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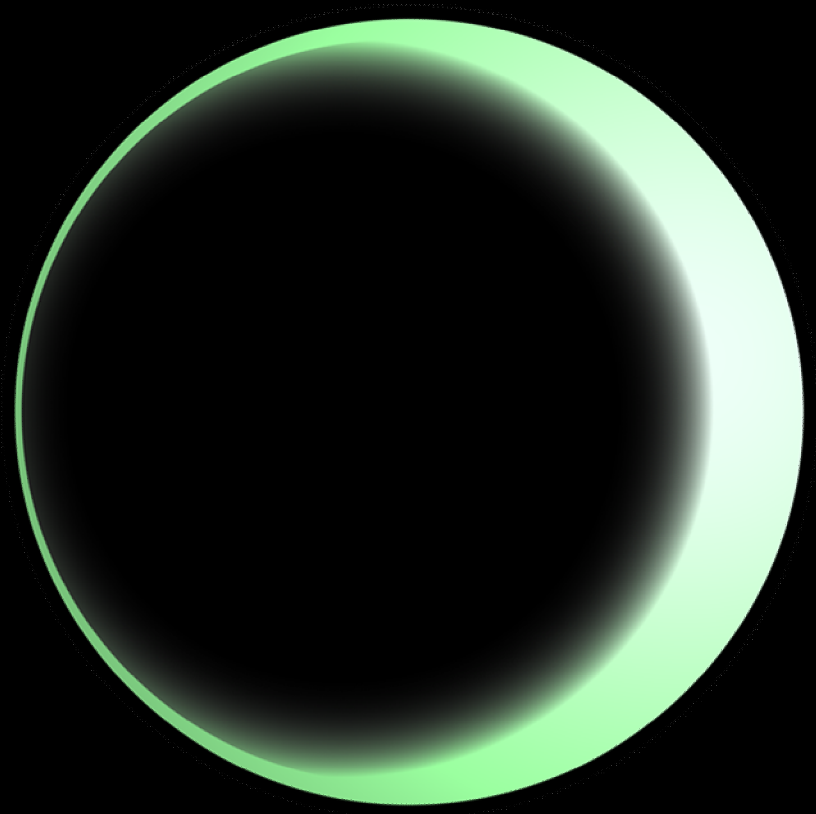

London Borough of Tower Hamlets

Planning report to the Audit Committee on the 2020/21, 2021/22, 2022/23 audits – issued on 27 September 2024 for the audit committee on 10 October 2024

Contents

Impact of the backstop provisions
The Government has announced a legislative backstop date of 13 December 2024.

This report sets out how the accounts and audit process will operate for the London Borough of Tower Hamlets ("the Council") and the London Borough of Tower Hamlets Pension Scheme ("the Pension Scheme") for the financial years 2020/21, 2021/22 and 2022/23, in accordance with the "backstop" provisions that the Ministry for Housing, Communities and Local Government ("MHCLG") and the National Audit Office ("NAO") have announced. Although Parliamentary processes mean these provisions are not yet published in their final form, and the effective date of legislation when opinions can be issued has not yet been confirmed, we have set out our understanding of their impact and the plan for the accounts and audit processes required to be completed before at the latest 13 December 2024. This report should be read alongside management's paper in response to the original consultation which was presented to the audit committee meeting in April 2024.

Impact of the backstop provisions

Under the backstop provisions, local authorities will be required to publish their statement of accounts and audit report by the backstop date. For financial years up to 31 March 2023, this will be 13 December 2024.

Although we have completed some procedures on the 2020/21 audit, due to the time available to complete the audits of the Council for the financial years 2020/21, 2021/22 and 2022/23, it will not be possible to complete all audit work required under auditing standards before that date.

Under auditing standards, and as envisaged in the backstop proposals, we expect that we will need to include in our audit report a disclaimer of opinion in respect of all remaining financial years in respect of both the Council and the Pension Scheme. This is because we will be unable to obtain sufficient appropriate audit evidence by the backstop date, and that the areas affected would be so material and so pervasive that we would be unable to form a view as to whether the financial statements give a true and fair view. Our audit report will state that this disclaimer of opinion is due to the backstop provisions.

Actions required of the Council

The backstop provisions do not affect the responsibilities of the Council for the preparation, publication and approval of the financial statements for the Council and the Pension Scheme and the annual report for the Pension Scheme. Auditors are only able to provide an audit report, even if modified or disclaimed, on a set of accounts which have been certified by the Section 151 Officer, subject to the statutory 30 working-day inspection period and approved as final by those charged with governance.

