



The London Borough of Tower Hamlets

Report to the Audit Committee on the 2020/21, 2021/22, 2022/23 audits, issued on 25 November 2024

Contents

01 Final report

Introduction	3
Disclaimer of opinion	6
Other matters to be reported in respect of the financial statements	7
Findings from financial statement procedures	12
Other matters for reporting to those charged with governance	17
Value for money	18
Your control environment and findings	36
Purpose of our report and responsibility statement	40

02 Appendices

A	Audit adjustments	42
B	Findings and open queries from partially completed procedures on the 2020/21 financial statements	59
C	Unresolved audit queries on the 2021/22 and 2022/23 financial statements	67
D	Prior year control findings	69
E	Audit report wording – disclaimer of opinion	74
F	Management representations	83
G	Independence and fees	89

Introduction

The key messages in this report:

This report to the audit committee of the London Borough of Tower Hamlets (“the Council”) sets out the results of the work we have performed as appointed auditor to the Council for 2020/21, 2021/22 and 2022/23.

Statement of Accounts

The Government has introduced a legislative ‘backstop’ date, by which local authorities are required to publish their statement of accounts and audit report. For financial years up to 31 March 2023, this is 13 December 2024.

As detailed in our Planning Report to the Committee meeting on 10 October 2024, the scope of our financial statement audit work has been limited by the introduction of the ‘backstop’ date. Due to the time available, it has not been possible to complete the audit work required under auditing standards for the financial years 2020/21, 2021/22 and 2022/23 before that date. The issues leading to delays in the 2018/19 and 2019/20 audits were included in our report to the January 2023, May 2023 and November 2023 audit committee meetings and to delays in progressing the 2020/21 audit in our briefing paper to the audit committee meeting in April 2024.

Under auditing standards, and as envisaged in the backstop proposals, we will therefore include in our audit report a disclaimer of opinion in respect of financial years 2020/21, 2021/22 and 2022/23, as required under auditing standards. 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.

The Financial Reporting Council has published an accessible guide to the overall programme of work to recover the local authority accounts backlog, Local Audit Backlog - Rebuilding Assurance, and the implications of disclaimers of opinion for future years.

We have performed the procedures set out in our planning report (see pages 12 to 16), which reflect the Local Audit Reset and Recovery Implementation Guidance. From these procedures, we highlight:

- We evaluated exceptions reported in the statement of responsibilities in relation to compliance with the Code in the 2020/21, 2021/22 and 2022/23 financial statements and concluded that certain items represented material presentation and disclosure deficiencies in the financial statements. Management have not updated the financial statements for these exceptions. We are therefore required by ISAs to report these material issues in our audit report.

Introduction (continued)

The key messages in this report (continued):

**Statement
of Accounts
(continued)**

- We identified other misstatements and disclosure deficiencies in the financial statements from our procedures. Management have not updated the financial statements for all of our observations. The uncorrected misstatements which we have identified, together with principal corrected misstatements to the versions of the financial statements presented to audit committee at the meeting on 24 April 2024, are set out in Appendix A.
- Based on the procedures we performed, we have identified a number of possible issues with the draft financial statements, which would ordinarily need to be concluded upon prior to completion of an audit. Management have not been able to investigate a number of the queries raised in the time available, and therefore we have not identified as quantified misstatements. We have summarised the findings and open queries identified from the partially completed procedures on the 2020/21 financial statements in Appendix B and from other procedures performed in respect of the 2021/22 and 2022/23 financial statements in Appendix C. The audit committee may wish to consider these in approving the financial statements.
- In our planning report, we recommended management undertake certain minimum procedures upon the statement of accounts, as part of the expected control environment for reliable financial reporting. We have reported exceptions which we would expect to have been identified by some of these checks. We highlight the importance of the control environment over the preparation and review of the financial statements for the recovery of timely financial reporting for the Council in future years.
- Our reports to the Audit Committee on the 2019/20 audit included details of a number of significant deficiencies in internal control and our recommendations to address them. Although we have not performed our usual procedures upon internal controls and have not performed procedures to evaluate the extent to which management have implemented responses to the recommendations, from the procedures performed and discussion with management we understand that a number of the control recommendations have not yet been implemented in full.

Our audit report will state that this disclaimer of opinion is due to the backstop provisions but also set out material issues identified from our procedures.

Notwithstanding the issues raised in this report and the position reached of a disclaimer of opinion, we highlight the work the council has carried out to reach a position where we are able to comply with the backstop requirement, having brought its reporting up to date and recognise the progress that has been made by publishing its 2023/24 draft accounts by the date set out in legislation.

Introduction (continued)

The key messages in this report (continued):

Value for Money procedures

Our Value for Money commentary is included in the accompanying draft Auditor's Annual Report which we will issue following issue of our audit report in the statement of accounts.

We identified risks of significant weakness in financial reporting arrangements and arrangements for identifying and managing risks and maintaining an adequate system of internal control, including taking timely and effective corrective action, in our audit planning report to the October 2024 audit committee meeting. We qualified our VfM conclusion on arrangements in both these areas in our audit report in the 2019/20 statement of accounts under the previous Value for Money reporting. Based on our work, we have concluded there are significant weakness in arrangements in both these areas which are detailed on pages 20 to 33, together with our recommendations.

Our audit reports in the statement of accounts for 2020/21, 2021/22 and 2022/23 will refer to the significant weaknesses in arrangements, including noting that the weaknesses have continued from the preceding year in each case.

A report of best value inspectors was published in November 2024. Ministers concluded, on the basis of the report, that the Council was failing to comply with its best value duties. We concluded that this provided evidence of a significant weakness in the council's arrangements for compliance with its best value duties, including in relation to decision-making. Our audit report in the statement of accounts for 2022/23 will also refer to this further significant weakness.

Duties as public auditor

We did not receive any queries or objections from local electors in respect of financial years 2020/21, 2021/22 or 2022/23.

We have not identified any matters that would require us to issue a public interest report.

We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Interaction with the incoming auditor

The Council published its draft 2023/24 statement of accounts for inspection by the required publication date. The backstop date for the 2023/24 audit is 28 February 2025.

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

Disclaimer of opinion

Our audit report will include a disclaimer of opinion, as we have not been able to obtain sufficient, appropriate audit evidence on which to base an opinion

Background

The scope of our financial statement audit work has been limited by the introduction of the 'backstop' date. Due to the time available, it is not possible to obtain sufficient, appropriate audit evidence on which to base an opinion before that date.

Due to the extent of testing that has been performed in respect of the 2020/21 financial statement and as we have not performed testing on the 2021/22 and 2022/23 financial statements, the possible effect on the financial statements of undetected misstatements, if any, could be both material and pervasive.

We are therefore required under auditing standards to "disclaim" our opinion. The disclaimer covers the entirety of the financial statements, and states that the user should not place any reliance on the work of the auditor for any part of them.

Impact upon our audit report

Our audit report is required to explain the reasons that gave rise to the disclaimer. The backstop is a limitation upon our audit due to legislative reasons and we will explain this in our audit report. If there are known, material issues in the financial statements, then this is required to be reported, even if there is a disclaimer of opinion. We expect to report such matters, as set out on pages 7 to 11.

The audit report ordinarily includes commentary on the use of the going concern basis of preparation of the financial statements. However, where there is a disclaimer of opinion, the audit report does not include any commentary on going concern.

As our audit report will include a disclaimer of opinion, we have not planned or performed procedures to address the risk of fraud or non-compliance with laws and regulations and therefore will state this in our audit report. There are no matters that have come to our attention from our other work that we consider necessary to report upon in respect of fraud or non-compliance with laws and regulations. The expected wording of our audit report in relation to the disclaimer of opinion is provided at Appendix E.

ISA required reporting

ISA 260 requires the auditor to communicate with those charged with governance:

- Significant difficulties, if any, encountered during the audit; and
- Any other significant matters arising during the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process.

Our reporting in respect of the backstop fulfils this in respect of this significant matter.

We have made a number of control recommendations in previous years which reflect improvements needed in the financial reporting process, and which will need to be addressed as part of the recovery of timely financial reporting and audit for future periods.

Other matters to be reported in respect of the financial statements

We will report other identified material uncorrected misstatements in our audit report on the financial statements

The council is required to include a statement of responsibilities, including a confirmation that the statement of accounts has been prepared in accordance with the requirements of the Code. The statement of responsibilities in the versions of the statement of accounts presented to the audit committee in April 2024 (“the April 2024 version”) set out exceptions to this confirmation. We have set out below the impact of each exception on our audit report. The expected wording in our audit report in relation to these matters is set out at Appendix E. The notes to the accounts have been updated to provide further information on the exceptions.

Account balance or disclosure and details of exception reported by management	Impact on our audit report	Years of account impacted
<p>Completeness of related party disclosures</p> <p>There is uncertainty as to whether all relevant relationships had been identified as returns on councillors’ interests had not been obtained from all councillors who had not been returned following elections in May 2022. In the April 2024 version of the 2021/22 statement of responsibilities it was reported that, as a result, it is uncertain as to whether all material transactions and balances with related parties have been disclosed. This exception was repeated in the 2022/23 statement of responsibilities in respect of the comparative information in the financial statements for that year.</p>	<p>There were nine members who did not provide a return in respect of 2021/22. As these individuals were also council members until the May 2022 election, 2022/23 is also impacted by this issue.</p> <p>We also identified on enquiry that a return had also not been received from one member in respect of 2020/21.</p> <p>Whilst the availability of evidence around individual member interests represents a limitation of scope, as we are not in any case able to give an opinion on the financial statements because of the operation of the government’s backstop and will issue a disclaimer of opinion (and so as not to give undue prominence to this particular procedure that we are unable to perform), our audit report will not report this.</p>	<p>2020/21</p> <p>2021/22</p> <p>2022/23</p>

Other matters to be reported in respect of the financial statements

Account balance or disclosure and details of exception reported by management	Impact on our audit report	Years of account impacted
<p>Group accounts not presented</p> <p>It is reported in the April 2024 versions of the statement of responsibilities for all three years of account that group accounts have not been presented. We note that group accounts were included in the original version of the 2020/21 statement of accounts published for the exercise of public inspection rights but were removed from the updated version presented to the audit committee in April 2024. We understand that this is because adjustments were needed to reflect changes made to the council only primary statements and officers did not wish to delay publication and finalisation of the statement of accounts for this.</p>	<p>As the group’s net assets are materially different to the Council’s net assets, the effect of this omission on the Council’s financial statements is material and we therefore expect to report this in our audit report.</p> <p>Our report in 2019/20 was also qualified in this respect.</p>	<p>2020/21 2021/22 2022/23</p>
<p>Revenue from contracts with service recipients</p> <p>It is reported in the April 2024 versions of the statement of responsibilities for all three years of account that disclosures relating to the amount of revenue recognised from service recipients, its disaggregation into categories and information on related balance sheet amounts have been omitted from the financial statements.</p>	<p>As revenue recognised from contracts is material in each year, we therefore expect to report this in our audit report.</p> <p>We note that we did not qualify our opinion on the 2019/20 financial statements in respect of this matter as the required disclosures were made in that year.</p>	<p>2020/21 2021/22 2022/23</p>

Other matters to be reported in respect of the financial statements

Account balance or disclosure and details of exception reported by management	Impact on our audit report	Years of account impacted
<p>Officer remuneration – higher paid employees</p> <p>The statement of responsibilities in the April 2024 version of the 2020/21 statement of accounts report an exception in relation to prior year comparative information in the disclosure of officer remuneration. The wording of the exception was not clear on which table(s) in that note are affected but we understand it includes the disclosure of the number of council employees with remuneration over £50,000, falling in bands of £5,000, which is misstated as it does not include information in relation to staff employed at 28 schools as information is not held centrally and returns from schools and other information was not considered to be reliable.</p> <p>The statement of responsibilities in the April 2024 version of the 2022/23 statement of accounts also reports an exception in relation to the current year information in the note on officer remuneration which we understand to relate to the same disclosure on higher paid employees.</p>	<p>Our audit report on the 2019/20 financial statements was qualified in this respect.</p> <p>Whilst the statement of responsibilities in the version of the April 2024 version of the 2020/21 statement of accounts refers only to the comparative information, the council did not receive returns from three schools in 2020/21 and as a result did not include information in respect of staff at those schools in the disclosure.</p> <p>In 2021/22, there were also three schools which did not return information (and were therefore not included in the disclosure). We have concluded in respect of both 2020/21 and 2021/22, based on information in years for which returns were received, that the resulting misstatements are likely to be material. We will therefore refer to this in our audit report on the financial statements for those years.</p> <p>The audit committee may wish to consider the internal assurances in place in respect of the reliability of returns from schools used to prepare these disclosures in 2020/21, 2021/22 and 2022/23 in views of issues identified in prior years.</p>	<p>2020/21</p> <p>2021/22</p>

Other matters to be reported in respect of the financial statements

Area of the financial statements impacted	Impact on our audit report	Years of account impacted
<p>Officer remuneration – higher paid employees (continued)</p>	<p>There was one school in 2022/23 which did not provide a return. Based on a return received from this school in the preceding year, we have concluded that the effect on the disclosure of this omission will not be material.</p> <p>As a result, we do not expect to report this in our audit report on the 2022/23 financial statements.</p>	
<p>Officer remuneration – exit packages</p> <p>In the 2020/21 financial statements, the Council did not include information for 33 schools in the prior year comparative information in the note on the number, type and value of exit packages. This was because the information was not held centrally and returns from schools and other information obtained was assessed by the Council to be incomplete and unreliable. As a result, we were unable to determine in 2019/20 whether any adjustments to the comparative information for the number and cost of exit packages is required.</p>	<p>We have concluded that the effect of this omission on the comparability of the current year figures with the corresponding figures is material and therefore this will be reported in our audit report on the 2020/21 financial statements.</p> <p>Our audit report on the 2019/20 financial statements was also qualified in this respect.</p> <p>In 2020/21, 2021/22 and 2022/23, information to complete the disclosure for schools not on the corporate payroll system was obtained through returns. The council did not receive returns from: 2 schools in 2020/21; 2 schools in 2021/22 (including one school which closed in 2021/22 and where it is known that terminations payments were made); and one school in 2022/23. We did not identify a material misstatement from the information provided. The audit committee may wish to consider the internal assurances in place in respect of the reliability of returns from schools used to prepare these disclosures in views of issues identified in prior years.</p>	<p>2020/21 (comparative only)</p>

Other matters to be reported in respect of the financial statements

Area of the financial statements impacted	Impact on our audit report	Years of account impacted
<p>Pension liability and related entries</p> <p>There are issues over the quality of pension membership scheme data provided to the actuary for calculation of pension liabilities/assets.</p>	<p>Errors were identified during testing performed for the purpose of our audits of 2018/19 and 2019/20. The pension liabilities and related entries were corrected for some, but not all of these errors.</p> <p>The pension liabilities/assets and related entries in 2020/21 and 2021/22 have been calculated using the same pension membership scheme data as for 2019/20.</p> <p>The entries in the 2022/23 financial statements are calculated using a new dataset provided to the actuary for the purpose of the 31 March 2022 triennial valuation. The Council has since commenced an exercise to review and, where relevant, correct pension membership scheme data in the underlying system but as a result of the timing of the exercise, the effect of these corrections will not be reflected in the entries already made in the 2022/23 financial statements.</p> <p>As a result of the volume of member records involved, we are unable to determine whether any further adjustments to these pension liabilities/assets and related entries in 2020/21, 2021/22 and 2022/23 is required and will refer to this in our audit report.</p> <p>Our audit report on the 2019/20 financial statements was also qualified in this respect.</p>	<p>2020/21</p> <p>2021/22</p> <p>2022/23</p>

Findings from financial statement procedures

We have completed the procedures set out in our planning report

Overview of procedures performed following the conclusion the backstop provisions would apply

We have summarised below the procedures we reported to you in our planning report presented to the October 2024 audit committee meeting.

