



## **Annual Audit Letter on the 2019/20 audit of The London Borough of Tower Hamlets**

11 December 2023

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# 1 Letter to members

The Members  
London Borough of Tower Hamlets  
Town Hall

11 December 2023

Dear Sirs

We have pleasure in setting out this annual audit letter to summarise the key matters arising from the work that we have carried out in respect of our audit for the year ended 31 March 2020.

Although this letter is addressed to the Members of London Borough of Tower Hamlets ("the council"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders, including members of the public. The letter should be published on the Council's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psaa.co.uk](http://www.psaa.co.uk).

Yours faithfully



Deloitte LLP  
St Albans, United Kingdom

## 2 Key messages

Statement of Accounts	
<p><b>Qualified opinions on the financial statements of the council and the pension fund administered by the council, issued on 30 November 2023</b></p> <p><b>“Emphasis of matter” paragraph in our report on the council’s financial statements referencing a material uncertainty over property valuations at 31 March 2020.</b></p>	<p><b><u>Council’s financial statements</u></b></p> <p>In 2019/20, the Council was required to prepare its Statement of Accounts in accordance the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and other relevant legislation.</p> <p>We issued our audit opinion on the financial statements of the council on 30 November 2023. Our opinion was qualified in respect of the following matters:</p> <ul style="list-style-type: none"> <li>• The failure to prepare group accounts which the council was required to prepare as its controlled interests are material in aggregate;</li> <li>• The failure to include information relating to employees working in certain local authority maintained schools in disclosures about the number of staff earning more than £50,000 and the number and cost of staff exit packages;</li> <li>• An unquantifiable error in the amount of pension liabilities, caused by errors identified in membership data used in their calculation; and</li> <li>• The comparability of information on transactions and balances with related parties with equivalent information for the previous year because of an uncertainty over whether all related parties had been identified in the prior year, as first reported in our audit report for the year ended 31 March 2019.</li> </ul> <p>Our audit report also included an emphasis of matter paragraph which drew attention to a disclosure in the council’s financial statements relating to uncertainty over property valuations at 31 March 2020 caused by market turbulence as a result of the pandemic.</p> <p>Materiality for the audit of the council’s financial statements was set at £24.0m.</p> <p><b><u>Pension scheme’s financial statements</u></b></p> <p>We issued a qualified opinion on the financial statements of the London Borough of Tower Hamlets Pension Fund (administered by the London Borough of Tower Hamlets) for the year ended 31 March 2020 on 30 November 2023. Our opinion was qualified in respect of a disclosure relating to the present value of promised retirement benefits which was subject to the same member data quality issues which caused the qualification of our report on the Council’s financial statements in respect of pension liabilities.</p> <p>Materiality for the Pension fund accounts was set at £15.2m.</p>

	<p><b><u>Delay in issue of our audit reports on the council’s statement of accounts</u></b></p> <p>Completion of the audit was delayed well beyond the original target date of 30 November 2020 due to the volume and significance of issues identified in relation to both the 2019/20 and prior year accounts and the time taken to investigate these issues, quantify and process adjustments to the financial statements and provide other information in response to audit requests.</p>
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**Value for Money (“VFM”) conclusion**

<p><b>A qualified conclusion issued on 30 November 2023</b></p>	<p>We issued a conclusion that the council had in place proper arrangements to ensure properly informed decisions were taken and the Council deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, except for weaknesses in the following arrangements:</p> <ul style="list-style-type: none"> <li>• weaknesses in arrangements to support reliable and timely financial reporting; and</li> <li>• weaknesses in arrangements for risk management and internal control.</li> </ul>
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**Audit findings**

<p><b>We reported significant control deficiencies and internal control and other findings to the Audit Committee</b></p>	<p>International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. There were a number of significant control deficiencies and other findings that we brought to the attention of the Audit Committee.</p>
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**Independence and Objectivity**

<p><b>Independence and objectivity</b></p>	<p>In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.</p>
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# 3 Responsibilities and scope

## Responsibilities of the council and auditor

The council is responsible for maintaining the control environment and accounting records and preparing accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and other relevant legislation.

We are appointed as the council's independent external auditor by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code") for the relevant year. Under the Code, we have responsibilities in two main areas in 2019/20:

- Auditing the council's statement of accounts (which includes the financial statements of the pension fund administered by the council); and
- Evaluating whether the council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources (the value for money ("VFM") conclusion).

## The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based and relevant legislation.

We conducted our work on the 2019/20 VFM conclusion in line with guidance issued by the National Audit Office in April 2020.