Impact of the backstop provisions (continued)
Impact upon our audit procedures

The Council has already published the draft statement of accounts for all outstanding years of account and has completed the public inspection period. The statement of responsibilities in the Council financial statements for 2020/21, 2021/22 and 2022/23 refer to exceptions in relation to compliance with the Code of Practice on Local Authority Accounting, including matters on which we qualified in 2019/20. If these are not resolved and we conclude they are material, we will include them in our audit report as known areas of material misstatement. We have not yet received the narrative sections of the Pension Scheme's annual reports for 2021/22 and 2022/23.

Actions required by the auditor

There are four principal responsibilities of a local authority auditor:

1. The audit of the statement of accounts, including the financial statements of the local authority and the pension scheme administered by the local authority
2. An opinion on the annual report of the pension scheme administered by the local authority as to whether it is consistent with the pension scheme's financial statements included in the local authority's statement of accounts
3. Work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ("Value for Money")
4. Consideration of any objections raised by electors.

Our understanding is that, under the backstop provisions, the auditor will need to have completed their consideration of any objections which may be material to the financial statements, and either completed their work in respect of Value for Money arrangements, or determined that any remaining work will not have a material impact on the financial statements, prior to issue of their audit report (even if they have been unable to complete their financial statement audit).

We have set out from page 9 our planned procedures in respect of the financial statement audit, and on page 14 in respect of our Value for Money responsibilities.

We have not received any objections in respect of the published years of account, and therefore no work is required in respect of these.

We will communicate our findings from our work to the Audit Committee.

Impact of the backstop provisions (continued)

Impact upon our audit procedures

If we identify any misstatements or disclosure deficiencies from our procedures, we will communicate these to management and will include any uncorrected items in our final report to the Audit Committee. If there are any known material misstatements, then we would expect these to be corrected in the final statement of accounts. If we are aware of any material uncorrected misstatements, we will need to include details of these misstatements in our audit report (in addition to our disclaimer of opinion).

We will also issue an Auditor's Annual Report, including our Value for Money commentary, which we expect we will issue on a combined basis covering 2020/21, 2021/22 and 2022/23.

Interaction with the incoming auditor and the 2023/24 accounts and audit process

We will continue to co-operate with EY, your appointed auditor for 2023/24 onwards, in the handover of the audit of the Council and Pension Fund.

Responsibilities of the Council

The Council remains responsible for the preparation, publication and approval of the statement of accounts

Responsibilities of the Council

The Council is responsible for ensuring that there is an appropriate internal control environment that enables the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Prior to publication of the final signed financial statements, the Council need to have:

- Prepared the statement of accounts;
- Completed internal reviews and other procedures required as part of the Council's internal controls over financial reporting (with recommended minimum checks detailed on page 17);
- Published the draft statement of accounts for public inspection;
- Completed the 30 working day public inspection period;
- Amended the draft statement of accounts for any material matters identified or which the Council considers requires correction; and
- Approved the statement of accounts.

The table on the next page summarises the status of preparation and publication for inspection of the open years of account.

Although the procedures that we will be performing (as set out on pages 9 to 12) do not include substantive testing of balances, we have identified material misstatements in previous years through this type of procedure on the financial statements including internal inconsistencies, casting errors, and omitted disclosures. The Council remains responsible for preparation of a statement of accounts that complies with the requirements of the CIPFA Code of Practice on Local Authority Accounting and which gives a true and fair view. The statement of responsibilities set out various exceptions in relation to compliance with the Code in the unaudited accounts for 2020/21, 2021/22 and 2022/23. If further misstatements, disclosure deficiencies, or other issues are identified in the draft statement of accounts, these will potentially require investigation and correction by management before approval of the final statement of accounts, and therefore any issues will need to be considered and addressed on a timely basis to achieve the planned timetable to the backstop date.

Responsibilities of the Council

We will evaluate the impact on our audit report of exceptions detailed in the statement of responsibilities

The table below summarises the status of preparation of the open years of account. The publication and inspection process for each year is complete and no objections were received in the period allowed under legislation for this.