Financial statement procedures

Findings

We obtained an understanding of management’s process for the preparation of the financial statements, including any updates to the originally published accounts necessary for findings from previous audits.

In our planning report, we had noted certain minimum checks upon the draft financial statements that we would expect the Council to perform. We identified errors and omissions as separately reported which we would expect to be identified and corrected through procedures such as systematic checks on the cast and internal consistency of the document and completion of the CIPFA disclosure checklist.

Also, it was not possible to complete our procedure to agree the primary statements to accounting records (see below) without the assistance of the preparer as the audit trail between the general ledger and published balance sheet was not clear.

Working papers in relation to officer remuneration (including exit packages) and related party disclosures were not accompanied by a detailed method statement and required further enquiries to complete our assessment of the exceptions reported in the statement of responsibilities.

We remind the audit committee of previous recommendations in relation to the implementation of robust quality assurance processes and controls over the documentation and approval of journals, including “face of the accounts” journals made outside of the general ledger system.

We reviewed the draft financial statements, including performing overall analytical procedures.

From our review of the draft financial statements, we noted a number of queries. There was one query which was not fully resolved by management in relation to the valuation of council dwellings which has been detailed in Appendix C for consideration by the audit committee in approving the financial statements. We also identified misstatements which have been detailed in Appendix A.

Findings from financial statement procedures (continued)

Financial statement procedures	Findings
<p>We agreed 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.</p>	<p>We have agreed the primary statements in the previous version to supporting accounting records for 2021/22 and 2022/23.</p> <p>Work is not yet complete in relation to parts of the audit trail for 2020/21. We expect to complete this before the audit committee meeting on 4 December 2024 and will update the audit committee if there are any matters arising.</p>
<p>We have agreed the opening balances and comparative figures to the prior year financial statements.</p>	<p>We identified one error where comparators on two lines within a note in the 2020/21 financial statements had been transposed, resulting in a £4.1m classification error. We have reported this within Appendix A: Audit adjustments. We would expect this to have been identified through the type of internal checks recommended in our planning report.</p>
<p>We have performed a “call and cast” of the financial statements for internal consistency and arithmetic accuracy.</p>	<p>We identified a number of inconsistencies within financial statements for 2020/21, 2021/22 and 2022/23 and brought these to officers’ attention.</p> <p>Officers have generally not resolved these issues and internal inconsistencies are therefore present in the version expected to be signed.</p> <p>We identified two inconsistencies which are above the threshold set for reporting to the audit committee and have included information on these in Appendix A: Audit adjustments.</p> <p>The remaining differences are below the threshold we set for reporting to you (£0.5m) and, in most cases, are rounding differences. Whilst we have concluded that these discrepancies do not materially undermine the clarity of reporting, we bring this matter to your attention as the issues will be apparent to a user of the accounts from a detailed inspection of the document. We have repeated a recommendation made in our report to the May 2023 audit committee in the section on ‘Your control environment and findings’ to build automated consistency checks into the excel based financial statements.</p> <p>As above, we need to update our procedures for the latest versions of the financial statements provided immediately prior to the issue of this report.</p>

Findings from financial statement procedures (continued)

Financial statement procedures	Findings
We have reviewed the financial statements against the requirements of the CIPFA Code of Practice for Local Authority Accounting for the relevant year	We identified disclosure misstatements from our review of the financial statements against the CIPFA Code which management have not subsequently corrected and have included these in the schedule of uncorrected misstatements in Appendix A.
Where we have identified apparent errors, omissions, or inconsistencies that are not clearly trivial, we have discussed with management and requested correction of identified misstatements (including disclosure deficiencies).	We have included uncorrected misstatements and the principal corrected misstatements in schedules at Appendix A.
We have evaluated the misstatements and disclosure deficiencies identified and considered whether uncorrected items are individually or in aggregate material to the financial statements.	Uncorrected misstatements, other than those identified as exceptions in the council's statement of responsibilities, are immaterial to the financial statements for each financial year.

Findings from financial statement procedures (continued)

Other planned procedures

Fraud inquiries

We made inquiries of the Section 151 Officer and the Internal Audit and Counter Fraud team as to their knowledge of any fraud or allegations thereof affecting the council for the period. As a result of the backstop, we have been unable to perform other procedures required by auditing standards in respect of fraud.

Compliance with laws and regulation

We made inquiries of the Section 151 Officer; the Monitoring Officer; and Internal Audit, as to their knowledge of any instances of non-compliance with laws or regulation for the period.

We reviewed reports of regulators such as Ofsted and correspondence with HMRC for the period.

As a result of the backstop, we have been unable to perform other procedures required by auditing standards in respect of non-compliance with laws and regulations.

Overall audit procedures that also impact upon our Value for Money procedures

We reviewed minutes of the council and its principal committees for the period.

We reviewed the reports of Internal Audit for the period.

Findings

No instances of fraud or allegations thereof of significance were noted from our inquiries, other than matters already included in the counter-fraud reports to the Audit Committee.

In the course of our inquiries, interviewees referred us to issues which had arisen in relation to the management of contracts with, and payments to, home care providers (whilst noting that no instances of fraud had been identified from investigations so far carried out). This is discussed further on page 35.

No instances of non-compliance with laws and regulations were noted from our inquiries which had a material effect on the financial statements, except in relation to departures from the Accounts and Audit Regulations, including the requirement there to prepare in accordance with proper practices, which the council has set out in the statement of responsibilities for each year.

No instances of non-compliance with laws and regulations were noted from our review of regulator reports.

Other than for consideration in our Value for Money work, we did not note any issues to report from our procedures.

Findings from financial statement procedures (continued)

Other planned procedures

Annual Governance Statement

We have reviewed 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).

Findings

The council has confirmed that it will update the Annual Government Statement for relevant years in relation to the best value inspection and home care procurement issue on pages 34 and 35. We will review the wording once drafted and update the audit committee at the meeting if we have any concerns over this. We did not identify any other inconsistencies with other information known to us from the procedures we have performed. As noted in Appendix A, the wording has not been updated in some areas for developments since the original approval of the statements.

Subsequent events

We have inquired 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.

No additional events were reported to us by management which required adjustment to or disclosure in the financial statements.

Other matters for reporting to those charged with governance

Materiality

Although the extent of planned procedures in respect of 2021/22 and 2022/23 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), as well as in respect of 2020/21 where our originally planned procedures did include testing of balances.

We have set materiality, based on gross expenditure on services per the draft financial statements. We have set this out in the table below together with the threshold above which we report misstatements to the you, as follows:

Financial year	Materiality	% of gross expenditure on services	Reporting threshold
2020/21	£24.0m	1.9%	£0.5m
2021/22	£24.0m	1.8%	£0.5m
2022/23	£24.0m	2.0%	£0.5m

We also communicated lower thresholds in our planning report in relation to certain disclosures.

Significant risks

We have not completed all of the risk assessment procedures required by ISAs in 2020/21 to identify significant risks for the financial years subject to audit or performed procedures to respond to identified risks of material misstatement.

The significant risks which we had identified in respect of the 2020/21 audit from the partially completed risk assessment procedures, 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
- Capitalisation of expenditure
- Recognition and presentation of income from grants and other contributions
- Valuation of property assets
- Disclosure of information on higher paid employees and exit packages.

In addition, subsequent to starting our work on the 2020/21 audit, we concluded in respect of our audits for the year's 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 council's statement of responsibilities in the 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 did not complete any risk assessment procedures for 2021/22 or 2022/23 because of the backstop.

Value for money

Our Value for Money commentary will be included in our Auditor's Annual Report

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 2024 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 against two reporting criteria (financial sustainability and governance, with improving economy, efficiency and effectiveness not a required criterion for audits up to 31 March 2023);
 - 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.
-

Status of our work

Our Value for Money commentary is included in the accompanying draft Auditor's Annual Report which we will issue in its final form shortly after the meeting to consider this report.

Our work in respect of the criterion of the improving economy, efficiency and effectiveness included in the previous version of the Code of Audit Practice was at an advanced stage in respect of 2020/21, but not complete, when the National Audit Office announced its intention to withdraw this reporting criteria. We have considered whether there are any significant weaknesses to report as other matters from work done to that point but have not completed the remaining procedures due to the change in requirements.

Value for money

Our Value for Money commentary will be included in our Auditor's Annual Report

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have for each year:

- Considered the potential impact of matters identified in the 2019/20 audit;
- Reviewed financial planning and monitoring documentation including budget setting reports, in year monitoring reports, and the Medium-Term Financial Strategy and Medium-Term Financial Plan;
- Reviewed the Council's draft Narrative Report, Annual Governance Statement, and relevant Council papers and minutes.
- Reviewed internal audit reports through the year and the Head of Internal Audit Opinion;
- Considered issues identified through our other audit and assurance work;
- Considered the Council's financial performance and management through the period; and
- Reviewed reports issued by Best Value Inspectors, the Local Government Association corporate peer challenge review team and inspection reports issued by regulators, including Ofsted.

Findings of our work

We 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. Based on our work, we have concluded there are significant weaknesses in arrangements in respect of both these areas which is detailed from page 20 together with our recommendations.

Our financial statement audit opinion will refer to the significant weaknesses in arrangements including noting that we reported these weaknesses in the preceding year's report, including noting in our 2020/21 audit report that we qualified our VfM conclusion in respect of these weaknesses in 2019/20 under the previous Value for Money reporting arrangements.

A report of best value inspectors was published in November 2024. Ministers concluded, on the basis of the report, that the Council was failing to comply with its best value duties. We concluded that this provided evidence of a significant weakness in the council's arrangements for compliance with its best value duties, including in relation to ensuring that properly informed decisions are made. Our audit report in the statement of accounts for 2022/23 will also refer to this further significant weakness.

Value for money (continued)

Risk title	1. Processes and systems for reliable and timely financial reporting
Relevant VFM criteria per AGN03	Governance: how the body ensures that it makes informed decisions and properly manages its risks, including <ul style="list-style-type: none">• how the body ensures effective processes and systems are in place ...[which] supports its statutory financial reporting requirements.
Risk description	<p>We qualified our VFM conclusion in respect of 2018/19 and 2019/20 in relation to the adequacy of the council's processes and systems to support its statutory financial reporting requirements.</p> <p>This was because of:</p> <ul style="list-style-type: none">• the material adjustments which were required to initial versions of those accounts• the volume of significant control deficiencies identified by our audit• the time taken to respond to audit queries and to investigate and correct misstatements• misstatements and omissions which were not corrected or uncertainties which were not resolved, leading to qualification of our opinions on multiple grounds. <p>These circumstances resulted from weaknesses in the capacity and capability of the resource allocated to the financial reporting process and weaknesses in financial reporting controls, including over the preparation of estimates, the use of journals and the maintenance of control account reconciliations.</p> <p>The closure process for the 2019/20 accounts occurred during 2020/21 and work to investigate and correct the 2018/19 and 2019/20 accounts and to support the audit process was ongoing throughout 2020/21, 2021/22 and 2022/23. Preparation of the 2020/21, 2021/22 and 2022/23 was significantly delayed and publication of the unaudited versions for inspection purposes did not happen until well after the date set out in legislation for this.</p> <p>These circumstances indicate there is a risk that the significant weaknesses leading to qualification of our VFM conclusions in respect of 2018/19 and 2019/20 continued into 2020/21, 2021/22 and 2022/23.</p>

Value for money (continued)

Risk title

1. Processes and systems for reliable and timely financial reporting

Work performed

We have:

- Reviewed the Annual Governance Statement as it relates to processes and systems to support timely and accurate financial reporting.

The council reported significant governance issues in their 2020/21, 2021/22 and 2022/23 Annual Governance Statements relating to issues identified during the audits of the 2018/19 and 2019/20 audit, resulting in lengthy delays in concluding these audits which were ongoing into 2023/24.

It was reported that, as a result, the accounts for 2020/21, 2021/22 and 2022/23 had been delayed and the deadline for their publication had not been met.

- Considered the council's assessment, as reported to the audit committee in November 2023, of progress on implementing recommendations made by us in respect of audits of the accounts for 2018/19 and 2019/20.

Officers reported to the audit committee in November 2023 on progress in implementing audit recommendations made in our reports on the audit of the 2019/20 accounts, in particular interim reports on our findings issued in January 2021 and January 2022. Officers were able to point to various improvements which had been made subsequent to the issue of these recommendations but acknowledged, taking into account learnings from the incomplete audit of the 2020/21 accounts which ran during 2023/24, that there was further work needed to embed and refine new processes, including arrangements in relation to accounts closure resourcing and quality assurance processes, and controls over transactions and balances such as valuation of Property, Plant and Equipment and significant accounting judgements.

We reported in November 2023 on weaknesses in arrangements over pension scheme membership data used in the calculation of the pension liabilities. As a result of the timing for this recommendation, it was not considered in the officers' paper, and work was at a very early stage in addressing the weakness.

- Considered the coverage and outcome of internal audit's programme of work in 2020/21 to 2023/24 in relation to the operating effectiveness of the council's core financial systems which directly support its financial reporting.
-

Value for money (continued)

Risk title

1. Processes and systems for reliable and timely financial reporting (continued)

Work performed (continued)

Internal audit performed a full system audit of only one of the council's core financial systems (creditor payments) as part of their 2021/22 and 2022/23 internal audit programmes, together with a narrow aspect of business rates income and treasury systems.

