London Borough of Tower Hamlets
Audit results report

Year ended 31 March 2024

28 February 2025

Building a better working world

Audit Committee
London Borough of Tower Hamlets
Town Hall
160 Whitechapel Road
E1 1BJ

28 February 2025

Dear Audit Committee Members

Audit results report – financial year 2023/24

We are pleased to attach our audit results report, summarising the status of our audit. This report updates the provisional audit results report presented to the Audit Committee on 24 February 2025. Significant updates to the document have been included in blue text.

The audit is designed to express an opinion on the 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on London Borough of Tower Hamlets' (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

Within this report, we have set out identified areas of value for money significant weaknesses and consideration of our formal statutory recommendations to the Council under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024 ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). We have also taken into account SI 2024/907 and Local Authority Reset and Recovery Implementation Guidance Notes issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

While we have attempted to complete a significant volume of work to begin the process of rebuilding assurance ahead of the 2023/24 backstop date, we have not obtained sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over opening balances, in-year movements and all year-end balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

We draw the attention of Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements.

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

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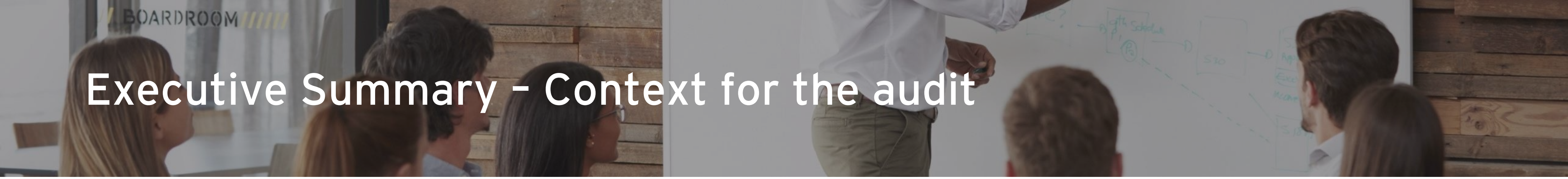
Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of London Borough of Tower Hamlets in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of London Borough of Tower Hamlets those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Tower Hamlets for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary



Executive Summary – Context for the audit

Context for the audit – Ministry of Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- lack of capacity within the local authority financial accounting profession;
- increased complexity of reporting requirements within the sector;
- lack of capacity within audit firms with public sector experience; and
- increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

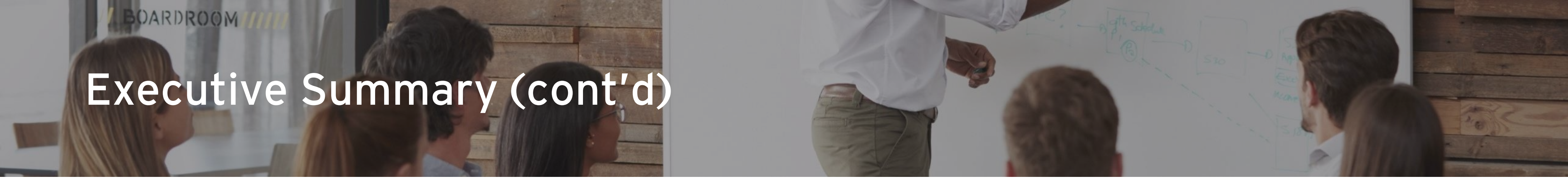
MHCLG (formerly DLUHC) has worked collaboratively with the FRC, and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025.
- Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

The Council's predecessor auditor issued a disclaimer of opinion for the financial years 2020/21, 2021/22 and 2022/23. As a result of the prior years' disclaimed audit opinions, we do not have assurance over the brought forward balances from 2022/23 (the opening balances) and the 2022/23 comparatives (including disclosures) presented in the 2023/24 financial statements. As it will take time to rebuild assurances, this means that we do not have assurance over 2023/24 in-year movements. In addition, we have been unable to gain sufficient assurance over all 2023/24 closing balances, with additional information provided within appendix A.

Scope update

In our Audit Planning Report presented at the October 2024 Audit Committee meeting, we provided an overview of our audit scope and approach for the audit of the financial statements. We have not identified any material changes to the scope of our audit.