	2020/21	2021/22	2022/23
Draft accounts prepared	Yes	Yes	Yes
Draft accounts consistent with the accounts for preceding year	Yes	Yes	Yes
Draft accounts include group accounts	No – See note 1		
Other known issues with draft of accounts	Yes – see note 1		
Updated draft required before can begin audit procedures	No	No	No
Pension scheme annual report received	Yes	No – see note 2	No – see note 2

Note 1: the council has identified issues over the presentation and disclosure of information in the financial statements for all open years, including the omission of group accounts in 2020/21, 2021/22 and 2022/23, as well as errors in pension membership data which impact on pension liabilities/asset and related entries. As explained by officers in their paper considered at the meeting of the audit committee in January 2024, whilst officers propose to remediate these issues in drafting the financial statements for 2023/24, they do not propose to correct and reissue financial statements for 2020/21, 2021/22 and 2022/23. We will therefore commence our audit procedures on the existing versions of the financial statements, but we will need to consider the impact of the misstatements and deficiencies on our audit reports.

Note 2: Whilst we have received the pension scheme financial statements in the Council's statement of accounts which will form the "back half" of the pension scheme annual report, we have not yet received the narrative "front half" sections of the pension scheme annual report or the standalone annual report document.

Responsibilities of the Council

MHCLG has stated that it is expected that councils should have sufficient internal controls and processes to provide assurance to the Section 151 Officer that the accounts present a true and fair view, and enable approval of the accounts. In light of the material misstatements and significant control deficiencies identified in previous audits, the Audit Committee may wish to receive a paper from management on the assurances in place including over significant estimates and judgements as part of the approval of the final accounts.

Overview of planned financial statement audit work

Overview of planned procedures

Due to the time available to complete the audits of the Council and Pension Fund for the financial years 2020/21, 2021/22 and 2022/23, it will not be possible to complete all audit work required under auditing standards before that date. We have set out in the table below an overview of the key aspects of the work that we plan to complete (some of which are complete or underway):

Area	Planned procedures
Initial planning activities	We have completed our overall assessment of engagement risk, which will also inform our planned Value for Money procedures. We have performed our engagement acceptance and continuance procedures, including in respect of independence. We have determined materiality for each of the audits.
Risk assessment procedures, including understanding of the Council and its environment, and of internal control.	We have an existing understanding of the Council and Pension Scheme and their environment, and of the internal controls, from previous years' audits and the procedures that had been commenced on the 2020/21 audit. For the open years of account, there is insufficient time prior to the backstop date to complete the audit testing required to respond to identified risks of material misstatement. We therefore have not completed, nor plan to complete, all risk assessment procedures as required by ISAs (UK). As part of our procedures on the financial statements (discussed on the next page), we will perform overall analytical procedures on the draft statement of accounts.
Fraud enquiries	We plan to complete the fraud inquiries required under ISA (UK) 240, as detailed on pages 28 to 29.
Overall audit procedures that also impact upon our Value for Money procedures	There are a number of areas of audit procedures which also inform our Value for Money work. We will complete procedures in these areas including: • Review of minutes of the Council and its principal committees; • Review of the work of internal audit;

Overview of planned financial statement audit work

Area	Planned procedures
Significant risks	We have not completed the risk assessment procedures required by ISAs to identify any significant risks for the financial years subject to audit, and as noted above do not anticipate doing so as there will not be sufficient time to complete the audit testing required to respond to identified risks of material misstatement. The significant risks which we had identified in respect of the 2020/21 audit, and which the Audit Committee may wish to consider the internal assurances in place in respect of for the open years of account, were: • Management override of controls (a presumed risk on all audits, and therefore relevant to both the Council and Pension Scheme audits) • Capitalisation of expenditure (Council audit) • Recognition and presentation of income from grants and other contributions (Council audit) • Valuation of property assets (Council audit) • Disclosure of information on higher paid employees and exit packages (Council audit). We had rebutted the presumed risk of fraud in revenue recognition for 2020/21 but have not determined whether this would be a risk for subsequent years. In addition, subsequent to starting our work on the 2020/21 audit, we concluded in respect of our audits for the years ended 31 March 2019 and 31 March 2020, that information provided to the actuary for the purpose of their valuation of pension liabilities was not reliable and, as a result, there was an unquantifiable error in the amount of the pension liability. The statement of responsibilities in the unaudited statement of accounts for 2020/21, 2021/22 and 2022/23 refer to an ongoing uncertainty over the amount of the pension liabilities for those years for the same reason. We reported on other areas of audit focus in relation to the 2019/20 audit and the audit committee may wish to consider how these matters have been treated in the open years of account, including: the impact of the pandemic on the financial statements; the accounting for infrastructure assets; and the accounting for pension obligations relating to Tower Hamlets Homes staff (in particular because of the change in contractual arrangements); and, as above, pension accounting (where the Audit Committee may wish to consider the additional judgement in 2022/23 in relation to the value of the pension asset to be recognised.