The 2023/24 internal audit programme included better coverage, but two out of the four full system audits of the council's core financial systems resulted in a limited assurance report.

Coverage in 2020/21 was better than 2021/22 and 2022/23 and with better outcomes than 2023/24.

- Considered findings and observations made in the course of:
 - Our audit of 2018/19 which was carried out across the three year period now under audit
 - Our audit of the 2019/20 accounts. The closure of these accounts occurred in 2020/21 and the subsequent audit continued across 2021/22 and 2022/23
 - Our audit of the 2020/21 audit which was only partially completed as a result of the operation of the backstop. The closure of these accounts occurred in 2021/22, with tasks relating to the preparation for audit continuing into 2023/24.
 - Our audits of the 2021/22 and 2022/23 accounts on which we have performed only limited procedures as a result of the operation of the backstop. The closure of these accounts continued into 2023/24.

We reported to the audit committee on significant control deficiencies in January 2022, January 2023 and November 2023, including in relation to the close process which operated during 2020/21 and subsequent audit process which continued through 2021/22 and 2022/23. This included weaknesses in: the capacity and skills of the team; quality assurance processes; the performance of control account reconciliations; controls over journal entries, including the preparation and posting of journals to make changes between different versions of the accounts; controls over the valuation of Property, Plant and Equipment and other accounting estimates. The significant control deficiencies resulted in material adjustments being required to the accounts, some of which were not identified and corrected until 2023/24 and the prolonged audit process.

Value for money (continued)

Risk title**1. Processes and systems for reliable and timely financial reporting (continued)**

Work performed (continued)

We identified in our audit of the 2020/21 accounts that there were continuing significant control deficiencies in relation to controls over journals, accounting estimates and other judgements, such as in relation to the valuation of Property, Plant and Equipment. A material adjustment was required between the version of the 2020/21 accounts published for inspection purposes in January 2022 and the version submitted to us for audit as a result of inadequate consideration of an accounting estimate in relation to business rates income in the original version of the accounts. The council was not able to make the statement of accounts available for inspection in the period specified by the Accounts and Audit Regulations 2015 and was only ready to commence the inspection period from 28 January 2022. As a result, the council was not able to comply with the requirement to publish its statement of accounts by 30 September 2021.

Our audit opinions on 2018/19 and 2019/20 accounts were qualified as a result of the omission of group accounts information, certain other disclosures and the quality of information used to calculate the pension liability. We expect our opinions on the 2020/21, 2021/22 and 2022/23 accounts will report misstatements in respect of some of these matters. These issues relate to weaknesses in arrangements to identify all required disclosure information and to establish adequate systems to capture the information and to resource the compilation of the required disclosure information; and weaknesses in arrangements to check the quality of information provided to the actuary for calculation of the pension liability. The council was also not able to publish these accounts by the date set out in legislation.

Value for money (continued)

Risk title	1. Processes and systems for reliable and timely financial reporting (continued)		
<p>Conclusion</p>	<p>We have concluded that there is a significant weakness in the Council’s arrangements in processes and systems for reliable and timely financial reporting due to significant control deficiencies identified during the audits of 2018/19 and 2019/20 financial statements in respect of which corrective action was not complete. As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.</p>		
	<p>Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes - as set out above we have concluded that there is a significant weakness in the council’s governance arrangements in 2020/21, 2021/22 and 2022/23.</p>	<p>Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes – recommendations have been set out below.</p>	<p>Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes – we expect the significant weakness identified and our recommendation will be referred to in our audit reports for 2020/21, 2021/22 and 2022/23.</p>
<p>Recommendation</p>	<p>We recommend the council implement our remaining recommendations on financial reporting and ensure timely implementation of other recommendations which support reliable and timely financial reporting in line with agreed action plans and timetables. This should include:</p> <ul style="list-style-type: none"> • Officers review all reports of audit findings issued by us during the period of our appointment, identify recommendations which remain pertinent and where action is not complete and identify the specific action(s) required to address the remaining gap, with agreed timescale for action; • The audit committee receives a tracker to each meeting showing progress on completing these actions; and • The audit committee request as part of the tracker whether actions have been applied retrospectively to all open years of account and an explanation of how assurance has been obtained over the accounts for the impacted years of account in the event that retrospective action is not proposed and/or possible. 		

Value for money (continued)

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control
Relevant VFM criteria per AGN03	<p><i>Governance: how the body ensures it makes informed decisions and properly manages its risk</i></p> <ul style="list-style-type: none">• <i>how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</i>• <i>how the body ensures effective processes and systems are in place to ensure ... corrective action is taken where needed</i>
Risk description	<p>In our 2019/20 audit report, we reported that: “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”.</p> <p>There is a significant risk that significant weaknesses in arrangements for identifying and managing risks and maintaining a sound system of internal control continued into later years.</p>

Value for money (continued)

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)
Work performed	<ul style="list-style-type: none"><li data-bbox="311 308 1837 1273">• We reviewed the Annual Governance Statements for 2020/21, 2021/22 and 2022/23, including the outcome of the council's annual review of the effectiveness of the system of internal control and other governance arrangements, as well as other documentation relating to risk management and internal control, including the head of internal audit's opinion on the system of internal control. We also considered subsequent information reported in the draft Annual Governance Statement and head of internal audit annual opinion for 2023/24. The Annual Governance Statement for 2020/21 and 2021/22 reports the head of internal audit's overall opinion on the internal control environment which was that he could give only limited assurance that the council had adequate systems of governance, risk management and internal control, meaning that significant gaps, weaknesses or non-compliance were identified and improvement was required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives. This opinion was given primarily in respect of the findings of the internal audit reviews carried out for the years in question, but also control deficiencies reported by us. In the Annual Governance Statement for 2022/23, the head of internal audit provided reasonable assurance that the council has adequate systems of governance, risk management and internal control, primarily as a result of an improvement in the proportion of individual internal audit reviews in the 2022/23 internal audit programme receiving limited or no assurance opinions to 35%, down from 58% in 2021/22. The proportion of internal audit reviews receiving limited or no assurance opinions in the 2023/24 internal audit programme fell back to 56%. It is likely that a number of weaknesses identified through 2023/24 were also present during the preceding year or years. Internal audit's work is undertaken on a cyclical basis and the proportion of internal audit reviews with unsatisfactory findings will, as a result, vary from year to year depending on the composition of the internal audit programme for each year. Based on our procedures, which included analysing internal audit's reporting to assess whether reported deficiencies arose from in-year circumstances or were likely to have also been present in earlier years, we concluded that the extent of weaknesses in the overall internal control framework (and reflected in the head of internal audit's opinions in 2020/21 and 2021/22) are likely to have been at a similar level over the three-year period covered by our report.

Value for money (continued)

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)
------------	--

Work performed (continued)	<ul style="list-style-type: none">• Considered progress on action taken in response to findings in an internal audit report on the council's risk management processes issued as part of their 2019/20 internal audit programme. <p>The original report found that whilst arrangements for managing the council's risks were appropriately designed, the council was not consistently complying with its policies and procedures in this regard, in particular:</p> <ul style="list-style-type: none">○ There was a lack of evidence that regular review of risks within directorate and divisional meetings takes place;○ From a review of a sample of risk registers, internal audit found that entries were not being appropriately populated and maintained;○ It could not be determined who had attended training events;○ The Risk Champions Group was not attended regularly by risk champions, and discussions are not always documented sufficiently;○ There was insufficient management review and challenge of the Corporate Risk Register by the Corporate Leadership Team; and○ A review of a sample of minutes from the Audit Committee meetings found that there was no documented evidence to demonstrate that actions relating to the risk register were being followed up. <p>As a result of a recruitment freeze (in particular appointment of a dedicated Risk Officer), as well as corporate processes deteriorating during the pandemic as a result of a focus on temporary arrangements introduced to enable the council to respond agilely to pandemic related risks, progress on the annual plan for risk management to address issues raised by the internal audit report and completion of some actions was delayed beyond 31 March 2023.</p> <p>The council's annual report on risk management for 2022/23 reported that: "The current position at the Council is that Risk Management practices are established but not fully embedded and mature. Moreover, there are inconsistent levels of engagement in the underlying processes (reviewing risk articulation, updating controls, removing redundant risks), and consequently there is limited confidence that the underlying risk data held on JCAD [the council's risk management software] is accurate and useful as a tool for managing risk".</p>
-----------------------------------	--

Value for money (continued)

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)
Work performed (continued)	<ul style="list-style-type: none"><li data-bbox="311 308 1848 532">• Considered reports prepared by independent investigating accountants regarding procurement of certain homecare services The findings include that, across a number of years, the actual amount of services commissioned from a particular social care provider exceeded the annual value of the contract with that provider by a large multiple. As the services had not been re-procured at their actual commissioned level, the council may not have obtained best value.<li data-bbox="311 554 1848 1252">• We considered the council’s arrangements for taking corrective action in response to weaknesses identified in governance and risk management. The audit committee received a report in November 2023 on corrective action taken in response to recommendations made by us in respect of the 2019/20 audit but had not previously received reporting. Officers reported that further actions were needed but lacked clarity on the further action to be taken and proposed timescales. The head of internal audit highlighted an ongoing concern in respect of follow-up audits completed in 2023/24 that agreed management actions were not being implemented on a timely basis with only 38% of high priority recommendations and 23% of medium priority recommendations fully implemented. The equivalent performance in 2020/21 was 69% of high priority and 53% of medium priority recommendations; in 2021/22 was 38% of high priority and 39% of medium priority recommendations; and in 2022/23 was 36% of high priority and 50% of medium priority recommendations. Internal audit follow-up and report on some, but not all of their recommendations each year. Internal audit carried out an audit as part of their 2023/24 internal audit programme on arrangements for implementation of the improvement plan in response to the unsatisfactory outcome of an Ofsted inspection of the effectiveness of the area in implementing the special education needs reforms set out in the children and families act 2014. The internal audit review found that effective and timely corrective action was not being taken as a result of weaknesses in governance arrangements.

Value for money (continued)

Risk title

2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)

Work performed (continued)

We previously reported to the audit committee in May 2023 that the predecessor auditor had issued a formal recommendation under Schedule 7 of the Local Audit and Accountability Act 2014 in relation to contract monitoring but had not complied with the statutory process for consideration of the recommendation, either on receipt of the recommendation in August 2019 or subsequently. We recommended that the council consider what mechanism is needed, in the event that recommendations or reports are issued under Schedule 7 in the future, to ensure that the council follows the process laid down in legislation.

We also highlighted in May 2023 that it had come to light during 2020/21 that reports which the council had previously commissioned from independent consultants and which identified weaknesses in financial management practices had not been provided to the corporate leadership team or audit committee and as a result the council had lost sight of the recommendations made, indicating a weakness in arrangements for handling recommendations made by external parties. We recommended that a register be maintained of recommendations relating to the internal control environment made by external parties and action planned and taken. We said that as a minimum, there should be reporting on this to the audit committee as part of the annual review of internal control effectiveness.

Conclusion:

We have concluded that there is a significant weakness in the Council's arrangements in arrangements for identifying and managing risks, including maintaining an adequate system of internal control due to findings identified in internal audit reports, including weaknesses reported in risk management arrangements, and weaknesses in arrangements to take timely and effective corrective action in relation to recommendations made by internal and external audit and other external agencies.

As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.

Value for money (continued)

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)		
	<p>Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23? Yes - as set out above we have concluded that there is a significant weakness in the council's governance arrangements in 2020/21, 2021/22 and 2022/23.</p>	<p>Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23? Yes – recommendations have been set out below.</p>	<p>Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23? Yes – we expect the significant weakness identified and our recommendation will be referred to in our audit reports for 2020/21, 2021/22 and 2022/23.</p>
Recommendation	<p>We recommend:</p> <ul style="list-style-type: none"> • The council implements the remaining recommendations from internal audit's report on risk management and our past recommendations on financial reporting and ensure timely implementation of other recommendations from internal and external reviews in line with agreed action plans and timetables. • The audit committee request more frequent reporting on progress on implementing internal and external audit recommendations and consider how it gains assurance that timely action has been taken on recommendations made by other external agencies relevant to its areas of responsibility. • The audit committee report annually to full council on what impact the committee has on the improvement of governance, risk and control arrangements within the council. 		

Value for money (continued)

Risk title	3. Arrangements for complying with the Council's best value duty and ensuring that properly informed decisions are made
Relevant VFM criteria per AGN03	<p><i>The inspectors' report includes findings which: brings to our attention matters relevant to the council's arrangements to secure value for money which do not fall within the scope of reporting criteria applicable to the years under audit; are reported as separate significant weaknesses on pages 20 to 30; findings relevant to the following specified reporting criterion:</i></p> <ul style="list-style-type: none"><i>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.</i>
Risk description	<p>Ministers appointed inspectors to undertake a new inspection of Tower Hamlets Council's compliance with its Best Value Duty on 12 February 2024. The inspectors produced their report on 31 July 2024, which was published on 12 November 2024.</p> <p>The Secretary of State was satisfied on the basis of the report and other relevant material that the council is failing to comply with the requirements of Part 1 of the 1999 Act, namely failing to comply with the Best Value Duty under section 3.</p> <p>The inspectors' report identifies serious concerns which indicate a risk of significant weakness in the council's arrangements for complying with its best value duty, as well as in relation to ensuring the Council makes properly informed decisions.</p>
Work performed	<ul style="list-style-type: none">We considered the findings reported by the inspectors in relation to our reporting responsibilities for the years under audit. <p>We identified findings which raise significant concerns relevant to the Council's arrangements for ensuring properly informed decisions as well as more broadly in relation to arrangements to ensure compliance with the Council's duty under Part 1 of the 1999 Act relevant to the 2022/23 year of account.</p> <p>We noted that Ministers considered that the findings amounted to failings by the Council of its best value duty under the 1999 Act.</p>

Value for money (continued)

Risk title

3. Arrangements for complying with the Council's best value duty and ensuring that properly informed decisions are made (continued)

Conclusion:

We have concluded that there is a significant weaknesses in arrangements to ensure compliance with the Authority's best value duty under Part 1 of the Local Government Act 1999 and to ensure properly informed decisions, due to significant concerns raised by best value inspectors in their report on 31 July 2023 and published on 12 November 2024. The report included findings in relation to:

- Culture, including in relation to member behaviours, a lack of trust in member/officer relationships and the impact of issues of culture on decision-making.
- Leadership, including the high level of turnover in senior officers, concerns over decision-making in senior officer appointments, regular reliance on consultants and interims, the mayoral office model and member/officer relationships.
- Governance, including weaknesses in decision-making and associated scrutiny arrangements
- Partnership working, including the inspectors' conclusion that the Council's partnerships at the strategic level are weak, and key partners feel that their relationships with the Council had deteriorated over the past two years.
- Continuous improvement, including the lack of a comprehensive performance management framework that is utilised to produce and analyse data to evaluate performance and inform priorities for improvement.