Executive Summary (cont'd)

Status of the audit

Our audit procedures to issue our opinion are now complete.

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission remain outstanding until further guidance is issued by the National Audit Office. Once these have been finalised we will issue the audit certificate.

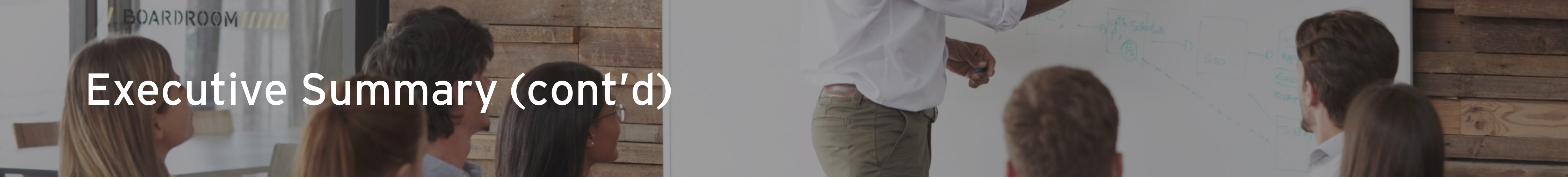
Expected modifications to the audit report

As reported in the predecessor auditor's reporting to Those Charged with Governance in December 2024, they issued a disclaimed audit report on the Council's 2022/23 financial statements under the Government's legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance). The reasons for the 2022/23 disclaimed audit report were set out in the predecessor auditor's reporting. As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances (particularly Reserves). We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild this assurance as part of our 2023/24 audit.

As set out within Section 2 and Appendix A of this report we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances. As we have explained, the Council has not always provided good quality working papers and sufficient and appropriate evidence to support the financial transactions in accordance with agreed timescales. There is now insufficient audit resource available to complete all outstanding procedures on the audit before the 2023/24 backstop date.

Taken together, and alongside the requirement to conclude the 2023/24 audit by the legislative back stop date of the 28 February 2025, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion. The extent of the disclaimed audit report consider the additional areas of the 2023/24 financial statements where we have not been able to gain sufficient assurance, over and above those we set out in our 2022/23 disclaimed audit opinion. Appendix A of this report sets out the provisional level of assurance we have been able to gain from the procedures that we have completed.

In line with the Government's legislative arrangements set out above and specifically the 'Recovery phase' of those arrangements and with guidance issued by the Financial Reporting Council (FRC) within their 'Accessible Guide' there is an expected minimum 3-year timeline to re-build audit assurances to gain full assurance over opening, closing balances and in year movements. We will reflect on the impact of the areas where we did not gain our planned assurances in 2023/24, through our 2024/25 audit planning report.



Executive Summary (cont'd)

Value for Money

In our Audit Planning Report we reported that we had completed our value for money (VFM) risk assessment, and we had identified seven risks of significant weakness. Having updated and completed the planned procedures in these areas we identified four significant weaknesses across those risk areas:

- In proper arrangements for supporting the statutory financial reporting requirements of the Council, effective processes and systems for accurate and timely financial information.
- In proper arrangements for Governance, including how the body ensures that it makes informed decisions and properly manages its risks, specifically 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.
- Failure of the Council to comply with the requirements of Part I of the Local Government Act 1999 ("the 1999 Act") could result in the loss of decision-making powers.
- Inadequate arrangements regarding procurement and contract management.

In relation to 3 of the significant weaknesses we have made Statutory Recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014. The Council must consider these recommendations at a public meeting held before the end of the period of one month beginning with the day on which it was sent to the Council. At that public meeting, the Council must decide whether the recommendations are to be accepted and what, if any, action to take in response to these recommendations. See Section 3 of the report for further details. Until our audit is certified as closed there may be more weaknesses that we identify and report.

Audit differences

- Uncorrected misstatements increase the deficit on services by £6.47 million. Details are included in Section 5.