Overview of planned financial statement audit work

Area	Planned procedures
Testing of account balances, classes of transactions, and disclosures	We do not plan to perform our audit testing of underlying balances, transactions or disclosures. As noted above, there is not sufficient time to complete work in sufficient areas before the backstop date to be able to form an audit opinion.
Financial statements	We will review the draft financial statements, including performing overall analytical procedures. We will understand management's process for preparing the financial statements, including updates to the originally published 2020/21 financial statements. We will agree the primary statements (comprehensive income and expenditure statement, balance sheet, statement of cashflows, and movement in reserves statement), the Housing Revenue Account, and the Collection Fund to supporting accounting records. We will agree the comparative figures and opening balances to the prior year financial statements. We will perform a "call and cast" of the financial statements for internal consistency and arithmetic accuracy. We will review the financial statements against the requirements of the CIPFA disclosure checklist. If we identify any apparent errors, omissions, or inconsistencies that are not clearly trivial, we will discuss these with management and request correction of identified misstatements (including disclosure deficiencies). We will report uncorrected misstatements, or corrected misstatements that we consider to be significant, to the Audit Committee.
Compliance with laws and regulations	We will inquire of management and those charged with governance whether the Council is in compliance with applicable laws and regulations. We will inspect any correspondence with regulators.
Evaluation of misstatements	We will evaluate any misstatements and disclosure deficiencies identified and consider whether any uncorrected items are individually or in aggregate material to the financial statements.

Overview of planned financial statement audit work

Area	Planned procedures
Internal control findings	We will not be performing our usual procedures to understand the Council's internal controls and will be not be performing our audit testing of balances, which are typically how we identify control findings. However, if we identify any matters through our planned procedures, we will communicate them to management and the Audit Committee, in accordance with ISA (UK) 265. We have reported a number of significant control deficiencies and recommendations to the Council from our previous audits. Given the extent of planned procedures, we will not be evaluating the extent to which management have implemented their responses to these recommendations, some of which the officers reported to the audit committee were still in progress at November 2023. The Audit Committee may wish to receive a further update from management on progress against our previous recommendations as part of their approval of the financial statements.
Subsequent events	We will inquire of management whether there are any subsequent events that affect the open years of account, and if so whether and how they have been reflected in the financial statements.
Reporting to those charged with governance	We have included in this planning report those matters which we are required to report to you under auditing standards. We will include in our final report our findings from the procedures performed, and any other matters we consider we are required to report to the Audit Committee. As we will not complete our usual audit procedures, we do not anticipate we will form a view on significant qualitative aspects of the Council's accounting practices (including accounting policies, accounting estimates and financial statement disclosures) and so will not report to you in respect of these matters.
Annual Governance Statement	We will review the Council's Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work (including from our Value for Money procedures).
Duties as public auditor	No objections have been received in respect of any of the open years of account. We will consider whether any matters are identified through our audit requiring the exercise of any of our other audit powers under the Local Audit and Accountability Act 2014.

Materiality

Our approach to materiality

Determination of materiality

- Although the extent of planned procedures does not include testing of balances, we are required to determine materiality for the purposes of evaluation of any misstatements identified (and so whether the financial statements are materially misstated).

Basis of our materiality benchmark

- Based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements, the key audit partner has determined materiality to be £24.0m for the 2020/21, 2021/22 and 2022/23 audits.
- We have used 2% of gross expenditure as stated in the published unaudited financial statements as the benchmark for determining materiality as this is an area of focus for users of the accounts.
- We have set lower materiality thresholds for the audit of disclosures on officer remuneration disclosures, as we have determined that users of the accounts have a closer interest in these disclosures. The thresholds set for the different notes are: Senior employee disclosure – 2.5% of total pay; Higher paid employee disclosures - 10% of band total for bands to £99,000 and 1 employee for bands above that; exit packages disclosure: 20% of number of packages within bands to £60,000 and 10% of number of packages for employees within bands above that.
- We have set materiality for the audit of the Pension Scheme financial statements at £19.5m, £20.2m and £19.3m respectively for the 2020/21, 2021/22 and 2022/23 audits, based on 1% of the net asset of the scheme.