In relation to the Council's arrangements for ensuring properly informed decisions are made, the inspectors identified significant weaknesses in:

- Culture and leadership and its impact on decision-making.
- Arrangements for effective challenge of decisions.
- Arrangements for ensuring transparency in decision-making.
- The design and operation of governance structures and delegation arrangements
- The decision-making process for individual decisions.

As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made a recommendation below.

Value for money (continued)

Risk title	3. Arrangements for complying with the Council’s best value duty and ensuring that properly informed decisions are made (continued)		
	<p>Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23? Yes - as set out above we have concluded that there is a significant weakness in the council’s governance arrangements in 2022/23.</p>	<p>Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23? Yes – recommendations have been set out below.</p>	<p>Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23? Yes - the significant weakness identified and our recommendation is referred to in our audit report for 2022/23.</p>
Recommendation	<p>We recommend the council:</p> <ul style="list-style-type: none"> • Prepares and monitors an action plan to address the various findings of the best value inspectors. 		

Value for money (continued)

Other comments

Funding environment and financial sustainability

The funding environment for local authorities, together with the significant impact on the Council's operations and performance of the pandemic, and subsequent macro-economic trends and the cost of living crisis, have put increasing pressures on many authorities going beyond the 2022/23 period considered by this report.

During the financial year 2023/24, there was an over-spend of £6.0m compared to budget and before reserve transfers. The total of unallocated and reserves which the Council categorises as "without restrictions" were £92.2m at 31 March 2024, based on unaudited figures, a reduction of £21.2m on 31 March 2023. The 2024/25 budget assumes a net contribution to reserves of £5.4m and is dependent upon £33m of savings. The council projected an overspend of £13.3m at quarter 1 but also points to its track record over the previous three years in managing downwards overspends projected at that point in the year.

Although we have not identified a significant weakness in arrangements for the period under audit, we highlight the importance of continued focus on ensuring the Council has suitable plans in place to meet the demands of the services it provides.

Best value inspection

Ministers appointed inspectors to undertake a new inspection of Tower Hamlets Council's compliance with its Best Value Duty on 12 February 2024. The inspectors produced their report on 31 July 2024, which was published on 12 November 2024.

The Secretary of State was satisfied, on the basis of the report and other relevant material, that the council is failing to comply with the requirements of Part 1 of the 1999 Act, namely failing to comply with the Best Value Duty under section 3.

The inspectors' report identifies serious concerns and, as set out in more detail on pages 31 and 33, we concluded the report provides evidence of a significant weakness in the council's arrangements for complying with its best value duty and in ensuring that properly informed decisions are made.

Value for money (continued)

Other comments

Procurement of adult social care services

The audit committee has received reports during 2024 in relation to the procurement of, payment for, and contract management relating to, home care services.

The issues are centred on the findings of independent investigating accountants. The findings include that, across a number of years, the actual amount of services commissioned from a particular social care provider exceeded the annual value of the contract with that provider by a large multiple. As the services had not been re-procured at their actual commissioned level, the council may not have obtained best value.

The report also identified concerns in relation to the making and maintenance of sealed contracts.

As reported in pages 25-30, we qualified our conclusion in 2018/19 and 2019/20, and are reporting a significant weakness in 2020/21, 2021/22 and 2022/23, in relation to identifying and managing risks, including maintaining an adequate system of internal control and taking timely and effective corrective action. This takes into account internal audit findings which include limited assurance opinions in relation to procurement (including findings in relation to the design and compliance with internal procurement rules), contract monitoring and maintenance of sealed contracts and, now, the evidence from this investigation.

As we consider, in relation to the council's use of resources, this issue is addressed by our existing reporting on value for money, we did not identify a separate risk of significant weakness in respect of this matter.

The draft annual governance statements for the years under audit do not include reference to the concerns raised by this case in relation to procurement governance and contract monitoring and we recommend the council consider whether the statements need to be updated to do so.

In addition to apparent weaknesses in procurement governance, the report highlighted past issues in relation to the electronic home care monitoring system (in place through to March 2020) which had previously been reported in the 2018/19 and 2019/20 annual governance statements. The system issues had resulted in delays in paying suppliers, but also a temporary workaround introduced to ensure continuity of the service had led to the possibility that overpayments had been made to individual care providers with the need for a subsequent reconciliation and payment or recoupment process. The council previously reported the exercise to investigate and correct the position with care providers was complete. More recently, the council has attempted to re-visit and confirm this was the case, but was not able to, we understand because relevant staff have left and a complete set of records relating to the exercise could not be located. We also understand that the council has not been able to progress a proposed forensic audit of the activity on the council's account with a particular care provider. The audit committee may wish to consider these circumstances in approving the statement of accounts for all years under audit.

Your control environment and findings

Summary

Our previous reports to the Audit Committee on the 2018/19 and 2019/20 audits in July 2019, April 2021, January 2022, January 2023, May 2023 and November 2023 included details of a number of significant and other deficiencies in internal control and our recommendations to address them.

Although we have not performed our usual procedures upon internal controls and have not performed procedures to evaluate the extent to which management have implemented responses to the recommendations, from the procedures performed and officers' reporting to the audit committee in November 2023, we understand that a number of the control recommendations have not yet been implemented. As a reminder of these, we have summarised the high priority recommendations at Appendix D. We highlight the importance of the control environment over the preparation and review of the financial statements for the recovery of timely financial reporting for the Council in future years.

From the procedures performed (principally arising from the partially complete audit work on the 2020/21 financial statements), we have identified the following additional control observations:

Observation	Severity	Recommendation
<p>From our circularisation of banks, we identified 10 bank accounts which did not have a corresponding control account in the general ledger and as a result no reconciliations of the control account to bank statements had been performed. In 5 cases, the account had a nil balance and appeared to be dormant. In the remaining cases there was an aggregate amount of £59k according to the confirmation received. We also identified a control account for a corporate bank account which had closed in 2019. The control account had transactions in 2020/21 and a minor closing balance.</p> <p>Our sample testing identified cash received in 2020/21 of £55k which had not been posted to the relevant control account during 2020/21. This had not been identified and corrected through the bank reconciliation process.</p>	Low	<p>If there is no ongoing business purpose for the accounts, we recommend they are closed.</p> <p>We recommend that control accounts are set up in the general ledger for all these accounts and reconciliations performed on a monthly basis and at year end sufficiently early for all reconciling items which are not timing differences to be cleared.</p> <p>We recommend that general ledger codes which are no longer needed are removed from the chart of accounts.</p>

Your control environment and findings

Summary

Observation	Severity	Recommendation
The council holds various managed funds within cash equivalents, short term investments and long term investments. The classification of these instruments is not straight forward. At our request, the council prepared accounting papers for some but not all of the instruments held.	Medium	We recommend the council prepare and maintain accounting papers on the classification with supporting prospectus, council investment strategy and other documentation for all such instruments.
Our sample testing identified a receipt of £998k in March 2019 was initially allocated to a suspense account in 2019/20 and reallocated to a customer account in April 2020. At 31 March 2021, the receipt had still not been matched against to individual invoices. The failure to match off payments against related invoices on a timely basis complicates and weakens the effectiveness of recovery action.	Medium	We recommend the accounts receivable ledger is periodically reviewed for unmatched credits and correcting actions agreed and monitored.
Our sample testing on the accounts receivable ledger identified two invoices of £34k and £30k which had been re-invoiced at lower amounts. Both the original and replacement invoices had been recorded within accounts receivable during 2020/21 but the credit notes to reverse the original invoices were not recorded until 2021/22, resulting in the overstatement of short-term debtors. Our sample also included an amount invoiced in error in 2020/21 which was not cancelled until 2021/22.	Medium	Whilst on these occasions the amounts of the errors (as well as the projected error in the remainder of the population) was clearly trivial, we recommend controls are implemented which ensure that where an invoice is to be cancelled and re-invoiced, credit notes are raised prior to an amount being re-invoiced. We also recommend that credit notes issued in the period to approval of the financial statements are monitored and an assessment made as to whether an adjustment should be made to the accounts for credit notes relating to income recognised in the preceding year of account.

Your control environment and findings

Summary

Observation	Severity	Recommendation
Our test of a sample of properties to land registry records identified 3 cases where the registered title holder was a predecessor body.	Low	While we were able to see evidence which confirmed the council's interest in these properties, we recommend that the land registry records are updated to reflect the transfer of these properties to the council.
Our test of a sample of assets reclassified from assets under construction to operational categories found one property where practical completion was reached in November 2019 but which had not been reclassified in 2019/20 as the capital team had not been notified that the project was complete (this error was identified in 2019/20 and is reported in our schedule of uncorrected misstatements in Appendix A).	Low	We recommend that line by line checks are performed at year end on items included in assets under construction to determine if works are complete and assets should be transferred and brought into depreciation.
Our test of a sample of inputs to property valuation identified instances where information provided to the valuer was not current or the origin and nature of the record was not clear.	Medium	We recommend that the council carries out checks on the schedule of information to be provided to the valuer each year to confirm it is in agreement with the underlying records and to confirm that those records are current and that the origin and nature of the records is understood and is reliable.
We identified inconsistencies within the financial statements.	Medium	We recommend the council builds automated consistency checks into the excel version of its financial statements to enable officers to detect and resolve issues during the accounts preparation process.

Your control environment and findings

Summary

Observation	Severity	Recommendation
<p>During 2020/21 to 2022/23, quarterly budget monitoring reports were produced for Cabinet which primarily reported on forecast outturn net expenditure compared to full year budget. Separate information on income and expenditure was not presented. The reports also included some additional balance sheet related information, such as on the capital programme and aspects of the treasury function but was not comprehensive – for example it did not include information on debtors. The reports did not include cash flow information. There was a commentary on variances and emerging pressures which was lengthy and at times disproportionate to the significance of the budget amount in question. The commentary included comments on financial risks, but it was difficult to get a sense of the overall level of risk in the position because of the directorate and service focus to the report. Some items were dealt with “below the line”, requiring additional reconciliations to be provided to understand movements in reserve balances. The report presented information on projected outturn, both before and after reserve movements. This can complicate the explanation of budget performance and obscure recurrent spending which has been met by contributions from reserves. Cabinet received budget update reports on a quarterly basis. The cycle of reporting in the period under audit meant that Cabinet did not receive and consider, as a group, any information on performance against the current year budget until September or information in relation to the financial performance in the second half of the year until after the budget has been set for the year ahead.</p>	Medium	<p>Several features of the format and style of reporting during 2020/21 to 2022/23 are common in local government and the granular detail provided promotes directorate and budget holder accountability for their budget allocations. However, we challenge whether the format and timing of reports in this period best served the needs of the different levels of user.</p> <p>We note that the council has since made changes to the format and content of these reports which are now shorter and more focused, but we have not evaluated these changes in detail as they fall outside the period under audit.</p> <p>We recommend the council considers, in the light of our comments on the format and content of reports in the periods under audit, whether there are any further changes which should be made.</p>

Purpose of our report and responsibility statement

Our report sets out the work we have performed and the impact of the backstop provisions upon our audit.

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.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

Deloitte LLP

London | 25 November 2024

Appendices



Appendix A: Audit adjustments

Unadjusted misstatements - 2020/21

The following uncorrected misstatements have been identified in respect of the 2020/21 financial statements, which we request that you ask management to correct as required by ISAs (UK). The effect of correcting uncorrected misstatements would be to increase net assets by £1.0m, reduce prior year reserves by £6.3m, increase the surplus on provision of services by £9.0m and reduce other comprehensive income by £3.7m.

		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 £m
Misstatements identified in current year						
VAT not recovered	[C1]	1.0	-	(1.0)	-	1.0
Cut-off on "REFCUS"	[C2]	(0.6)	-	-	0.6	(0.6)
Transfer of credit balances (£0.5m)	[C3]	-	-	-	-	-
Total misstatements identified in current year		0.4	-	(1.0)	0.6	0.4
Misstatements identified in prior years*						
Provision for appeals against rateable values	[P1]	(2.5)	-	-	2.5	-
Demolition costs	[P2]	(0.8)	-	-	0.8	(0.8)
Assets not in operational existence	[P3]	(1.1)	-	-	1.1	(1.1)
Late cut-off on capital expenditure (£1.1m)	[P4]	-	-	-	-	-
Income from building council homes fund	[P5]	(1.5)	-	-	1.5	-
Section 31 income recognition	[P6]	2.4	-	-	(2.4)	-

*As our procedures in 2020/21 are incomplete, we do not have information on whether the misstatements identified in prior year were corrected during 2020/21. For some items, it is possible that a further correcting journal might be required if the misstatement is also present in the closing balance sheet for 2020/21.

Appendix A: Audit adjustments

Unadjusted misstatements - 2020/21

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensi ve income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure £m
Misstatements identified in prior years (continued)						
Invalid NNDR debtor raised in year	[P7]	(0.5)	-	-	0.5	-
Error in unit building cost input	[P8]		1.4		(1.4)	-
Impact of Goodwin case	[P9]	(4.0)	-	-	4.0	(4.0)
Overstatement of H&SE penalty provision	[P10]	1.6	-	-	(1.6)	1.6
Tenant arrears and credit loss calculation	[P11]	0.8	-	-	(0.8)	(0.7)
Other differences between estimates and actuals	[P12]	(2.6)	-	-	2.6	(1.9)
Under accrual of CIL income	[P13]	1.0	-	-	(1.0)	-
Incorrect classification of operational assets as AUC	[P14]	(0.7)	-	-	0.7	(0.7)
Understatement of HMO licence income deferral	[P15]	(1.5)	-	-	1.5	-
Omission of surplus land assets	[P16]	-	2.3	-	(2.3)	-
Total misstatements identified in prior years		(9.4)	3.7	-	5.7	(7.6)
Total		(9.0)	3.7	(1.0)	6.3	(7.2)

Appendix A: Audit adjustments

Unadjusted misstatements - 2021/22

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). The effect of correcting uncorrected misstatements would be to reduce net assets by £0.8m, reduce prior year reserves by £1.0m and increase the surplus on provision of services by £0.2m.