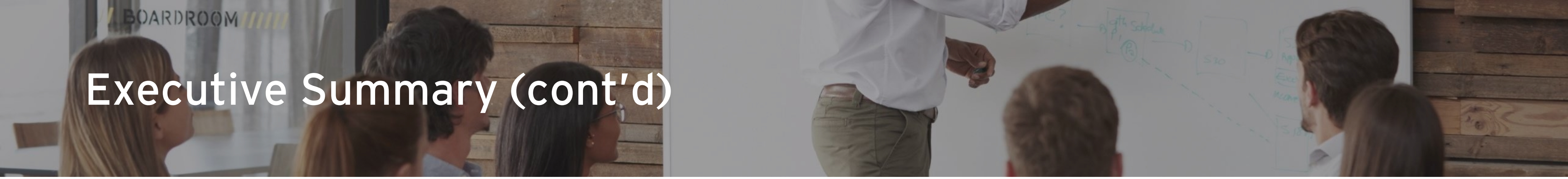
Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We note that management has made amendments to this statement following our observations, but also in relation to issues that have arisen during the period of our engagement, including the Best Value inspection and issues concerning a Homecare contract. Further updates have been required to reflect the extent of reporting on the financial statements and value for money findings, including the statutory recommendations set out within this report. We have no matters to report.

During the course of the audit management brought to our attention three instances of potential non-compliance with laws and regulations which required us to complete extended procedures to assess the risk to the financial statements. We are yet to fully conclude on these potential instances of non-compliance with laws and regulations; our work can only progress once the Council's own investigative work has concluded. For one instance, work has been concluded and we have reported weaknesses, albeit not significant weaknesses, in the Council's arrangements within the Value for Money section of this report. For the remaining two instances work remains underway by the Council and external parties to assess the impact of the matters identified. Given the proximity to the backstop date there is insufficient time for both the Council and EY to conclude on those matters. As a result, we will include reference in our audit opinion to these matters remaining in progress.

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report. We have set out against the risk areas, supplemented by the detail in Appendix A, the assurances we have obtained.



Executive Summary (cont'd)

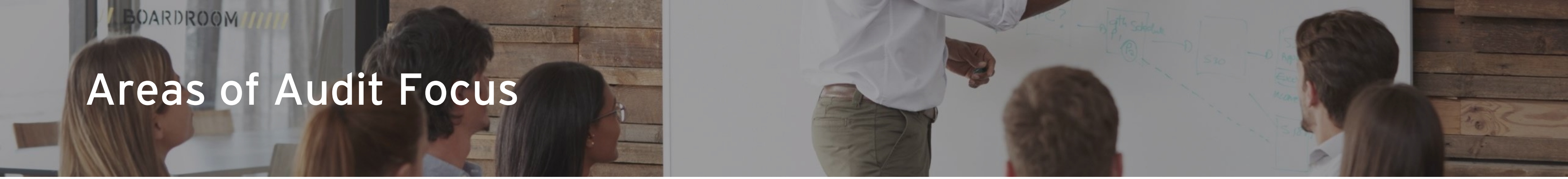
Control observations

During the audit, we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in Section 6 of this report.

Independence

Please refer to Section 8 for our update on Independence. We have no matters to report.

02 Areas of Audit Focus



Areas of Audit Focus

Audit Status

The financial statement audit has proved difficult for management to provide the level of support required. A good working relationship has been developed with the core finance team; we have received a good level of co-operation, and the finance team and audit team have worked hard to progress the audit which has involved a heightened level of sampling compared to previous years. This is against a backdrop of members of the finance team finalising work on outstanding audits and delivering their substantive roles simultaneously. However, there are a large number of areas where management's response times have led to work being delivered outside of the required timeframe, or delays or issues which have required responses from the finance team have led to work being de-prioritised or ultimately paused or abandoned.

In October 2024, when it became clear that based on the progress made on the audit at that point, the amount of work still outstanding would not be achieved in the timeline we set out in our Audit Planning Report, we discussed and agreed with management which audit requests should be prioritised. This was based on the following criteria:

- Procedures to discharge our responsibilities in relation to Value for Money.
- Testing that had a strong likelihood of being completed and would either provide assurance over a closing balance sheet position or provide assurance that could be leveraged (reduce work) in a future period.
- Testing that had a strong likelihood of being completed and had already been commenced to provide assurance of any balance in the financial statements.
- Work that would provide assurance over a closing balance sheet position, had been commenced and had a possible chance of being completed.
- Work that would provide assurance that could be leveraged in a future period, had already been commenced and had a good likelihood of being completed.
- Procedures that had not yet been commenced but was set out in our Audit Planning Report to respond to an area of focus and had at least a possible chance of being completed.