Reporting to those charged with governance

- We will report to you all misstatements found in the Council’s financial statements in excess of £0.5m and all misstatements found in the Pension Scheme financial statements in excess of £0.9m, £1.0m and £0.9m respectively for the 2020/21, 2021/22 and 2022/23 audits.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Group materiality and scoping

- The original version of the 2020/21 financial statements included group accounts and we performed procedures to determine materiality and the scope of our audit of the group. The group accounts were subsequently removed from the 2020/21 financial statements (and none were included in the financial statements for 2021/22 and 2022/23) and therefore we have not set out planning decisions in this respect.

Value for Money arrangements

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. Under the requirements we understand will be applicable for the backstop period, our work is by reference to two reporting criteria (financial sustainability and governance). We understand the reporting criterion of improving economy, efficiency and effectiveness will be removed for audits up to and including 2022/23 under the backstop proposals;
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit report.

We anticipate that we will issue a single Auditor's Annual Report covering the open years of account.

Status of our risk assessment and Value for Money procedures

We have identified risks of significant weakness in respect of the identification and management of risks, including the maintenance of an effective system of internal control and taking prompt and effective corrective action and in maintaining adequate processes and systems to support timely and accurate financial reporting. These were reported as weaknesses in our most recent audit report, in respect of 2019/20, and there is a risk that these significant weaknesses continued into 2020/21 to 2022/23.

Our work, including the risk assessment, is proceeding through our internal review processes and will be finalised in late October/early November.

We expect completion of our work in this area to be subject to our consideration of the council's best value inspection report, once issued, and the outcome of the Council's investigation into issues in relation to contract monitoring processes in respect of a homecare services procurement.

Purpose of our report and responsibility statement

Our report is designed to establish our respective responsibilities in relation to the audit, and to communicate our audit plan and planned scope. We will update you if there are any significant changes to the audit plan.

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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

London | 27 September 2024

Appendices

Minimum procedures expected of the Council

We have included below a summary of the minimum procedures that we would expect the Council to have undertaken prior to the start of any auditor procedures upon the statement of accounts. These reflect general good accounting practice and the guidance in CIPFA's "Streamlining the Accounts" publication (which includes more extensive guidance on the year-end process and preparation of working papers which the Council may wish to adopt in improving its financial reporting and close process for future years) consistent with our previous control findings in this area.

Overall procedures
Update of the draft financial statements so that comparatives and opening balances match to previous audited accounts, and all expected disclosures included.
Completion of the CIPFA Disclosure Checklist and resolution of any issues arising for this
Consistency check of the figures included in the narrative report to the financial statements
Documented internal review of the financial statements
Documented internal "call and cast" of internal consistency and arithmetic accuracy
Documented check that opening balances and comparative figures agree to previous audited accounts or the updated draft of previous year.
Documented check the figures agree to underlying supporting working papers, which have been appropriately completed and reviewed, with appropriate review of a documented audit trail of any adjustments between ledger and statement of accounts
Documented analytic review of movements in balances of more than set threshold (which we recommend is not more than £12m for the Council and £9m for the Pension Scheme), with a clear and meaningful explanation for all variances.
Consistency checks
Agree the additions in the PPE and other fixed asset notes to the note on Capital Expenditure and Capital Financing
Agree the depreciation and impairment charges in the PPE and other fixed asset notes to the Capital Adjustment Account and Statutory Adjustments notes
Agree the surplus/deficit for the year from the Comprehensive Income and Expenditure Statement to the Movement in Reserves Statement, cashflow statement, and Expenditure and Funding Analysis.
Agree the movement on the HRA balances in the Housing Revenue Account to the Movement in Reserves Statement.
Check consistency of statutory overrides and adjustments between the Expenditure and Funding Analysis, Movement in Reserves Statement, and related disclosure notes.
Check that the Capital Financing Requirement matches to fixed assets less revaluation reserve and capital adjustment account, or that any differences are understood.