# 4 Audit of the accounts

## Statement of Accounts

**Qualified opinions on the financial statements of the council and the pension fund administered by the council, issued on 30 November 2023**

**“Emphasis of matter” paragraph in our report on the council’s financial statements referencing a material uncertainty over property valuations at 31 March 2020.**

We issued our audit reports on the council’s statement of accounts on 30 November 2023.

Our audit report on the council’s financial statements was qualified in respect of the following matters:

- The council did not prepare group accounts which consolidate the results and financial position of its subsidiary undertakings, including Tower Hamlets Homes Limited and King George’s Field, Mile End. Under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the council was required to prepare group accounts as its controlled interests are material in aggregate. Had group accounts been prepared, net assets and subsidiary reserves would have been £30.0m higher at 31 March 2020 as a result of consolidating Tower Hamlets Homes Limited and King George’s Field, Mile End (£25.7m higher at 31 March 2019). This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.
- Errors were identified in a sample of membership data used to calculate the pension liability of £473.4m at 31 March 2020 and £556.8m at 31 March 2019 and related entries. The pension liability and related entries were corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.
- We were unable to obtain sufficient appropriate audit evidence concerning whether information about transactions and balances with related parties in the year ended 31 March 2019 had been reported for all relevant relationships as returns used to collect information on the interests of elected members and members of their close family were not obtained at the time or cannot now be located due to the passage of time and as it was not possible to obtain this information subsequently due to changes in council membership. Consequently, we were unable to determine whether any adjustments to the information disclosed were necessary. Our audit opinion on the financial statements for the year ended 31 March 2019 was modified accordingly. Our opinion on the financial statements for the year ended 31 March 2020 was also modified because of the possible effect of this matter on the comparability of the current year’s figures and the corresponding figures.
- The council is required to disclose information about the number of employees paid over £50,000. The council did not include information about its employees working in 28 local authority maintained schools during the years ended 31 March 2020 and 31 March 2019 as this information is not held centrally and returns and other information obtained were considered by the Council to be unreliable. The returns and other information received in respect of these schools showed 171 employees with remuneration over £50,000 during the year ended 31

	<p>March 2020 and 226 employees during the year ended 31 March 2019. The council is also required to disclose information about the number, type and value of exit packages. The council did not include information about the number and cost of exit packages made by 33 locally authority maintained schools during the years ended 31 March 2020 and 31 March 2019 as this information is not held centrally and returns and other information obtained was assessed by the Council to be incomplete and unreliable. Consequently, we were unable to determine whether any adjustments to the number of employees paid over £50,000 or the number and cost of exit packages were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.</p> <p>Our audit report on the pension fund financial statements was qualified in respect of the following matter:</p> <ul style="list-style-type: none"> <li>• The pension fund financial statements disclose, by cross reference, the present value of promised retirement benefits of £1,990 million at 31 March 2020. Errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020. The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.</li> </ul> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the audit committee – “the committee”) any significant matters arising from the audit.</p> <p>To address this requirement, a detailed report on the key findings from our audit of the council’s financial statements discussed with the committee at their meeting on 26 January 2023. Our report to that meeting incorporated preliminary findings reported to meetings of the committee on 12 November 2020, 7 April 2021 and 27 January 2022. Update reports were subsequently discussed with committee members at their meetings on 30 May 2023 and 23 November 2023.</p> <p>A detailed report on key findings from our audit of the pension fund financial statements was discussed with the members of the committee on 27 January 2022. An update report which included an additional key finding from the audit was discussed with the committee at its meeting on 23 November 2022.</p> <p>These papers are available to view online as part of the report packs for those meetings.</p> <p>We can confirm that all outstanding matters included within the final update report to the meeting on 23 November 2023 were resolved satisfactorily before issuing our opinions.</p>
<p><b>Materiality</b></p>	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person using those financial statements would be changed or</p>



	<p>influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p><b>Council financial statements</b></p> <p>Based on our professional judgement, we determined materiality for the financial statements as a whole to be £24.0m, being c. 2% of gross expenditure on services. This benchmark was chosen as the council is engaged in the provision of public services, rather than income generation or profit making and expenditure on the provision of those services is, as a result, a key measure of financial performance for users of the financial statements.</p> <p>We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at c. 50% of materiality. In determining performance materiality, we considered, in particular, the following factors:</p> <ul style="list-style-type: none"> <li>• Weaknesses in the quality of the control environment, including significant control deficiencies which meant we were not able to rely on controls; and</li> <li>• The nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit (including errors in those accounts relating to prior years), including the impact of these misstatements on our assessment of heightened engagement risk.</li> </ul> <p>We agreed with the audit committee that we would report to the committee all audit differences in excess of £500k (2019: £1,250k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.</p> <p><b>Pension fund financial statements</b></p> <p>We set our final materiality at £15.2m, based on approximately 1% of total net assets of the Fund. We agreed we would report to the audit committee on misstatements above £750k.</p>
<p><b>Significant risks</b></p>	<p>Our audit work was designed to specifically address the following significant audit risks which are discussed in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential for being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team. These risks were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.</p> <p><b>Council’s financial statements</b></p> <p><b>1. Property valuation</b></p> <p><b>Findings:</b></p> <p>We concluded that the value of property assets was not materially misstated.</p> <p>A material uncertainty was reported by the council’s valuers resulting from market turbulence across the year end caused by the pandemic. We</p>

