended 31 March 2019 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Officers' remuneration

Note 29 discloses information about the number of employees paid over £50,000. As explained in note 29, the Authority did not include information about the Authority's employees working in 28 local authority maintained schools during the year ended 31 March 2020 as this information is not held centrally and returns and other information obtained were considered by the Authority to be unreliable. The returns and other information received in respect of these schools showed 171 employees with remuneration over £50,000 during the year ended 31 March 2020 and 226 employees during the year ended 31 March 2019. This also caused us to qualify our opinion in respect of the financial statements for 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 did not include information about the number and cost of exit packages made by 33 locally authority maintained schools (including 5 voluntary aided/controlled schools) during the years ended 31 March 2020 and 31 March 2019 and returns and other information obtained was assessed by the Authority to be incomplete and unreliable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.

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 on the group financial statements and qualified opinion on the Authority financial statements.

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

Emphasis of matter – material uncertainty related to the valuation of council dwellings and other land and buildings

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.

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 2019/20 , 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 2019/20 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 April 2020, with the exception of the matters reported in the basis for qualified conclusion paragraph 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 2020.

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 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 £252m 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.

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. 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.

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 2020.

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.

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

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.

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.