		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 £m
Misstatements identified in prior years						
VAT not recovered	[C1]	(0.2)	-	(0.8)	1.0	(0.2)
Total		(0.2)	-	(0.8)	1.0	(0.2)

As our procedures in 2020/21 are incomplete and we have not performed procedures in respect of 2021/22 or 2022/23, we do not have information on whether the misstatements identified in 2019/20 were corrected during 2020/21 or a subsequent year or remain uncorrected. For some items, it is possible that a further correcting journal might be required if the misstatement is also present in the closing balance sheet at the end of the preceding reporting period.

Appendix A: Audit adjustments

Unadjusted misstatements - 2022/23

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). The effect of correcting uncorrected misstatements would be to reduce net assets and prior year reserves by £0.8m.

		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 £m
Misstatements identified in prior years						
VAT not recovered	[C1]	-	-	(0.8)	0.8	-
Offset of income and expenditure (£3.6m)	[C3]	-	-	-	-	3.6
Total		-	-	(0.8)	0.8	3.6

We have been advised that during an HMRC compliance visit in November 2023, it was identified that output tax of £927k had not been added to invoices in respect of services which should have been standard rated and as a result the amount due from the service recipient and the amount due to HMRC were understated by this amount. We do not have further information on the periods affected by this.

As our procedures in 2020/21 are incomplete and we have not performed procedures in respect of 2021/22 or 2022/23, we do not have information on whether the misstatements identified in 2019/20 were corrected during 2020/21 or a subsequent year or remain uncorrected. For some items, it is possible that a further correcting journal might be required if the misstatement is also present in the closing balance sheet at the end of the preceding reporting period.

Appendix A: Audit adjustments

Notes on unadjusted misstatements - 2020/21, 2021/22 and 2022/23

[C1] The VAT control account includes £4.4m in respect of historic claims for schools input VAT which had not been claimed in earlier years as a result of an oversight. We had not started our work on this during the period of our fieldwork but have since been provided with information which indicates that the balance was overstated by £769k and an adjustment has been made in 2023/24 accounts to write-off this amount. In addition, the amount received in 2021/22 was £250k less than the control account balance at 31 March 2020 as a result of a deduction made by HMRC following the conclusion of an enquiry.

[C2] Our test of a sample of 48 items of capital and revenue expenditure funded from capital under statute ("REFCUS") identified one item of REFCUS of £580k which related to expenditure in 2019/20 which had been under accrued at 31 March 2020.

[C3] In 2022/23, a component of dedicated schools grant which was to meet the cost of business rates was paid direct by the Education and Skills Funding Agency to billing authorities. The council recorded this amount in the collection fund supplementary statement, but did not make entries in its own accounts, effectively offsetting the cost of the schools' rates charges against the grant income amount. As a result, income and expenditure are both understated by £3.6m.

[P1] 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, we proposed an adjustment to the equivalent provision at 31 March 2019.

[P2] 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.

[P3] 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.

[P4] Capital expenditure of £1.1m incurred prior to 31 March 2020 was not recognised in 2019/20.

[P5] Income from the GLA's Building Council Homes fund was recognised in advance of conditions being met.

[P6] 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.

[P7] 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.

[P8] 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.

Appendix A: Audit adjustments

Notes on unadjusted misstatements - 2020/21, 2021/22 and 2022/23

[P9] 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 the FY20 defined benefit obligation, 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 is a misstatement at both 31 March 2019 and at 31 March 2020.

[P10] 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.

[P11] 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.

[P12] This relates to other differences between estimates used to close the 2019/20 accounts and actuals identified through budget monitoring processes in subsequent years.

[P13] 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).

[P14] 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.

[P15] 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).

[P16] 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.

Appendix A: Audit adjustments

Unadjusted misstatements - 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). These are in addition to the exceptions reported in the statement of responsibilities which we expect to report as uncorrected misstatements in our audit report.

Financial year	Disclosure
2020/21	Rounding differences
2021/22	There are a number of areas of rounding differences and other inconsistencies within the financial statements, which would ordinarily be corrected as part of the finalisation of the financial statements.
2022/23	
2022/23	Classification of transactions relating to cancelled capital schemes <p>The council cancelled certain capital schemes during 2022/23 following a review of the capital programme by the new administration based on its new priorities. This resulted in the de-recognition of assets of £2,672k within Property, Plant and Equipment.</p> <p>The council has not included this amount in the transfer to the capital adjustment account for non-current assets written off on disposal or sale, giving rise to an inconsistency with other notes to the accounts. The council has deducted the amount in arriving at the amount disclosed for capital expenditure in Note 31 “Capital expenditure and financing”, giving rise to a further inconsistency.</p> <p>As there are no future benefits from past expenditure on the related asset, it is appropriate that it is financed immediately, rather than being carried forward as part of the capital financing requirement. However, and on the basis that the council has elected to finance this through an increase to its minimum revenue provision: in Note 31 the amount should be shown as part of in year financing, rather than deducted in arriving at the amount of capital expenditure; and in Note 8, it should be included in both the lines for “Statutory provision for the financing of capital investment” and “Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal line in the CIES”.</p>

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Disclosure misstatements (continued)

Financial year	Disclosure
2022/23	Classification of items within Note 7, Expenditure and Funding Analysis
2021/22	<p>Note 7, Expenditure and Funding Analysis, sets out a reconciliation of amounts chargeable to the General Fund/HRA and the figures in the CIES. A reconciling item relating to a component of the minimum revenue provision relating to PFI arrangements and finance leases (2022/23: £3,397k; 2021/22: £2,874k; 2020/21: £2,292k) has been classified within “Other adjustments” and not “Adjustments for capital purposes in the reconciliation” and a reconciling item in 2022/23 relating to amortisation of premia on redemption of loan from the Financial Instrument Adjustment Account has been classified in “Adjustments for capital purposes” and not “Other adjustments”, creating inconsistencies with another note to the accounts.</p> <p>A correcting adjustment should be made to transfer £2,963k in 2022/23, £2,872k in 2021/22 and £2,292k in 2020/21 from “Other adjustments” to “Adjustments for capital purposes” in Note 7.</p>
2020/21	
2021/22	Classification of items within the note on dedicated schools grant
2022/23	<p>CIPFA made changes to the suggested format of the disclosure on dedicated schools grant in its guidance notes for 2021/22 which were not implemented by the council until the 2022/23 financial statements. The council has restated the comparative information to convert to the new format. Whilst there has not been any change to the carry forward amount at 31 March 2022, the values described as “The final budget distribution amount for 2021/22” and “Brought forward from 2020/21” are different to the amounts disclosed in the 2021/22 accounts in respect of these lines by £11,174k.</p> <p>As we have not completed any procedures on this note (other than to compare to the prior year financial statements) due to the backstop, we have not determined which amounts are correct</p>
2020/21	Comparative information in Note 13, Analysis of income and expenditure by nature
	<p>The prior year comparator amounts for “Interest cost on pension liabilities” and “Interest payments” in Note 13, “Income and expenditure analysed by nature” have been transposed. As a result, the comparator amount for “Interest cost on pension liabilities” is understated and the comparator amount for “Interest payments” is overstated, by £4,414k.</p>

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Disclosure misstatements (continued)

Financial year	Disclosure
2022/23	Classification of cash flows
2021/22	The Code requires cash flows where the council is acting as agent to be classified as financing cash flows.
2020/21	Whilst the receipt of business support grant in 2020/21 was classified in this way, a subsequent disbursement of these funds in 2021/22 of £5,113k has been classified within operating cash flows. Similarly, the council has not classified receipts and disbursements of community infrastructure collected as agent for the Mayor of London within operating and not financing cash flows. The amounts involved are: an outflow of £1,057k in 2022/23; an inflow of £8,730k in 2021/22 (giving a total classification error in 2021/22 of £13,843k); and an inflow of £4,573k in 2021/22.
2022/23	Accounting policy
	The wording of the accounting policy note on cash and cash equivalents states that cash and cash equivalents have been shown gross of bank overdrafts in the cash flow statement. This is incorrect – they are shown net of bank overdrafts in the cash flow statement.
2020/21	Disclosure of audit and non-audit fees
	The disclosure of audit fees should be updated to reflect that an additional £63k variation to the 2019/20 audit fee was agreed subsequent to the approval of the 2019/20 accounts. Wording in the footnote to the disclosure which explains that figures will be updated after the auditors, Public Sector Audit Appointments, and the Council agree additional fees based on the standard scale rate and the additional time spent should be updated so that clear that this relates only to the 2020/21 year. Non audit fees in 2020/21 are disclosed as £nil. This should be updated to reflect there were non audit fees of £4k in 2020/21.

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Disclosure misstatements (continued)

Financial year	Disclosure
2022/23	Narrative report consistency
2021/22	In the narrative report in the 2022/23 statement of accounts, the council has commented that: "The Council has continued to invest in its infrastructure with £137.3m spent on its capital programme". The amount referred to includes £12.3m of revenue expenditure funded from capital under statute which does not form part of the council's infrastructure and therefore should not be included in a total described in this way.
2020/21	In the 2021/22 statement of accounts, a similar statement was made regarding £155.3m spent on infrastructure. The amount of expenditure per Note 34 on PPE (and excluding revenue expenditure funded from capital under statute of £17.3m) is £141.2m. In the 2020/21 statement of accounts, the narrative report states that capital grants and contributions were used to finance capital expenditure of £67.9m. We assume that this amount also includes an amount of £17.5m included on a separate line to "Capital grants and contributions" within Note 34, Capital expenditure and capital financing and described as "Major Repairs Reserve". The clarity of reporting would be improved by aligning the description of this second item in the narrative report to the note line items in Note 34. The remaining difference to the Capital grants and contributions line in Note 34 (£42.6m) of £7.8m appears to relate to a further line in Note 34 described as "Direct revenue funding". We would not normally expect to see revenue funding being described also as "Capital grants and contributions".
2020/21	Effect of legislation relevant to appeals against rateable values In Note 3, Critical judgements in applying accounting policies, the council provides information on how it has accounted for the effect on the determination of its provision for appeals against rateable values of the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, which came into force on 15 December 2021. The disclosure could be improved by explaining that the legislation has been treated as an adjusting event as it confirms the government's position announced during 2020/21. In Note 6, the council appears to contradict its position given in Note 3 by stating that the legislation is a non adjusting event and should be amended.

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Disclosure misstatements (continued)

Financial year	Disclosure
2022/23	Narrative report – performance analysis
2021/22	The Code requires local authorities to include a fair, balanced and understandable analysis of its performance.
2020/21	<p>The report provides details of its achievements during the year but does not balance this with comments on some of the challenges it has faced during the year, including the results of regulatory and other inspections, or provide a cross reference to the Annual Governance Statement in cases where such matters have been discussed there (see also page 55).</p> <p>The narrative report provides statistics on the number of targets for key performance indicators (KPIs) which have been met, but the analysis could be enhanced by providing further commentary supported by quantitative disclosures in relation to specific KPIs.</p>
2022/23	Annual Governance Statement
2021/22	In some cases, the drafting reflects the position at the point they were first approved in October 2024 and
2020/21	have not always been updated for subsequent developments, such as the issue of statement of accounts for earlier years.

Appendix A: Audit adjustments

Unadjusted misstatements - 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.

Financial year	Disclosure
2020/21	Transactions on a principal and agent basis
2021/22	<p>As part of the COVID-19 response, during 2020/21 the government has announced a range of grant schemes to support businesses to be administered by local billing authorities which were disbursed during 2020/21 and 2021/22. The council will have acted as agent in relation to some of these grants. Where the council acts as an agent, income and expenditure should not be recorded in the Comprehensive Income and Expenditure Statement.</p> <p>The Code does not set out any specific disclosure requirements in relation to principal and agent transactions, but the accompanying guidance notes for practitioners recommend that where a debtor or creditor position in relation to an agency transaction is material, authorities might consider whether or not a true and fair presentation would require disclosing the nature of the balance or any individual transactions.</p> <p>In other guidance, CIPFA recommends that when sums involved are material, authorities should consider separate disclosure under the general requirement in the Code, “when items of income or expenditure are material an authority shall disclose their nature and amount separately”.</p> <p>The council did not make such disclosures.</p> <p>There was a creditor of £32.2m at 31 March 2021 in relation to business support grant accounted for on a principal and agent basis.</p> <p>We did not obtain a schedule of transactions and debtor/creditor balances accounted for on a principal and agency basis and therefore are not able to determine all transactions and balances involved.</p>

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Other disclosure recommendations (continued)

Financial year	Disclosure
2020/21	Earmarked reserves with and without restrictions
2021/22	The Code requires that performance indicators, where possible, represent generally accepted measures of performance for local authorities which are appropriately described.
2022/23	<p>The council has included information on earmarked general fund reserves in the narrative report which it has split between reserves with and without “restrictions”. These performance measures are not contained in the Code. The council has not included a definition of these measures and the labels are not consistent with typical usage within financial reporting as not all reserves which the council has classified as “with restrictions” have legal restrictions on their use.</p> <p>Whilst primarily written for listed entities, we recommend the council also consider other available guidance on alternative performance measures and whether these suggest other practices which might be adopted to aid users’ understanding of the reported measures, such as explaining the relevance of the measure and providing a reconciliation to information in the financial statements.</p>

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Other disclosure recommendations (continued)

Financial year	Disclosure
2020/21	Expenditure and Funding Analysis
2021/22	The Code requires a description of the purpose of the expenditure and funding analysis (EFA) be included in the financial statements. A brief description of what the EFA shows has been included but should be expanded to explain the purpose more fully (such as is illustrated in the example accounts prepared by CIPFA in the Code guidance notes for practitioners).
2022/23	The Code requires that where an authority has an HRA, the movements for the period should be split between the general fund and the HRA movements in the analysis at the foot of the Expenditure and Funding Analysis and/or appropriate cross-references made to those same balances in the movement in reserves statement. This has not been done.
2020/21	Narrative report disclosures
2021/22	The Annual Governance Statement discloses a number of issues around governance arrangements, but the narrative report does not discuss or provide a cross reference to the Annual Governance Statement.
2022/23	In addition, the narrative report does not provide a commentary on cash flows during the year or on future cash flows.