included an "emphasis of matter" paragraph in our audit report to draw attention to the council's disclosure of this material uncertainty, but our report was not qualified in this respect.

Adjustments were made to correct errors in the original version of the council's financial statements presented for audit.

Misstatements related to this risk which remained uncorrected in the final, published version of the financial statements were reported in our final update report presented to the audit committee meeting on 23 November 2023.

We reported that there were significant deficiencies in the council's controls to mitigate this risk in our report presented to the audit committee meeting on 27 January 2022 which was updated and reissued to the meeting on 26 January 2023.

**Risk identified:**

The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are, by nature, significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The areas of significant risk were been pinpointed to: (a) the risk of inappropriate methodology or assumptions used in the valuation of schools and other specialised assets, in particular: the application of the modern equivalent assets principle; the judgement on land values; and the approach to estimating the allowance for the physical deterioration and obsolescence; and (b) the risk of inappropriate methodology or assumptions in the valuation of council dwellings in particular: the application of the beacon approach; and the selection of comparators; and the risk that the carrying value is materially misstated because assets which have not been revalued at the reporting date have changed materially in value since the date of last valuation.

**Deloitte response:**

We tested the design and implementation of controls within the valuation process.

With the assistance of our internal valuation specialist we performed the following procedures to respond to the significant risk or in support of that work:

- Assessed the qualifications, experience, objectivity and independence of the valuer.
- Tested factual inputs, such as building areas, to source documentation.
- Assessed the appropriateness of the methods and assumptions used by the valuer.
- Tested a sample of individual asset valuation calculations.
- Tested the posting of the valuation to the accounting records.
- Assessed management's rationale for concluding that there was no material change between the data valuation and the reporting date for those assets not revalued at the reporting date.

## **2. Capital Expenditure**

### **Findings:**

We concluded satisfactorily on our testing in this area.

We identified one item of expenditure which had been incorrectly capitalised which was not corrected in the final version of the council's financial statements. This was reported in our final update report presented to the audit committee meeting on 23 November 2023.

We reported that there were significant deficiencies in the council's controls to mitigate this risk in our report presented to the audit committee meeting on 27 January 2022 which was updated and reissued to the meeting on 26 January 2023.

### **Risk identified:**

The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS).

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital.

### **Deloitte response**

We tested the design and implementation of controls to ensure that only capital expenditure which meets the conditions for capitalisation is accounted for as such.

We also tested a sample of items capitalised (including amounts in REFCUS) to ensure they were valid and meet the conditions for capitalisation.

## **3. Recognition of grant income and other contributions**

### **Findings:**

We concluded satisfactorily on our testing in this area. Errors which remained in the final version of the council's financial statements were reported in our final update report presented to the audit committee meeting on 23 November 2023.

Adjustments were made to correct errors in the original version of the council's financial statements presented for audit.

Misstatements related to this risk which remained uncorrected in the final, published version of the financial statements were reported in our final update report presented to the audit committee meeting on 23 November 2023.

We reported that there were significant deficiencies in the council's controls to mitigate this risk in our report presented to the audit committee meeting on 27 January 2022 which was updated and reissued to the meeting on 26 January 2023.

**Risk identified:**

In 2018/19 and in previous years, contributions by leaseholders to major works and community infrastructure levy were recognised in the comprehensive income and expenditure statement on the wrong basis.

Officers carried out exercises for the purpose of both the 2018/19 and 2019/20 accounts to re-analyse both these income streams across all periods presented in those statements.

We identified a risk that leaseholder contributions and community infrastructure may not be recognised in the correct period as a result of errors in the execution of this exercise.

Errors were also identified in 2018/19 where grant income had been deferred, although there were no outstanding conditions preventing its recognition. There is a risk that grant income is recognised in the wrong period as a result of the incorrect application of recognition principles.

**Deloitte response:**

We tested the design and implementation of controls to ensure that grant income and contributions are recognised in the correct period.