The most significant delays experienced requiring a concerted focus by management are: debtors; creditors; Housing Revenue Account, obtaining accurate valuations for Land and Buildings, and producing evidence to support the tracing of income receipts to the bank statement.

Management has committed to begin planning for the 2024/25 financial statement preparation and audit processes at the earliest opportunity and to explore ways to increase the pace of responses and the quality of workpapers and supporting schedules, which we welcome.

Areas of Audit Focus

Significant and Fraud risk - Management Override:

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What we said we would do

We respond to this risk by:

- Identifying fraud risks during the planning stages;
- Inquiring of management and Internal Audit about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance (the Audit Committee) of management's processes over fraud;
- Discussing with those charged with governance the risks of fraud in the entity;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud;
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements;
- Undertaking procedures to identify significant unusual transactions; and
- Considering whether management bias was present in the key accounting estimates and judgments in the financial statements.

Our procedures in this area have been supported by the use EY forensic specialists.

Conclusions

We identified one error through our journal testing for an amount of £400,000 where the remeasurement (reduction) of provisions has been recognised as revenue rather than a release of the provision expense. This has no net impact on the provision of services within the CIES. As the amount is greater than our reporting threshold it has been included as an uncorrected misstatement within the Section 5 of this report on audit differences.

Our work on journals identified 15 entries where the approval audit trail could not be obtained. We performed sufficient work to eliminate any reasonable possibility of fraud being prevalent in these transactions. We have made a recommendation in Section 6 of this report in relation to where management should seek to improve controls.

We are yet to fully conclude on three specific areas in relation to potential non-compliance with laws and regulations; our work can only progress once the Council's own investigative work has concluded. For one instance, work has been concluded and we are currently completing our internal review and consultation procedures. For the remaining two instances work remains underway by the Council and external parties to assess the impact of the matters identified. Given the proximity to the backstop date there is insufficient time for both the Council and EY to conclude on those matters. As a result, we will include reference in our audit opinion to these matters remaining in progress.

There has been insufficient time to complete all planned procedures and reviews. Refer to appendix A of our report.

Areas of Audit Focus

Significant and Fraud risk - Risk of fraud in expenditure recognition

Inappropriate capitalisation of revenue expenditure

What is the risk, and the key judgements and estimates?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed that one of the most likely ways this risk may manifest is through the inappropriate capitalisation of revenue expenditure.

What we said we would do

In order to respond to this risk, we:

- Test Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is capital in nature. This will include testing items exceeding a threshold and a representative sample of all items below that level.
- Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Test items of REFCUS exceeding a testing threshold to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. We will consider the need to perform a sample on the remaining balance of REFCUS if our testing of key items has not lowered our audit risk to an acceptably low level.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Conclusions

Our testing of capital additions incorporates an assessment of whether the expenditure is capital in nature and reasonable. We have tested 116 ledger postings, made up of a combination of debit and credit entries. To date, we have not identified any issues to report in respect of this testing.

In our status report that we presented to the December audit committee, we highlighted a risk to completion of our testing of REFCUS as we were awaiting information from management. Information was provided in December which was after our audit resource was available. However, we did briefly assess the supporting evidence and noted that it was not complete or sufficient. Therefore, we have not been able to complete our audit procedures in this area.

There has been insufficient time to complete all planned procedures and reviews. Refer to appendix A of our report.

Areas of Audit Focus

Significant and Fraud risk - Risk of fraud in income recognition

Overstatement of Fees, Charges and Other Service Income.
Overstatement of Short-term Debtors

What is the risk, and the key judgements and estimates?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, dwelling rentals and other income), where management may have overstated income in the current financial year.

This is likely to occur around the end of the financial year (i.e. bringing forward income from the subsequent year) and would also lead to an overstatement of debtors (excluding collection fund debtors), therefore we associate this risk to that balance too.

What we said we would do

In order to respond to this risk we would:

- Understand and challenge management on any accounting estimates or judgements on income recognition for evidence of bias.
- Perform overall analytical review procedures to identify any unusual movements or trends for further investigation.
- Use our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those manual entries that increase income and/or accrued debtors.
- Undertake a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing.
- Perform a month-by-month trend analysis on rentals from dwellings income and performing a reconciliation between the dwelling rental income recognised and the rental system.