Appendix A: Audit adjustments

Unadjusted misstatements - disclosures

Other disclosure recommendations (continued)

Financial year	Disclosure
2020/21	Movements on provisions
2021/22	The analysis of movements on provisions should distinguish between amounts used and unused amounts
2022/23	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].
2020/21	Sensitivity analysis
2021/22	The council is required to disclose information about major sources of estimation uncertainty in a way that helps users of the financial statements to understand the judgements management make. The council has provided a commentary on key assumptions and inputs to the valuation of Property, plant and equipment. The council has also disclosed the monetary effect of an overall variation in valuation of 0.1%. The understanding of the estimate by a user of the financial statements would be improved by providing information on the sensitivity of the valuation to the assumptions and inputs it has commented on and by providing sensitivities which reflect management's assessment of the reasonably possible range of outcomes of the uncertainty.
2020/21	Lessee – finance leases
2021/22	The council is required to present a reconciliation between total or future minimum lease payments at the balance sheet date (£79.4m at 31 March 2021; £76.7m at 31 March 2022; £74.1m at 31 March 2023) and their present value (£27.0m at 31 March 2021; £26.8m at 31 March 2022; £26.6m at 31 March 2023).
2022/23	The difference in each case relates wholly to finance costs payable in future years. This disclosure has not been made.
2020/21	Segmental analysis
2021/22	The council is required to disclose the factors used to identify its reportable segments, including the basis of the organisation. This is not being done.
2022/23	

Appendix A: Audit adjustments

Corrected misstatements

The table below shows the principal adjustments made to the versions of the draft financial statements presented to the audit committee in April 2024. Although the misstatements have been corrected by officers, we nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Financial year	Disclosure
2022/23	<p>Classification of cash flows</p> <p>The Code requires cash flows where the council is acting as agent to be classified as financing cash flows. Whilst the receipt of business support grant in 2020/21 was classified in this way, its subsequent disbursement in 2021/22 and 2022/23 has been classified within operating cash flows.</p> <p>The council has adjusted the 2022/23 financial statements to reclassify cash outflows of £27.0m from operating cash flows to financing cash flows. The council has not corrected a similar error in the 2021/22 which we have therefore reported in the section on uncorrected misstatements.</p>
2021/22	<p>Comparability of prior year comparative information relating to non HRA rent rebates</p> <p>In 2020/21 and previously, expenditure on non-HRA rent rebates and related subsidy income were included within Resources in the segmental analysis in the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis.</p> <p>In 2021/22 and subsequently, this cost centre has been reallocated to Place. The comparative information in the draft financial statements for 2021/22 have been adjusted to reclassify expenditure of £35.9m and income of £27.9m from the Resources segment to the Place segment to present information on a comparable basis.</p>

Appendix A: Audit adjustments

Corrected misstatements

Financial year	Disclosure
2020/21 2021/22 2022/23	Consistency of the segmental analysis in the narrative report with the note on the expenditure and funding analysis The Code requires that any segmental analysis included in the narrative report is consistent with the council's segmental analysis in the financial statements. It also requires the council to highlight and explain the linkages between information presented in the narrative report and the information within the financial statements. The segmental analysis presented in the narrative report has the same structure as the analysis in the Expenditure and Funding Analysis in the notes to the accounts. However, the basis of its preparation, and therefore the outturn values reported, are very different and the linkages with the information reported in the financial statements is not explained. The narrative report has been updated to replace the table there with information taken directly from the Expenditure and Funding Analysis.
2021/22 2022/23	Discount rate The discount rate assumption is incorrectly stated in 2021/22 financial statements and in the comparative information in the 2022/23 financial at 2.0%. The assumption used by the actuary in 2021/22 was 2.7%.
2020/21 2021/22 2022/23	Name and date that the accounts were authorized for issue The council is required to disclose the date and name of the person that the accounts were authorised for issue and whether the financial statement were amended following audit.
2020/21 2021/22 2022/23	Exceptions to the statement of the Responsible Financial Officer on compliance with the Code The statement set out various exceptions in relation to compliance with the Code. As explained in more detail at pages 7 to 11, changes have been made to the statements and/or referenced notes to amend the exceptions reported and improve the description of the issue.

Appendix B: Findings and open queries from partially completed procedures on the 2020/21 financial statement procedures

We have performed some of the procedures planned for the 2020/21 audit, but are not able to complete the audit in the time available

We had performed planning procedures and started work in a number of areas which stopped due to the backstop. We have summarised below findings identified from those partially completed procedures. For the avoidance of doubt, where we have referred to work on sample items which is outstanding or other elements of testing which are not complete, this is given as contextual information for the reported finding and should not be taken as a comprehensive record of all planned work on a given area of audit which was not completed as a result of the backstop.

Area of audit	Findings
Cash and cash equivalents	<ul style="list-style-type: none">We identified control deficiencies in the maintenance of general ledger control accounts and performance of bank reconciliations and have made recommendations in relation to this in the section on 'Your control environment and findings'.
Short-term debtors - local taxation	<ul style="list-style-type: none">For 1 out of 3 business ratepayer accounts sampled, there was one account where an amount of £154,580 recorded as outstanding which had been settled in March 2021. We had not completed our investigation of this item, such as determining whether the receipt had been recorded as a credit in a different component of short-term debtors or completed work on a second sample item. As a result, we have not been able to conclude on whether this is an error or conclude on whether there are other errors in the population or extrapolate the errors identified.The provision for non-collection of business rates has been estimated using information on actual collection rates. The council has used data on collection from 2018/19, 2019/20, 2021/22 and 2022/23. In some cases, the council has used a simple average of collection across those 4 years and in other cases has used judgement to derive a "smoothed" factor. The effect of using the smoothed factor, rather than the simple average, is to reduce the provision by £4.2m, of which the council's share is £1.3m. We had not completed our investigation of the use of the judgementally derived factors or the appropriateness of excluding 2020/21 data or completed our test of factual data on collection rates used as a basis for the calculation and therefore have not been able to conclude on whether this balance is misstated.

Appendix B: Findings from partially completed procedures on the 2020/21 financial statement procedures

Area of audit	Findings
Short-term debtors - service charge debtors	<ul style="list-style-type: none">• Credit balances on the service charge ledger were reclassified to short term creditors. Because the analysis was performed at a transactional and not debtor account level, the reclassification journal was overstated by £0.5m. We have recorded an uncorrected misstatement of this amount.• The council has estimated the impairment allowance based on expected discounted cash flows under 3 or 10 year payment plans and on the assumption that the amounts outstanding will be received in full. This based on the rationale that, as a backstop, the council can enforce payment when the leaseholder re-sells their property and requires the council's agreement to the assignment of the lease. Our testing of a sample of 3 debtor accounts identified one account where we were informed that the council expected to write-off the remaining amount. Our work to understand the circumstances in that case and how widely they might apply was not complete and therefore we are not able to determine if the amount of the impairment allowance is misstated. The gross service charge debtors at 31 March 2021 was £37.9m and the impairment allowance was £2.4m.
Short-term debtors - amounts due from other preceptors	<ul style="list-style-type: none">• The amount recorded for amount receivable in respect of council tax was £606k lower than the amount calculated by us. As a result of the backstop, we were unable to complete our investigation into this difference and therefore were unable to conclude on whether the financial statements are misstated in respect of this amount.
Short-term debtors - VAT receivable	<ul style="list-style-type: none">• The VAT control account includes £4.4m in respect of historic claims for schools input VAT which had not been claimed in earlier years as a result of an oversight. We had not started our work on this during the period of our fieldwork but have since been provided with information which indicates that the balance was overstated by £769k and an adjustment has been made in 2023/24 accounts to write-off this amount. We have recorded this as an uncorrected misstatement in the 2020/21, 2021/22 and 2022/23 financial statements. In addition, the amount received in 2021/22 was £250k less than the control account balance at 31 March 2020 as a result of a deduction made by HMRC following the conclusion of an enquiry. We have recorded this as part of the error in 2020/21 accounts (with carryover effect in the 2021/22 accounts).

Appendix B: Findings from partially completed procedures on the 2020/21 financial statement procedures

Area of audit	Findings
Short-term debtors – accounts receivable	<ul style="list-style-type: none"> We identified control deficiencies in the maintenance of the accounts receivable ledger and cancellation of invoices and related accounting and have made recommendations in relation to this in the section on Your control environment and findings.
Property, plant and equipment	<ul style="list-style-type: none"> We identified control deficiencies in registration of the council’s land interests, updating the fixed asset register to transfer assets out of assets under construction which are ready for use and have made recommendations in relation to this in the section on Your control environment and findings. Our test of a sample of assets reclassified from assets under construction to operational categories found one property where practical completion was reached in November 2019. The historic cost accumulated in assets under construction was £1.3m, and the council recorded a loss of £0.7m on first time valuation in 2020/21. We are not able to determine how much of this loss would have arisen in 2019/20 had the asset been revalued on completion in 2019/20. Our test of a sample of information provided to the valuer for the purpose of their valuation identified: <ul style="list-style-type: none"> a discrepancy with the information shown in floor plans a property where the floor plans could not be located and the origin and therefore reliability of the source provided was unclear; and information on rents which was not current. <p>We did not receive information for all items in our sample and have therefore not concluded on this as a whole. We have included a recommendation in the section on Your control environment and findings.</p> Our sample of assets under construction included a property with net book value of £2.4m which had reached practical completion in September 2020. We queried whether this was not in fact ready for use prior to the reporting date and should have been reclassified from assets under construction to other land and buildings in 2020/21 and carried at current value and not cost. We received an explanation which was not complete and required further clarification to determine whether this was an actual error.

Appendix B: Findings from partially completed procedures on the 2020/21 financial statement procedures

Area of audit	Findings
Property, plant and equipment (continued)	<ul style="list-style-type: none"><li data-bbox="498 282 1841 714">• Our test of a sample of 48 items of capital and revenue expenditure funded from capital under statute identified:<ul style="list-style-type: none"><li data-bbox="537 365 1841 468">○ one item of revenue expenditure funded from capital under statute of £580k which related to expenditure in 2019/20 which had been under accrued at 31 March 2020. We have recorded this as an uncorrected misstatement.<li data-bbox="537 485 1841 588">○ one item capitalised as part of additions to other land and buildings which included expenditure on plant and equipment which should have been classified as such (the item of expenditure was £168k and we are not able to determine how much of this related to plant and equipment)<li data-bbox="537 605 1841 708">○ an amount capitalised in relation to a project to demolish an existing building and construct its replacement. The cost of demolishing the existing property should not have been capitalised. We do not hold information which quantifies the amount of the misstatement. <p data-bbox="537 731 1841 793">We are not able to conclude on the misstatement which may be present in the remainder of the population or perform an extrapolation as testing of some items in our sample was not complete.</p> <ul style="list-style-type: none"><li data-bbox="498 816 1841 919">• Our sample of two assets transferred from other land and buildings into surplus properties included a day care centre which was vacated in December 2018 and a proposal approved by the Strategic development committee for affordable housing to be built on the site. <p data-bbox="537 936 1841 1113">As the property ceased to provide service potential in 2018/19, it appears that the asset should have been reclassified to surplus properties at that point. The carrying value of the property at 31 March 2020 was £2.95m. The asset was revalued to £nil during 2020/21, on the basis of its intended use as affordable housing. Assets classified as surplus value are required to be valued at fair value.</p> <p data-bbox="537 1136 1841 1239">We questioned whether the asset has been valued according to the rules for its class but did not complete our investigation as a result of the backstop and have consequently not concluded as to whether the classification and valuation at each reporting date is correct.</p> <p data-bbox="537 1256 1841 1322">We did not receive information for the other sample item and therefore have not concluded on whether the remainder of transfers to surplus assets is misstated.</p>

Appendix B: Findings from partially completed procedures on the 2020/21 financial statements

Area of audit	Findings
Property, plant and equipment (continued)	<ul style="list-style-type: none">• We identified a discrepancy between the revaluation loss on grouped schools shown in note 40 and the underlying accounting records of £931k. As our investigation of this difference was not completed, we are unable to confirm whether the disclosure is misstated.• The council is required to revalue assets where there has been a material change in their value since the date of last valuation. Properties held at valuation of £350m were not included in the valuation exercise at 31 March 2021 and were last revalued at various dates in a cycle of up to five years. The council has performed an exercise to assess whether there has been a material change in these assets using indices provided by the council's valuer. Our work to assess this exercise was at an early stage when we ceased work on the audit and, therefore, we have not concluded on the exercise, but make the following observations from our preliminary work:<ul style="list-style-type: none">○ the exercise looks at the effect of general market changes but does not consider whether there have been any asset specific changes which might individually or in aggregate result in a material change in value, such as whether expenditure on the assets in the period since the last valuation has resulted in a commensurate increase in the current value of a property and the effect of new leases negotiated on a property's valuation○ In the exercise, build cost indices have incorrectly been applied to land value as well as to the building value of assets valued on a depreciated replacement cost basis. Over 2020/21, for example, this is likely to have the effect of overestimating the fall in values as, based on indices, the average reduction in build costs was 5% compared to the valuer's general assumption of no change in land values.
Short-term creditors – accounts payable	<ul style="list-style-type: none">• Our test of a sample of 82 disbursements made in early 2021/22 identified an operating expense of £5k and capital expenditure of £260k incurred in 2020/21 but which had not been accrued at 31 March 2021. Our testing was not complete as there were 14 sample selections where information or further explanation was required. As a result, we have not been able to conclude on whether there are other errors in the population or extrapolate the errors identified.

Appendix B: Findings from partially completed procedures on the 2020/21 financial statements

Area of audit	Findings
Short-term creditors – accruals	<ul style="list-style-type: none">• Our test of a sample of 8 accruals identified one error which was clearly trivial alone. We were awaiting evidence to support one of our other sample items and responses to queries on a further two. As testing is not complete, we have not been able to conclude on whether there are other errors in the population or extrapolate the errors identified.
Short-term creditors – payroll control accounts	<ul style="list-style-type: none">• We found a difference between the general ledger control account and the amount settled of £10k in 1 out of 3 items sampled. We were awaiting evidence to support the remaining 2 sample items. As testing is not complete, we have not been able to conclude on whether there are other errors in the population or extrapolate the errors identified.
Capital grants - receipts in advance	<ul style="list-style-type: none">• Sample testing identified 1 case, the agreement provided had expired and the remaining balance therefore appeared to be repayable to the developer (which would require reclassification of the remaining balance of £113k to short term creditors in the absence of an agreement to extend the period of the original agreement). As testing of certain other sample items was not complete and as we did not receive officers' explanations in response to the exceptions reported to them, we have not been able to conclude on whether capital grants in advance is misstated in respect of the apparent exceptions identified or conclude on whether there are other errors in the population or extrapolate the errors identified.