Prior year audit adjustments - Council

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the 2019/20 audit:

		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
Factual and judgemental misstatements					
Provision for appeals against rateable values	[1]	(0.5)	-	(2.5)	3.0
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 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
Overstatement of H&SE penalty provision	[13]	0.3	-	1.6	(1.9)
Tenant arrears and credit loss calculation	[14]	(0.8)	-	0.8	-

Prior year audit adjustments - Council

Uncorrected 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
Factual and judgemental misstatements (continued)					
Other differences between estimates and actuals	[15]	2.6	-	(2.6)	-
Under accrual of CIL income	[16]	(0.4)	-	1.0	(0.6)
Incorrect classification of operational assets as AUC	[17]	0.7	-	(0.7)	-
Understatement of HMO licence income deferral	[18]	0.6	-	(1.5)	0.9
Omission of surplus land assets	[19]	-	-	2.3	(2.3)
Roll forward of valuation of council dwellings	[20]	(4.0)	-	-	4.0
Pension assets values using stale prices	[21]	-	(1.1)	-	1.1
Impact of McCloud/Sargeant rulings	[22]	(1.6)	-	-	1.6
Unreconciled difference on schools cash control account	[23]	1.3	-	-	(1.3)
Recognition of full LPFA pension asset	[24]	-	3.5	-	(3.5)
Total		**(0.3)**	**2.4**	**(5.7)**	**3.6**

Prior year audit adjustments - Council

Uncorrected misstatements

[1] In estimating the provision for the cost of appeals by ratepayers against rateable values, the council had 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 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, 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] Officers carried out a further review of the fixed asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

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

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

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

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

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

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

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

Prior year audit adjustments - Council

Uncorrected misstatements

[12] A legal challenge had 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 rise 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. This was a misstatement at both 31 March 2019 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] This relates to other differences between estimates used to close the 2019/20 accounts and actuals identified through budget monitoring processes in subsequent years.

[16] The council performed an additional review of the Community Infrastructure Levy (CIL) income during the 2020/21 audit and identified an under accrual of £1.0m (of which £0.4m related to 2019/20 and £0.6m related to earlier years).

[17] Works on the Collingwood Community Centre were finished during 2019/20, but an entry to reclassify the asset from assets under construction to other land and buildings was not recorded until 2020/21. As a result, the building was incorrectly held at cost at 31 March 2020, rather than at its current valuation. The valuation performed for the purpose of the 2020/21 financial statements resulted in an impairment of £0.7m and we have assumed, had the property been valued at 31 March 2020, this would have resulted in an impairment of similar quantum.

[18] Deferred income relating to the administration of HMO licences is understated by £1.5m. There was a similar error at 31 March 2019 (£0.9m).

[19] During 2023, the council identified that holdings of surplus land had been previously omitted from the fixed asset register. This was identified when the council received offers from developers to purchase these assets. Officers have obtained a valuation for these assets at 31 March 2021 of £2.3m and we have assumed that the amount of the error at previous reporting dates is similar to this.

Prior year audit adjustments - Council

Uncorrected misstatements

[20] 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.

[21] 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.

[22] The pension liability at 31 March 2019 did not take into account the impact of the McCloud/ Sargeant rulings.

[23] 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.

[24] 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.

Prior year audit adjustments - Council

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements were identified in relation to the 2019/20 audit:

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 Sh ort 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 rela ted 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.

Prior year audit adjustments - Council

Disclosures

Disclosure
Operating lease commitments (council as lessee) The total commitment disclosed was overstated for a sample of leases tested by £1.1m as a result of an error in the calculation. The projected error across all leases is £1.6m.
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.

Prior year audit adjustments - Council

Disclosures

Disclosure
Short term debtors analysis An aggregated loss allowance provision was made against both arrears of council tax and council tax collection costs outstanding and included within Short term debtors council tax. Gross council tax collection costs outstanding of £3.1m are disclosed within "Short term debt ors other entities and individuals". The loss allowance relating to this balance should be reclassified from "Short term debtors council tax" to "Sh ort term debtors other entities and individuals.
Analysis of movement on pension liability In the analysis of movement on pension assets and liabilities, the amount recorded for benefits paid is higher than the amounts shown in pension records by £2.4m. This arises because the actuarial calculation has used estimated and not actual cash flows. Similarly, the analysis does not take into account cash flows relating to the council's share of net cash flows relating to the transfers of value and similar payments in respect of leavers of £0.8m. Contributions estimated for the purpose of the roll forward of pension assets are £0.7m lower that the pension scheme records. In principle, this impacts only on pension assets in the disclosure and balance sheet. However, it is most likely that this arises on additional contributions to settle additional liabilities arising from pension strain in respect of terminations in the year which have also not been recorded.