Conclusions

We have been unable to complete our audit procedures in relation to this risk.

The Council has found it difficult to provide suitable transaction listings that reconcile to the financial statements for us to select our sample. In addition, one of the most significant issues that we have encountered is in relation to the Council’s cash receipting system, with management being unable to trace receipts back to bank.

Management will need to resolve these issues ahead of the 2024/25 audit. We have raised a recommendation in relation to this in Section 6 of this report.

Areas of Audit Focus

Significant and Fraud risk - Risk of fraud in expenditure recognition

Understatement of other operating expenditure and associated accruals balances

What is the risk, and the key judgements and estimates?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assess that this risk manifests itself in the understatement of expenditure (completeness of expenditure and associated accruals balances) in order to manage the Council's financial position. We consider this risk does not apply to payroll. This could also extend to non-recognition of required provisions.

We consider the significant risk does not apply to payroll.

What we said we would do

In order to respond to this risk we would:

- Perform unrecorded liabilities testing for at least 2 months after year end. We will taper our testing threshold to recognise that the risk diminishes the further away from the year-end we move.
- Perform testing on completeness of provisions based on our understanding of the Council.
- Perform cut off testing with populations of purchase order invoices around year end to determine whether transactions have been recorded within the correct period.

Conclusions

- We have not identified evidence that provisions are not complete.
- Our work to test for unrecorded liabilities has been completed with a misstatement identified of £2,474,000 where expenditure relating to 2023/24 was not accrued, leading to an understatement of both creditors and expenditure on the cost of services. We have included this misstatement in Section 4 of this report. The misstatement related to 9 payments made in April and May 2024 that should have been accrued for in the 2023/24 financial statements. For 5 of these payments (Totalling £1.4m) management have accounted for the payments made in respect of utilities in the twelve month period (i.e. on a cash basis) rather than on an accruals basis. The remaining 4 items (£1.2m) were accruals for services provided in 2023/24 where an accrual was omitted by error.
- We have gained assurance over the cut-off of creditors.

There has been insufficient time to complete all planned procedures and reviews. Refer to appendix A of our report.

Areas of Audit Focus

Significant and Fraud risk - Disclosure of related parties and associated transactions

Disclosure of related parties and associated transactions

What is the risk, and the key judgements and estimates?

As noted in previous years, the Council has received a qualified audit opinion where the former auditor was unable to obtain sufficient appropriate audit evidence concerning the required disclosures.

Due to the sensitive nature of related party declarations and the associated disclosures required by the Code, there is increased risk of a material misstatement arising as a result of insufficient data in this area and any breakdown in the controls that should monitor disclosure of related parties and accompanying transactions. This can increase the risk of fraud within the organisation.

The Council Code of Conduct for Members sets out the expectation that Disclosable Pecuniary Interests are to be declared for all members and to include relevant partner's interests too.

The Code of Conduct for Officers stipulates that staff should declare any interests, or those of family members or spouses, in any contracts under consideration by the Council. Officers over scale 6 should hold no other interests unless expressly approved by the Chief Executive.

What we said we would do

In order to respond to this risk we would:

- Obtain and scrutinise declarations made in the year, reviewing the recency and completeness of declarations received.
- Understand the processes that management perform to verify and analyse those declarations.
- Perform procedures to test the completeness and accuracy of the declarations made.
- Review for accuracy the disclosures made in the financial statements.

Conclusions

Our work to test declarations, transactions and disclosures is complete, with no issues arising. However, there has been insufficient time to complete all reviews. Refer to appendix A of our report.

Areas of Audit Focus

Significant risk

Private Finance Initiative (PFI)

What is the risk, and the key judgements and estimates?

The Council has three PFI and lease arrangements associated with the Mulberry and Grouped Schools schemes and the Barkantine Heat and Power scheme.

The Council's liability in relation to its PFI schemes as at 31 March 2024 is reported in the draft financial statements as £19.6 million. This value is derived from complex models which reflect a number of assumptions which may change over the life of the contracts.

These are complex, material transactions and there is a risk that the PFI model is incorrect and therefore the associated accounting treatment and disclosures are not correctly reflected in the financial statements.