Appendix B: Findings from partially completed procedures on the 2020/21 financial statements

Area of audit	Findings
Provisions	<ul style="list-style-type: none">• We gained an understanding of the council’s process for estimating the provision for the cost of appeals made to rateable values by business ratepayers. The provision for appeals against rateable values at 31 March 2021 was derived by rolling forward the provision at 31 March 2020, in principle by adding to the opening provision an estimate of new appeals which had not been taken into account in the provision at 31 March 2020 and deducting cash paid to settle appeals during 2020/21. The council made errors in applying this approach, including:<ul style="list-style-type: none">○ Using an amount for cash paid in the roll forward. As a result of a significant gap between actioning an appeal which has been determined (creating a credit in the taxpayer’s account) and subsequent settlement of the credit on the tax payers account, this resulted in the duplication of liabilities between NNDR creditor and appeals provision balances;○ Using the cash paid during 2021/22 and not 2020/21 in the roll forward; and○ The provision did not take into account information held on appeals lodged after 31 March 2021.As we did not receive a revised calculation which had been updated to take account of these points, we are unable to quantify the amount of the misstatement.
Reserves	<ul style="list-style-type: none">• During 2020/21, schools’ reserves increased by £10.1m whereas schools bank accounts fell by £7.2m. The audit committee may wish to obtain assurance that the changes in other account balances on schools’ balance sheets is understood.• We challenged the allocation of the statutory adjustment to charge revenue reserves with pension contributions payable in respect of 2020/21. The financial statements have been adjusted to re-allocate a charge of £1.9m from the general fund to the housing revenue account.• An adjustment has been made to the 2020/21 financial statements to reverse overpaid (“voluntary”) revenue provision for borrowing/credit arrangements in respect of housing assets in 2017/18 of £0.4m; £2018/19 of £0.4m and 2019/20 of £2.1m (in addition to reversing voluntary revenue provisions totalling £6.0m across all open years of account) on the basis that there is no statutory basis for these entries to the Housing Revenue Account. As a result of the backstop and as the matter is immaterial, we have not considered this entry further.

Appendix B: Findings from partially completed procedures on the 2020/21 financial statements

Area of audit	Findings
Grants income	<ul style="list-style-type: none">As part of the pandemic response, the government announced a range of grant schemes to support businesses to be administered by local billing authorities such as the small business grant fund. In some cases, the council may be acting as principal and should account for the grant income and grants to businesses gross. In other cases, the council may be deemed to be acting as agent where it is acting solely as an intermediary between government and local businesses and should in this circumstance exclude transactions from the comprehensive income and expenditure statement. In our original risk assessment, we identified a significant risk in relation to whether an appropriate determination had been made as to whether the council was acting as principal or agent and whether this judgement had been appropriately reflected in the presentation of the financial statements. We were not able to complete this work during the period of our original field work as transactions for different grant schemes had been posted to a single account and needed to be disaggregated by grant scheme before we could select samples and carry out testing and we have not completed this procedure subsequently as a result of the backstop. The audit committee may wish to seek internal assurance over this question.

Appendix C: Unresolved audit queries on the 2021/22 and 2022/23 financial statements

Based on the procedures we performed, we have identified a number of possible issues with the draft financial statements, which would ordinarily need to be concluded upon prior to completion of an audit. Management have not been able to investigate a number of the queries raised in the time available, and therefore we have not identified as quantified misstatements. We have summarised the open queries below, which the Audit Committee may wish to consider in approving the financial statements. These are in addition to the findings from partially complete audit work on the 2020/21 financial statements, as set out in Appendix B.

Financial year	Area of the financial statements	Audit query
2022/23	Cash flow statement and related notes	<p>We identified equal and opposite differences of £2,734k in reconciling the movement in debtors and creditors shown in the balance sheet to the decrease in debtors and decrease in creditors shown in the note to the cash flow statement reconciling the surplus on provision of services to the cash flows from operating activities. These differences arise because the balance sheet positions used by officers as a starting point for calculating the entries in the cash flow statement and related notes do not agree to the latest version of the financial statements.</p> <p>Similarly, we identified a difference of £2,675k in reconciling investing cash flows relating to the purchase of property, plant and equipment and intangible assets to additions shown in the financial statements as the latter amount used by officers as the starting point for calculating the entry in the entries in the cash flow statement and related notes did not agree to the latest version of the financial statements.</p> <p>We did not have sufficient information to conclude on whether adjustments were needed to the cash flow statement or related notes as a result of these issues.</p>

Appendix C: Unresolved audit queries on the 2021/22 and 2022/23 financial statements

Financial year	Area of the financial statements	Audit query
2022/23	Balance sheet – property, plant and equipment	<p>Revaluation gains on council dwellings of £101.8m or 9.1% on the opening balance have been recorded. The HPI per the land registry website shows a reduction of 3.7% from March 2022 to March 2023.</p> <p>We received a response, but this did not resolve the query in full.</p>

Appendix D: Prior year control findings

Summary

Our reports to the Audit Committee on the 2018/19 and 2019/20 audits included details of a number of internal control and risk management findings and our recommendations to address them. Given the extent of procedures in our revised work plan for 2020/21 and planned procedures for 2021/22 and 2022/23 audits, we will not be evaluating the extent to which management have implemented their responses to these recommendations. The Audit Committee may wish to receive an update from management on progress against our previous recommendations to the November 2023 meeting and may wish to receive assurances as part of their approval of the financial statements. We have set out a reminder of the high priority recommendations.

Control recommendation

Quality of draft financial statements

We recommend the Council reviews the year-end reporting and close process, including:

- Preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in
 - The year and for the disclosure requirements for any new or changed activities of the Council;
 - Documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts;
 - Line-by-line review of the completed CIPFA disclosure checklist by a second officer;
 - Documented and reviewed internal checks of internal consistency;
 - Completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and
 - Documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.
-

Preparation of accounting papers

We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the audit committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the audit committee's approval of the draft statement of accounts.

Accounting estimates

Design/formalise controls over key accounting estimates, including controls over selection of assumptions, controls to ensure the completeness and accuracy of factual inputs, and controls over the integrity and maintenance of spreadsheet models.

Appendix D: Prior year control findings

Control recommendation and priority

Completeness of disclosures

We recommend a detailed review of the completed CIPFA disclosure checklist is carried out.

Accounts closure - resourcing and processes

We recommend that the Council considers the resourcing of the closure process, the assignment of tasks, the training needs of those involved in the process and the quality assurance processes to be applied to the draft financial statements and supporting working papers. We also recommend the Council considers whether there are year end processes which can be streamlined or pulled forward to earlier in the year

New accounting standards – IFRS 9 and 15

We recommend:

- Officers consider what changes are required to its chart of accounts to facilitate identification and reporting of the amount of income, assets and liabilities within the scope of IFRS 15
 - Going forwards the Council prepares a clear project plan for the implementation of new or changed accounting guidance. We recommend that accounting papers are prepared to record officers' rationale in areas of judgement and these are subject to a management review process.
-

Infrastructure assets

We recommend the council remain alert to future pronouncements and ensure that its accounting records are updated and maintained in a way which enables it to comply with changes in the financial reporting framework from 1 April 2024 as well as forming a reliable basis for estimating an appropriate annual depreciation charge in the meantime.

Elimination of internal recharges

We recommend that the coding structure is amended to facilitate elimination of internal recharges in the Comprehensive Income and Expenditure Statement and to readily demonstrate that this has been done in full.

Appendix D: Prior year control findings

Control recommendation

Reconciliation of general ledger control accounts and segregation of duties

We recommend:

- A separate control account is set up for each bank account
 - Responsibility for each control account is assigned to a named preparer and reviewer (with those roles allocated to different officers)
 - The frequency and timescale for preparation and review of reconciliations is set down in written instructions to staff
 - A monitoring arrangement is designed to ensure reconciliations are carried out and reviewed in accordance with instructions and any exceptions reported to senior management for action.
-

Valuation of properties

We recommend the Council:

- Prepare and maintain a schedule which sets out the information which is provided to the valuer (including management assumptions and information provided to the valuer to inform assumptions made by the valuer) and identifies the controls over each category of information.
- Design and document their review of the outcome of the valuation. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval.
- Discuss the various points made about the valuation report and supporting working papers and request the valuer addresses these in future years.
- Implement standard spreadsheet controls within the fixed asset register. This principle should be applied to any other spreadsheets used in the preparation of any other significant information in the statement of accounts.
- prepare a paper to support the decision not to value particular assets prior to publishing its draft statement of accounts.
- Ensure all valuations are performed and implemented by a qualified valuer to avoid/minimise the extent of management judgement required in updating the accounts (e.g. in applying the outcome of a market review) • Consider what controls should be implemented to prevent/detect data input errors.

Appendix D: Prior year control findings

Control recommendation

Classification of expenditure as capital

We were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. We therefore recommend the Council implements such a control.

Journals

We recommend that the Authority re-visits which journal types and amounts can be posted without approval by a second officer and implement controls which prevent or detect the posting of journals which have not been approved in accordance with those agreed arrangements.

Recognition of grants and contributions

We recommend:

- Grant agreements are reviewed on notification of entitlement and a preliminary assessment made of whether there are conditions attached to the grant. This assessment is documented and subject to review by a second officer.
 - The decision is reflected in the type of general ledger code set-up to record the grant.
 - For grants or contributions involving conditions, a working paper is prepared showing the calculation of the amount to be recognised and which is subject to review by a second officer.
-

Schedule 7 recommendations

In relation to the failure of the council to comply with its obligations under Schedule 7, we recommend:

- The audit committee consider whether it is satisfied with the actions which have been taken in response to the Schedule 7 recommendation
 - The council consider what mechanism is needed, in the event that recommendations or reports are issued under Schedule 7 in the future, to ensure the council follows the process laid down in legislation.
-

Appendix D: Prior year control findings

Control recommendation

Management of recommendations made by external parties

We recommend a register is maintained of recommendations relating to the internal control environment made by external parties and action planned and taken. As a minimum, there should be reporting on this to the audit committee as part of the annual review of internal control effectiveness.

Pension membership data

The issue over the accuracy of membership data is likely to impact on future years' accounts and further management investigation will be needed if these are also not to be qualified. We recommend the council considers what improvements are needed to the control framework.

Appendix E: Audit report wording – disclaimer of opinion

The relevant sections of our audit report for 2020/21 are set out below

Text of disclaimer of opinion - 2020/21

The relevant sections of the audit report are:

Disclaimer of opinion

We do not express an opinion on the accompanying financial statements of the London Borough of Tower Hamlets ('the Authority') for the year ended 31 March 2021. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements ...

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 ("the Regulations") require the Authority to publish its statement of accounts, together with an accompanying auditor's report for the year ended 31 March 2021 by 13 December 2024.

Following the introduction of the Regulations, there was insufficient time to complete the necessary audit work to form an audit opinion.

As a result, we were unable to determine whether any adjustments might have been identified in respect of recorded or unrecorded items within the financial statements.

Additionally, from the procedures that we have performed, we have identified the following:

Failure to prepare group accounts

- As explained in note 44, the Authority has not prepared group accounts which consolidate the results and financial position of its subsidiary undertakings, including Tower Hamlets Homes Limited and King George's Field, Mile End. Under the Code, the Authority is required to prepare group accounts as its interests are material in aggregate. Had group accounts been prepared which included the Authority's principal subsidiaries, net assets and reserves would have been £25.8m higher at 31 March 2021 and £30.0m higher at 31 March 2020. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2020. In addition, the narrative report does not consider the results and financial position of the subsidiary undertakings.

Pension liabilities and related entries

- As explained in note 4, errors were identified in a sample of membership data used to calculate the pension liabilities at 31 March 2021 of £614.3m and at 31 March 2020 of £473.4m and related entries in note 41. The membership data used to calculate the pension liability and related entries was corrected for some but not all of these errors. As a result of the volume of member records involved, and as a result of the pervasive limitations set out above, 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 2020. In addition, where information on the Authority's pension liability is discussed in the narrative report, it may be materially misstated for the same reason.

Appendix E: Audit report wording - disclaimer of opinion

Officers' remuneration

- Note 33 discloses information about the number of the Authority's employees with remuneration over £50,000, falling in bands of £5,000. As explained in note 33, the Authority has not included information in relation to staff employed at 3 schools (2019/20: 28 schools) as information is not held centrally and returns were not received from schools or, in 2019/20 only, was received but considered by the Authority to be unreliable. Owing to the pervasive nature of the limitations described above, we are unable to quantify the effect of this omission. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2020.
- Note 33 also discloses information about the number, type and value of exit packages. As explained in note 33, the Authority has not included information about the number, type and value of exit packages made by 33 schools in the comparative period as information was not held centrally and returns from schools and other information obtained was assessed by the Council to be incomplete and unreliable. As a result, we were unable to determine whether any adjustments to the comparative information for the number and cost of exit packages is required. Our opinion on the financial statements for the year ended 31 March 2020 was also qualified in this respect. As a result of the pervasive nature of the matter described above, we were also unable to determine if any adjustments were required to information for the number and cost of exit packages for the year ended 31 March 2021.

Disclosure of revenue from contracts with service recipients

- The Authority has not included information relating to the amount of revenue recognised from contracts with service recipients, its disaggregation into categories and the amount of related balance sheet account balances. In our opinion, the Authority's transactions from contracts with service recipients are material and should have been included in the financial statements as required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct our audit in accordance with International Standards on Auditing (UK), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law, and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Appendix E: Audit report wording – disclaimer of opinion

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

We are required to design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud has been limited by the pervasive extent of the matters described in the basis for disclaimer of opinion section of our report.

We plan to consider the nature of the Authority and its control environment and review the Authority's documentation of its policies and procedures relating to fraud and compliance with laws and regulations.

We enquired of management and internal audit and counter fraud service about their own identification and assessment of the risks of non-compliance with laws and regulations.

We plan to obtain an understanding of the legal and regulatory framework that the Authority operates in.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In addressing the risk of fraud through management override of controls, we are required to: test the appropriateness of journal entries and other adjustments; assess whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluate the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our planned procedures include the following:

- reviewing financial statement disclosures;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and counter fraud service and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- where available, reading minutes of meetings of those charged with governance, reviewing internal audit reports a record of correspondence with HMRC and reports issued by other relevant regulatory authorities, including the Office for Standards in Education and the Care Quality Commission.

Owing to the pervasive limitations set out above, we were unable to complete all these procedures.

Appendix E: Audit report wording – disclaimer of opinion

The relevant sections of our audit report for 2021/22 are set out below:

Text of disclaimer of opinion - 2021/22

The relevant sections of the audit report are:

Disclaimer of opinion

We do not express an opinion on the accompanying financial statements of the London Borough of Tower Hamlets ('the Authority') for the year ended 31 March 2022. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements ...

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 ("the Regulations") require the Authority to publish its statement of accounts, together with an accompanying auditor's report for the years ended 31 March 2021 and 31 March 2022 by 13 December 2024.