We carried out focused testing on exercises carried out by officers to implement changes in recognition basis for contributions by leaseholders to major works and community infrastructure levy across all periods presented in the 2018/19 and 2019/20 statements of accounts.

We also selected a sample of other grants and contributions and tested whether they had been recognised in the correct period.

**4. Management override of controls:**

**Findings:**

We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed.

We reported that there were significant deficiencies in the council's controls to mitigate this risk in our report presented to the audit committee meeting on 27 January 2022 which was updated and reissued to the meeting on 26 January 2023.

**Risk identified:**

This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the council's controls for specific transactions.

	<p><b>Deloitte response:</b></p> <p>We carried out the following procedures:</p> <p><i>Journals</i></p> <p>We have tested the design and implementation of controls in relation to journals.</p> <p>We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>We have used our data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.</p> <p><i>Significant transactions</i></p> <p>We did not identify any significant transactions outside the normal course of business or where the business rationale was not clear.</p> <p><i>Accounting estimates</i></p> <p>We performed design and implementation testing of the controls over key accounting estimates and judgements.</p> <p>We reviewed accounting estimates for biases that could result in material misstatements due to fraud.</p> <p>We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.</p> <p><b>Pension fund financial statements</b></p> <p>We identified one significant audit risk, in respect of management override of control. The nature of the risk identified and our response are the same as described above for the equivalent audit risk in relation to the council's financial statement audit. We concluded satisfactorily in relation to our work on that risk and we did not report any key findings. We make the following recommendation in relation to a non-significant control deficiency: a detailed review of the support for journals relating to the posting of periodic investment data should be performed and evidenced.</p>
<p><b>Other information published with the statement of accounts, including the Annual Governance Statement</b></p>	
<p><b>We modified our opinion where the qualification matters described above are also discussed in other information. In these cases the</b></p>	<p>As appointed auditor, we read information, other than the financial statements and our audit report, within the statement of accounts, such as the Narrative Report and the Annual Governance Statement ("AGS"), to check that this other information is not inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>

<p><b>other information is misstated for the same reason</b></p>	<p>Our audit report on the council’s financial statements is modified in relation to the following:</p> <ul style="list-style-type: none"> <li>As described on page 5 of this letter, group financial statements have not been prepared for the group and we were unable to satisfy ourselves concerning the pension liabilities at 31 March 2020 and 31 March 2019. Where the results and financial position of the Council in respect of these matters are discussed in the other information, we have concluded that the other information is materially misstated for the same reasons.</li> </ul> <p>Our audit report on the pension fund’s financial statements is modified in relation to the following:</p> <ul style="list-style-type: none"> <li>As described on page 6 of this letter, we were unable to satisfy ourselves concerning the present value of promised retirement benefits at 31 March 2020 and 31 March 2019. Where the results and financial position of the council in respect of this matter are discussed in the other information, we have concluded that the other information is materially misstated for the same reason.</li> </ul>
<p><b>Powers and duties</b></p>	
<p><b>We did not receive any objections or questions from local residents and did not issue a public interest report or make a statutory recommendation</b></p>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts.</p> <p>We did not receive any questions or objections from residents about these accounts.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the council should consider, or if the public should know about.</p> <p>We did not identify any matters which we considered warranted a public interest report or identify any items of account that may be unlawful or make a statutory recommendation under Schedule 7.</p>
<p><b>Audit certificate</b></p>	
<p><b>We have issued our audit certificate</b></p>	<p>We have issued our audit certificate on the 2019/20 audit. The certificate confirms that we have concluded the audit for 2019/20 in accordance with the requirements of the Local Audit &amp; Accountability Act 2014 and the Code of Audit Practice.</p>
<p><b>Control recommendations</b></p>	
<p><b>We reported several control recommendations</b></p>	<p>We reported on several control deficiencies and made recommendations for improvement as part of the audit process for the council and pension fund, and we have reported these to the audit committee in our reports. These recommendations are made under section 27(6) of the Local Audit and Accountability Act 2014 (commonly known as “written recommendations”) as opposed to a statutory recommendation under Schedule 7. The council is establishing a process to track and report to the audit committee on implementation of external audit recommendations. We recommend the council populate the tracker with all recommendations made in our reports detailed on page 16 and equivalent list in our 2018/19 Annual Audit Letter (as</p>