What we said we would do

In order to respond to this risk we would:

- Confirm our understanding of the process of how the PFI models are maintained and updated; including how the output of the models are included within the Council's financial statement closing processes.
- Perform checks to ensure that any changes in the PFI arrangements and associated assumptions are reflected as updates to the financial models.
- Identify those inputs to the model which are estimates and undertake audit procedures to gain assurance over the reasonableness of these estimates.
- Engage EY's internal specialists to review the PFI model to ensure the inputs and accounting are in line with our expectations.
- Confirm that year end journal entries in relation to the PFI schemes have been processed accurately.

Conclusions

Our internal specialists have completed their work in relation to the Mulberry and Grouped Schools schemes and identified no issues.

Procedures on the Barkantine Heat and Power Scheme has resulted in queries to management to be responded to before we can definitively conclude on the appropriateness of the accounting treatment.

Given the proximity to the backstop date this work will now not be concluded prior to the 28 February 2025 and as such, for the purposes of our 2023/24 audit we are unable to obtain the required level of assurance.

Areas of Audit Focus

Significant risk

Opening balances

What is the risk, and the key judgements and estimates?

As 2023/24 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.

The predecessor auditor has indicated that they are likely to disclaim their opinions for all years between 2020/21 and 2022/23. This means that we will need to perform additional work over opening balances.

The measures to address local audit delays, including the implementation of backstop dates and the rebuilding of assurances over multiple years, will lead to modifications in our 2023/24 audit opinion.

Where we are able to perform meaningful levels of work on opening balances in the period there is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

What we said we would do

In order to respond to this risk, we set out that we would:

- Consider which opening balances are critical to our work to be able to obtain sufficient and appropriate audit evidence for the 2023/24 financial statements.
- Agree the opening balance sheet position to the underlying financial records.
- Review the prior year working papers by the departing auditor, where we deem this to be beneficial, to understand the procedures completed and if they need to be supplemented or followed up in any way.
- Consider unusual material transactions posted by management in the first accounting periods of 2023/24, which may indicate correction of previous errors, and understand the basis for these transactions.

Conclusions

The predecessor auditor issued their disclaimed audit opinions for financial years 2020/21 through to 2022/23 in December 2024.

Given the challenges encountered during the audit and the proximity of the backstop dates for 2022/23 and 2023/24 we did not plan to build back assurances on 2023/24.

The timeline to build back assurances which will allow a ‘clean’ audit opinion to be provided is dependent on the ability to build back assurances in any given year, no material disagreements with management arising and the timely provision of guidance from the National Audit Office / Financial Reporting Council.

Areas of Audit Focus

Significant risk

Preparation of Consolidated Group financial statements

What is the risk, and the key judgements and estimates?

The Council has a controlling interest in several organisations, the most significant being Tower Hamlet Homes, King George's Field and Seahorse Homes. The Local Authority Accounting Code of Practice requires the Council to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. The Council conducts an annual review to consider its group boundary and whether its interest in private companies are material; and consequently, whether group financial statements are required. In previous years, the Council has received a qualified audit opinion for its failure to prepare group financial statements which consolidate the results and financial position of its subsidiary undertakings.

The Council has prepared Group financial statements for the first time in 2023/24.

In the first year of preparing group financial statements, combined with a risk that an incorrect assessment of the group boundary is undertaken, there is a risk that the financial statements may be prepared on an incorrect basis.

What we said we would do

In order to respond to this risk we would:

- Consider the Council's assessment of its group boundary and consider the significance of the components to the group financial statements.
- Review and test the Council's process for consolidation, consistency of accounting policies and quality review, and consider the appropriateness of inter-company elimination.
- Review the completeness of the disclosures in the group financial statements to ensure they are materially accurate and complete.

Conclusions

We reviewed the group boundary assessment performed by management. Management's assessment noted that Seahorse Homes was dissolved in June 2023 and Tower Hamlets Homes was insourced into the Council during the financial year.

In line with the principles we have set out in terms of prioritisation of our audit work, we have not completed any further procedures in this area and therefore cannot provide any assurance over the Group financial statements.

Areas of Audit Focus

Significant risk

Valuation of land and property

What is the risk, and the key judgements and estimates?

Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We specifically focus on assets where a higher degree of estimation uncertainty exists:

- Depreciated Replacement Cost (specialised operational assets for which an active market does not exist);
- Fair Value (surplus assets valued at the price that would be received to sell an asset); and
- Existing Use Value (operational assets for which there is an active market to provide comparable evidence, including those Council Dwellings adjusted for Social Housing use).

The Council engages external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.

The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that fixed assets may be under/overstated impacting on their valuation in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying estimates.

What we said we would do

In order to respond to this risk we would:

- Test that assets have been classified and valued on an appropriate basis.
- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, to ensure these are consistent with accounting standards and that the scope of the work is appropriate.
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer.
- Sample test and challenging the key asset information and assumptions used by the valuers in performing their valuation; for example, floor plans based on price per square metre.
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.

Conclusions

We have set out our findings in relation to this risk on the next page. We have not been able to conclude our audit work on this risk. Refer to Appendix A for a summary of assurances.

Areas of Audit Focus

Significant risk

Valuation of land and property

Conclusions

We have identified a significant number of matters with the work performed by management's externally engaged valuation expert, where we have been unable to gain comfort over assumptions and methods used to determine valuations. These assumptions appear to have been employed by management's expert for a number of years. As these issues have not been resolved, we have been unable to gain assurance over the valuation of the Council's land and buildings. EY Real Estates, acting as our auditor's expert, performed analysis on 8 assets, creating an acceptable range for the valuation of those assets. Of these 8 assets, only two were judged to be within a reasonable range, with the other 6 all stated above this. The extent of how much the observed valuations exceed the top end of what we consider as an acceptable value, ranged from 12.5% to 43.8% with the largest absolute variance being on the Town Hall representing a potential £68 million overstatement in value.

We have raised recommendations in relation to the findings which include:

- For assets valued at current use, the price per hectare for both developed land, and in some, but fewer, incidences undeveloped land, could not be supported.
- Price per hectare for Fair Value development land could not be supported.
- Rates for external works, usually based as a percentage of the valuation, has been applied in a way, for many assets that could not be supported. This includes being applied on the valuation inclusive of professional fees, which is out of line with the industry norm, and has been applied at a higher rate than we would expect; again, on a number of sampled valuations.
- We identified an asset where an associated car park had been double-counted in the calculation of the land area. For the same asset, obsolescence was calculated assuming a 1990 build date, which was only applicable for part of, a generally much older site.
- One asset had not been updated for an extension completed in 2022.
- Differences noted between Gross Internal Area (GIA) used in the valuation and that observed in floor plans.
- Assets valued based on the GIA rather than Net Internal Area (NIA).
- Market based valuations including overly optimistic market rents.
- Market based valuations including unsupportable yields failing to reflect voids, vacant space.
- An asset was identified in our review, where the judgement of the audit team was that the asset could have been classified as an Investment Property.

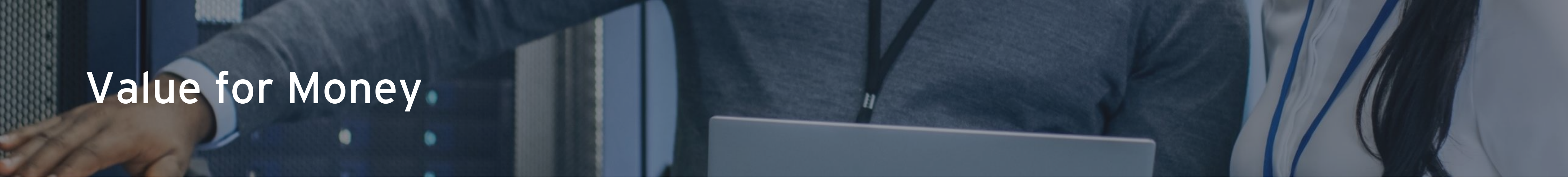
In relation to the valuation of Council Dwellings, as at 31 March 2024 we identified a difference where the Council's valuer has applied the same ratio of Land to Buildings for all dwelling properties, where we would expect flats to have a different land footprint to houses. The valuer has applied a 30:70 split to all properties. From our experience we would expect a 20:80 split for flats. This impacts the amount of depreciation charged each year, as land is assumed to have an indeterminate life it is not depreciated. We have calculated that the relevant buildings (flats) are under-depreciated by £1,973,000. There is no impact on the NBV at the balance sheet date as all depreciation has been "written back" on revaluation at the year end, so the opposite entry is an increase on the gain on revaluation.