Prior year audit adjustments – Pension Scheme

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the 2019/20 audit:

		Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Factual and judgemental misstatements			
Goodwin Ruling	[1]	N/A – impacts disclosure in note 20	N/A – impacts disclosure in note 20
Total		**-**	**-**

[1] In calculating the actuarial liability of the plan in accordance with IAS 26, the actuary has not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m (0.2%) of the actuarial liability.

Disclosures

The following uncorrected disclosure misstatements were identified in relation to the 2019/20 audit:

Disclosure
Nuveen Retail Warehouse Fund - Redemption Restrictions The material valuation uncertainty clause included within the valuation statement for the Nuveen Retail Warehouse Fund as at the year-end should be disclosed in the financial statements. The fund value at the year-end is c.£2.1m, which is not material.

Prior year audit adjustments – Pension Scheme

Observations

IAS 26 liability

Based on the work of our in-house actuarial team, errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020. The present value of promised retirement benefits were corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary.

Underpayment of contributions due to employer payroll system error

The automation of pension auto-enrolment within the council payroll system launched in June 2019 and caused any newly enrolled active members using that system to have their 3rd party deductions omitted from the BACS report on the first month upon their enrolment and therefore not paid into the bank for this month. This caused an underpayment in the contributions for the 2019/20 year of £611k. We recommended that the contributions which have been deducted but that have not been paid across to the Fund are transferred to the Fund as soon as is practical. We further recommended that this breach of the regulations is reported to the Pension Regulator (TPR).

Control deficiencies

1) During our walkthrough of the journal review process we noted that the level of the review of the investments journals was limited to agreement to the high-level reports provided by Northern Trust (NT). Given the significance and magnitude of the balances reported by NT we recommended that a more detailed review be completed and recorded, which could include agreeing the summary to underlying detailed reports from NT. We do not consider this to be a significant deficiency given the oversight of the reporting from NT that is completed by the investment consultants and is reported to the pensions committee, and also due to the evidence of the controls in place at NT provided by their internal controls report - which flagged no issues in this area.

2) The salary thresholds have not been updated since they were first introduced and as a result they are not reflective of the current salaries in place. Because of this a certain number of employees are selected every time the exception report is run, while not being actual exceptions. This leads to basic "tick-off" exercise and could potentially distract from relevant issues. As the control does not track percentage movements in salaries/wages, we do not believe it is sufficiently precise to identify unusual movements for lower earning employees. We do not consider this to be a significant deficiency as the existing control is sufficient to capture a material issue, this recommendation represents a potential enhancement.

Our other responsibilities explained

Fraud responsibilities

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- Due to the extent of the audit work that we anticipate can be completed prior to the backstop date, our work will not provide assurance that the financial statements are free from material misstatement, whether caused by fraud or error, which will be reflected in the disclaimer of opinion in our audit report.
- We will communicate to you any other matters related to fraud we identify through our audit that are, in our judgment, relevant to your responsibilities.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our other responsibilities explained

Fraud responsibilities

We intend to make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the council and its group and will reconfirm our independence and objectivity to the Audit Committee for the years ended 2021, 2022 and 2023 in our final report to the Audit Committee.
Fees	Public Sector Audit Appointments Limited (“PSAA”) has set the amount of the scale fee payable by the Council as £162k for each of the financial years 2020/21, 2021/22 and 2022/23. This scale fee has not reflected the actual scope and cost of performing the audit of the Council (including the additional value for money requirements for 2020/21) and therefore this would have been subject to fee variations if the audit had not been impacted by the backstop provisions. PSAA has not yet published details of how it plans to adjust the scale fee to reflect the actual costs of audits which are affected by the backstop, and so any adjustment that will be made to this scale fee amount.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. There were no non-audit services fees proposed or provided in the years ended 31 March 2022 and 31 March 2023. During the year ended 31 March 2021 we completed a property related service which commenced in an earlier year, details of which, including our assessment of the services, have been previously communicated to you. Fees earned during the year ended 31 March 2021 were £4k and in total over the period from the start of our appointment to completion of the project were £23k.
Relationships	We have no relationships (other than the provision of non-audit services which are covered above) we have with the Council, its members and officers, and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place. This may include (for example) former partners and staff who have joined the entity.