	<p>some recommendations were not repeated in the later year but may, nevertheless, remain pertinent).</p>
<p><b>Uncorrected misstatements</b></p>	
<p><b>We communicated uncorrected misstatements to the Committee</b></p>	<p>We reported on misstatements which had not been corrected in the final version of the council financial statements in our report discussed at the committee meeting on 23 November 2023 and misstatements which had not been corrected in the final version of the pension fund financial statements in our report discussed at the committee meeting on 27 January 2022.</p> <p>Uncorrected misstatements in the council financial statements, including the carryover effect of errors identified in the prior year financial statements, would, if corrected, increase the surplus on provision of services by £0.3m, reduce other comprehensive income by £2.4m, reduce net assets by £5.7m and reduce opening reserves by £3.6m.</p> <p>We also reported on other, possible misstatements in the council financial statements which we were not able to quantify.</p> <p>We did not report any uncorrected misstatement in the pension fund financial statements other than disclosure misstatements.</p> <p>We also reported to the audit committee on disclosure matters that we identified when assessing the overall presentation of the council financial statements in our final update report discussed with committee members at their meeting on 23 November 2023 and in the pension fund financial statements in our report discussed with committee members at their meeting on 27 January 2022.</p> <p>The council confirmed officers’ view that these items were immaterial, individually and in aggregate.</p>
<p><b>Delay in completing the audit</b></p>	
<p><b>The audit was completed well beyond the original target date</b></p>	<p>Completion of the council audit was delayed well beyond the original target date of 30 November 2020 due to:</p> <ul style="list-style-type: none"> <li>• The time taken by the council to investigate and resolve issues identified in the statement of accounts for the years ended 31 March 2020 and 31 March 2019 and process a significant volume of adjustments to the council’s financial statements.</li> <li>• The quality of the council’s record keeping and the slow pace at which officers responded to audit requests.</li> <li>• The impact of the large volume and significance of issues and adjustments identified over the period of the audit and other factors on our assessment of engagement risk and the time needed to develop and execute our response plan to the heightened engagement risk which resulted from this.</li> </ul>

# 5 Value for money

## Background and approach

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our assessment is based on the following reporting criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The following sub-criteria are then used to inform and guide our work and inform our overall judgement, although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

We identified significant risks in relation to:

- Financial reporting arrangements; and
- Risk management and internal control.

We set out the work performed in response to these significant risks in our report presented to the committee meeting on 27 January 2022 and updated and reissued to the meeting on 26 January 2023. In each case, the findings from this work resulted in the reporting of an exception (an "except for" qualification), as described in the next section.

## The VFM conclusion

We issued a qualified conclusion on VFM on 30 November 2023, as follows:

"Qualified conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in April 2020, with the exception of the matters reported in the basis for qualified conclusion section below, we are satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020".

We reported two exceptions as the basis for the qualified conclusion:



- The finalisation and publication of the council's statement of accounts for the years ended 31 March 2019 and 31 March 2020 have been significantly delayed from their original target dates of 31 July 2019 and 30 November 2020, respectively. This is due to the time needed to investigate issues identified during the 2019/20 audit process and to prepare amended accounts and the consequent impact on the 2019/20 accounts and audit process. The council's investigation of these matters resulted in a period of prolonged uncertainty over the amount and timing of recognition of usable reserves available to meet future spending requirements and the council's strategic objectives and corrections to the originally published draft statement of accounts, including material adjustments which had the effect of increasing usable reserves by £41.7m and unusable reserves by £202.1m at 31 March 2019 and increasing usable reserves by £72.5m and increasing unusable reserves by £0.1m at 31 March 2020. As described earlier in this report, our opinions on the council and pension fund financial statements were qualified with respect to certain matters and we identified significant control weaknesses in the council's financial reporting arrangements.

We concluded that these conditions provided evidence that the council did not have proper arrangements in place for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making.

- In the Annual Governance Statement, the council 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.

We concluded that these conditions provided evidence that the council did not have proper arrangements in place to manage risks effectively and maintain a sound system of internal control.

# 6 Other matters

## Reports issued

Reports issued in respect of the 2019/20 audit include:

(1) Reports to the audit committee:

- Annual audit plan on the council audit presented to the meeting on 13 May 2020
- Annual audit plan on the pension fund audit presented to the meeting on 21 July 2020
- Progress report on the council audit presented to the meeting on 20 November 2020
- Progress report on the council audit presented to the meeting on 7 April 2021
- Reports on the findings from the council and pension fund audits presented to the meeting on 27 January 2022. The report on the council audit was subsequently updated and reissued for the meeting on 26 January 2023
- Update report on key findings from completion of outstanding audit procedures (council and pension fund audits) presented to the meeting on 30 May 2023
- Second update report on key findings from completion of outstanding audit procedures (council and pension fund audits) presented to the meeting on 23 November 2023

(2) This annual audit letter.

## Statement of responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report is made solely to the members of 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 party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.



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