The Authority published its draft statement of accounts for the year ended 31 March 2022 on 4 February 2024. Following the introduction of the Regulations, there was insufficient time to complete the necessary audit work to form an audit opinion on the financial statements for the years ended 31 March 2022 and 2021.

As a result, we were unable to determine whether any adjustments might have been identified in respect of recorded or unrecorded items within the financial statements for both the years ended 31 March 2022 and 31 March 2021.

Additionally, from the procedures that we have performed, we have identified the following:

Failure to prepare group accounts

- As explained in note 44, the Authority has not prepared group accounts which consolidate the results and financial position of its subsidiary undertakings, including Tower Hamlets Homes Limited and King George's Field, Mile End. Under the Code, the Authority is required to prepare group accounts, as its interests are material in aggregate. Had group accounts been prepared which included the Authority's principal subsidiaries, net assets and reserves would have been and £25.2m higher at 31 March 2022 and £25.8m higher at 31 March 2021. We also reported on this matter in respect of the financial statements for the year ended 31 March 2021. In addition, the narrative report does not consider the results and financial position of the subsidiary undertakings.

Appendix E: Audit report wording – disclaimer of opinion

Pension liabilities and related entries

- As explained in note 4, errors were identified in a sample of membership data used to calculate pension liabilities at 31 March 2022 of £478.0m and at 31 March 2021 of £614.3m and related entries in note 41. The membership data used to calculate the pension liability and related entries was corrected for some but not all of these errors. As a result of the volume of member records involved, and as a result of the pervasive limitations set out above, we were unable to determine whether any adjustments to these amounts were necessary. We also reported on this matter in respect of the financial statements for the year ended 31 March 2021. In addition, where information on the Authority's pension liability is discussed in the narrative report, it may be materially misstated for the same reason.

Officers' remuneration

- As explained in note 33, information in the disclosure of the number of the Authority's employees with remuneration over £50,000, falling in bands of £5,000, is misstated as it does not include information in relation to staff employed at 3 schools (2020/21: 3 schools) as information is not held centrally and returns were not received from these schools. We also reported on this matter in respect of the financial statements for the year ended 31 March 2021.

Disclosure of revenue from contracts with service recipients

- The Authority has not included information within the financial statement notes as required by the Code relating to the amount of revenue recognised from contracts with service recipients, its disaggregation into categories or the amount of related balance sheet account balances. Owing to the pervasive limitations disclosed above, we are not able to quantify the effect of this omitted disclosure. We also reported on this matter in respect of the financial statements for the year ended 31 March 2021. Disclosure of related party transactions.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct our audit in accordance with International Standards on Auditing (UK), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Appendix E: Audit report wording – disclaimer of opinion

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

We are required to design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud has been limited by the pervasive extent of the matters described in the basis for disclaimer of opinion section of our report.

We plan to consider the nature of the Authority and its control environment and review the Authority's documentation of its policies and procedures relating to fraud and compliance with laws and regulations.

We enquired of management and internal audit and counter fraud service about their own identification and assessment of the risks of non-compliance with laws and regulations.

We plan to obtain an understanding of the legal and regulatory framework that the Authority operates in.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In addressing the risk of fraud through management override of controls, we are required to: test the appropriateness of journal entries and other adjustments; assess whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluate the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our planned procedures include the following:

- reviewing financial statement disclosures;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and counter fraud service and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- where available, reading minutes of meetings of those charged with governance, reviewing internal audit reports a record of correspondence with HMRC and reports issued by other relevant regulatory authorities, including the Office for Standards in Education and the Care Quality Commission.

Owing to the pervasive limitations set out above, we were unable to complete all these procedures.

Appendix E: Audit report wording – disclaimer of opinion

The relevant sections of our audit report for 2022/23 are set out below:

Text of disclaimer of opinion - 2022/23

The relevant sections of the audit report are:

Disclaimer of opinion

We do not express an opinion on the accompanying financial statements of the London Borough of Tower Hamlets ('the Authority') for the year ended 31 March 2023. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements ...

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 1 ("the Regulations") require the Authority to publish its statement of accounts, together with an accompanying auditor's report for the years ended 31 March 2023, 31 March 2022 and 31 March 2021 by 13 December 2024.

The Authority published its draft statement of accounts for the years ended 31 March 2023 and 31 March 2022 on 4 February 2024. Following the introduction of the Regulations, there was insufficient time to complete the necessary audit work to form an audit opinion on the financial statements for the years ended 31 March 2023 and 2022.

As a result, we were unable to determine whether any adjustments might have been identified in respect of recorded or unrecorded items

Additionally, from the procedures that we have performed, we have identified the following:

Failure to prepare group accounts

- As explained in note 41, the Authority has not prepared group accounts which consolidate the results and financial position of its subsidiary undertakings, including Tower Hamlets Homes Limited and King George's Field, Mile End. Under the Code, the Authority is required to prepare group accounts, as its interests are material in aggregate. The Authority has published unaudited information showing that net assets and reserves would have been £70.9m higher had group accounts been prepared. We also reported on this matter in respect of the financial statements for the year ended 31 March 2022 (had group accounts been prepared in respect of that financial year which included the Authority's principal subsidiaries, net assets and reserves would have been £25.2m higher at 31 March 2022). In addition, the narrative report does not consider the results and financial position of the subsidiary undertakings.

Appendix E: Audit report wording – disclaimer of opinion

Pension asset/liabilities and related entries

- As explained in note 4, errors were identified in a sample of membership data used to calculate pension liabilities at 31 March 2022 of £478.0m and related comparator entries in note 38. The membership data used to calculate the pension liability and related entries was corrected for some but not all of these errors. As a result of the volume of member records involved and as a result of the pervasive limitations set out above, it was not possible to determine whether adjustments were required to these amounts or to other entries in note 38 relating to the total comprehensive income for the year ended 31 March 2023 which might then also be required as a consequence of adjustments to the pension liability at 31 March 2022. We also reported on this matter in respect of the financial statements for the year ended 31 March 2022. A different membership data set, extracted from the same system used to calculate the pension liability at 31 March 2022, was used to calculate the pension asset at 31 March 2023 of £17.5m and related entries in note 38. As a result of the pervasive limitations set out above, we were unable to determine whether any adjustments to these amounts were necessary. In addition, where information on the Authority's pension liability is discussed in the narrative report, it may be materially misstated for the same reason.

Officers' remuneration

- As explained in note 33, the comparative information in the disclosure of the number of the Authority's employees with remuneration over £50,000, falling in bands of £5,000, is misstated as it does not include information in relation to staff employed at 3 schools as information is not held centrally and returns were not received from these schools. We also reported on this matter in respect of the financial statements for the year ended 31 March 2022.

Disclosure of revenue from contracts with service recipients

- The Authority has not included information within the financial statement notes as required by the Code relating to the amount of revenue recognised from contracts with service recipients, its disaggregation into categories or the amount of related balance sheet account balances. Owing to the pervasive limitations disclosed above, we are not able to quantify the effect of this omitted disclosure. We also reported this in respect of the financial statements for the year ended 31 March 2022.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct our audit in accordance with International Standards on Auditing (UK), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Appendix E: Audit report wording – disclaimer of opinion

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

We are required to design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud has been limited by the pervasive extent of the matters described in the basis for disclaimer of opinion section of our report.

We plan to consider the nature of the Authority and its control environment and review the Authority's documentation of its policies and procedures relating to fraud and compliance with laws and regulations.

We enquired of management and internal audit and counter fraud service about their own identification and assessment of the risks of non-compliance with laws and regulations.

We plan to obtain an understanding of the legal and regulatory framework that the Authority operates in.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In addressing the risk of fraud through management override of controls, we are required to: test the appropriateness of journal entries and other adjustments; assess whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluate the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our planned procedures include the following:

- reviewing financial statement disclosures;*
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;*
- enquiring of management, internal audit and counter fraud service and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and*
- where available, reading minutes of meetings of those charged with governance, reviewing internal audit reports a record of correspondence with HMRC and reports issued by other relevant regulatory authorities, including the Office for Standards in Education and the Care Quality Commission.*

Owing to the pervasive limitations set out above, we were unable to complete all these procedures.

Appendix F: Management representations

We have requested the following representations from management.

This representation letter is provided in connection with your audits of the financial statements of the London Borough of Tower Hamlets for the years ended 31 March 2021, 31 March 2022 and 31 March 2023.

We acknowledge our responsibility for preparing financial statements that give a true and fair view of the financial position of the London Borough of Tower Hamlets as of 31 March 2021, 31 March 2022 and 31 March 2023 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (“the Code”) for the relevant year.

We confirm, to the best of our knowledge and belief, subject to the pervasive matters that resulted in the disclaimer of opinion, the following representations:

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements for each year of account in accordance with the Accounts and Audit Regulations 2015 and CIPFA/LASAC Code of Practice on Local Authority Accounting in the United Kingdom for the relevant year of account, except as set out in the statement of responsibilities in the statement of accounts for the relevant year of account.
2. The methods, the data, and the significant assumptions used by us in making accounting estimates and their related disclosures, including those assessing the impact of Covid-19 on the authority, are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures” except for the possible omission of related party relationships and transactions in instances where related party relationships were not identified because returns had not obtained from elected members.
4. All events subsequent to the date of the financial statements for each year of account and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed in the financial statements for the relevant year of account.

Appendix F: Management representations

5. The effects of uncorrected misstatements and disclosure deficiencies as detailed in the list of the uncorrected misstatements and disclosure deficiencies for each year of account in the appendix to this letter are immaterial, both individually and in aggregate, to the financial statements as a whole for the relevant year of account.
6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including principal conditions or events and our plans. In making our going concern assessment we have adopted the 'continuing provision of service' approach and accordingly we are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's ability to continue as a going concern. There are no circumstances that we are aware of that would affect the appropriateness of the 'continuing provision of service' approach. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. We acknowledge our responsibility for ensuring appropriate processes and controls are in place in respect of Covid-19 specific funding and expenditure streams. We have considered the accounting treatment of grants received, including whether the Council is acting as agent or principal in respect of transactions, and whether any amounts receivable or payable should be accrued, reflecting all relevant guidance and circumstances.
8. We have evaluated whether the restrictions, terms or conditions on grants or donations have been fulfilled with and deferred income to the extent that they have not.

Appendix F: Management representations

9. With respect to the revaluation of properties in accordance with the Code:
 - a. the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
 - b. the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the accounting estimates and disclosures;
 - c. we confirm that the effects of the Covid-19 pandemic have been fully considered by our valuation experts and are reflected in the property valuations disclosed in the financial statements;
 - d. where assets have been valued on a Modern Equivalent Asset basis, we have considered whether any changes are required to the Modern Equivalent Asset assumed in the valuation, or to the depreciated extent of the existing asset;
 - e. following the experience of the Covid-19 pandemic, and its potential impact on asset requirements and design; or
 - f. as a result of climate change, and its potential impact on asset requirements and design;
 - g. the information supplied for the valuation of the Council's property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such as issues with condition) that have not been shared with the valuer.
 - h. we have considered the valuation of the Council's Property, Plant and Equipment, and we are not aware of any other errors or inconsistencies, and the overall valuation movement recognised is in line with that expected from the work of the valuer.
 - i. the disclosures are complete and appropriate; and
 - j. there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.
10. We have considered the valuation of the Council's Property, Plant and Equipment that have not been subject to revaluation in year, and are not aware of any circumstances indicating an impairment or volatility in asset values (either in year, or on a cumulative basis since the last revaluation of the assets) that would suggest the carrying value is materially misstated as a result of it not being revalued.
11. We have evaluated whether any of our properties are affected by Reinforced Autoclaved Aerated Concrete and therefore whether there are any factors to be taken into account in the valuation of our estate and have nothing to report in this regard.

Appendix F: Management representations

12. We have reconsidered the remaining useful lives of the Authority's Property, Plant and Equipment and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.
13. We confirm that:
 - a. all retirement benefits and schemes, including funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
 - b. all settlements and curtailments have been identified and properly accounted for;
 - c. all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
 - d. the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the Council's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
 - e. the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
 - f. the amounts included in the financial statements derived from the work of the actuary are appropriate.
14. We have reviewed our provisioning for Non-Domestic Rates appeals, and consider that the assumptions used reflect our best assessment of the liability in respect of appeals.
15. We have reviewed our provisioning for recoverability of non-exchange debtors, including in respect of Non-Domestic Rates, Council tax and Housing benefit overpayments, and consider the assumptions in respect of recoverability to reflect our best assessment of the recoverable amount of these balances.

Information provided

16. We have provided you with all relevant information and access as required by the Local Audit and Accountability Act 2014, other than as noted in representation 3, below.
17. Due to the time constraints of the backstop, we have not been able to respond to all queries you have raised in respect of the financial statements. In respect of the unresolved audit queries listed in the Appendix, we confirm that we are not aware of any matters that would require any adjustments to the financial statements, including to the disclosures included therein.
18. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

Appendix F: Management representations

19. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error and we believe we have appropriately fulfilled those responsibilities..
20. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
21. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
22. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
23. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements
24. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.
25. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice are immaterial, the litigation and claims disclosed to you are immaterial both individually and in aggregate, to the financial statements as a whole for the relevant year of account. No other claims in connection with litigation have been or are expected to be received.
26. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
27. We confirm that:
 - a. we consider that the Authority has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
 - b. we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.

Appendix F: Management representations

Value for money

28. We acknowledge our responsibility for ensuring the Council has put in place arrangements for securing economy, efficiency and effectiveness in its use of resources.

29. We have disclosed to you all deficiencies of which we are aware in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

Yours faithfully

Appendix G: 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 our objectivity is not compromised.

Audit fees

The scale fee payable by the council was set by PSAA for 2020/21, 2021/22 and 2022/23 at £162k for the audit of the council and £16k for the audit of its pension fund. The scale fee is based on assumptions about the scope and required time to complete our work and does not reflect changes in the scope of work (including from the introduction of new Value for Money requirements in 2020/21). These are subject to separate agreement with the Council and PSAA.

PSAA has not yet confirmed its approach for the determination of fees for audits affected by the backstop. With respect to previous periods where we have completed the audit, the total hours incurred on the audit for each year have been significantly higher than allowed for in the scale fee.

We agreed fee variations which were approved by the council and PSAA in respect of 2018/19 and 2019/20 which covered the period through to issue of our opinions in November 2023 which totalled £308k and £269k, respectively in relation to the council and £41k and £35k, respectively, in relation to the pension audit.

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 other relationships with the council, its members, officers and affiliates, and have not supplied any services to other known connected parties.



This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.