Areas of Audit Focus (cont'd)

Other areas of focus

Financial statement area	Risk per Audit Planning Report	Work done, findings and outstanding items
Minimum Revenue Provision	If the Minimum Revenue Provision (MRP) is understated, it would have the impact of overstating the General Fund balance and understating the capital adjustment account. Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance. With significant capital investment at the Council, there is a risk that MRP has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances.	Our findings are: ▸ In prior periods, the Council had incorrectly charged the HRA for voluntary MRP contributions despite statutory guidance stating that MRP is not required for HRA assets. This means that the Council overcharged the HRA by £8.9 million. As the prior year statements had not been approved by the time of our work in this area, management were able to transact the required amendments without the need for a prior period adjustment in the current year. ▸ In 2023/24 the Council identified and corrected this area, ensuring that the erroneous charge was not made. However, in making this change, management diverged from policy. The MRP policy is set annually at budget setting in February 2024. As the error was noted subsequent to this, management were not able to obtain appropriate approval through Full Council. ▸ We also identified misstatements in the MRP disclosure elements of the financial statements. Due to the timing of the closure of the audits for 2020/21, 2021/22 and 2022/23 management were able to correct closing and opening balances in those years, as well as updating the 2023/24 draft financial statements and comparatives. As a result, no prior year adjustments were required in the 2023/24 financial statements. There has been insufficient time to complete all reviews. Refer to appendix A of our report.
Preparedness for implementation of IFRS 16: Leases	CIPFA LASAAC has confirmed that local authorities will be required to implement IFRS 16 Leases from 1 April 2024. For the financial statements in 2023/24, the Council is required to assess the financial impact of these expected changes.	We have been unable to complete work in this area. Management have provided their self-assessment in this area and expect to be on-track for the implementation date; however, we have been unable to corroborate these assertions.
Pension Liability/Asset Valuation	The Council's pension fund deficit is a material estimated balance and the CIPFA Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £178.5 million. Previous audit opinions have been qualified due to errors identified in membership data used to calculate the pension liability. Although some errors have been corrected; the volume of member records involved meant that the Council's former auditor was unable to determine whether any further adjustments to these amounts was necessary.	Work that management is undertaking to correct errors in pensions membership data has not been completed in time for the 2023/24 audit; this has contributed to us not being able to perform the required procedures in this area. We would also be reliant on information provided by the Pension Fund auditor; due to significant delays in the commencement of that audit, we were aware that this information would not be forthcoming in time for us to appropriately consider any findings and draw the conclusions we would need for our own work. Given the two issues in aggregate, we deprioritised work on this balance and have been unable to perform our procedures prior to the backstop date

03 Value for Money



Value for Money

The Authority's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the National Audit Office (NAO) Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three reporting criteria:

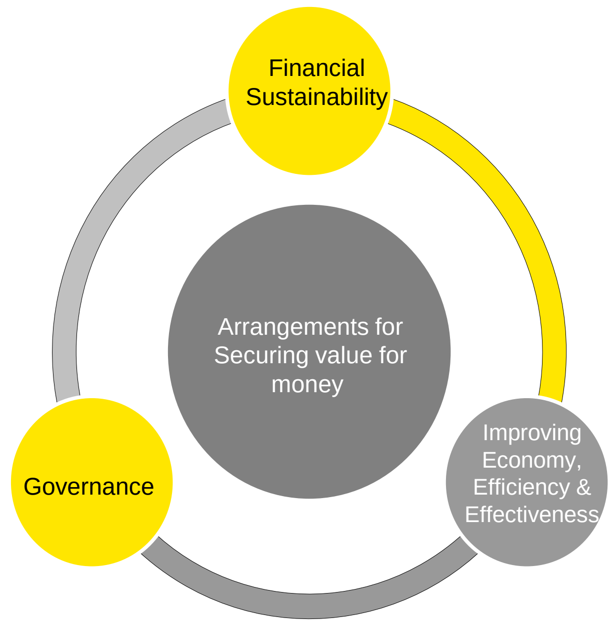
- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

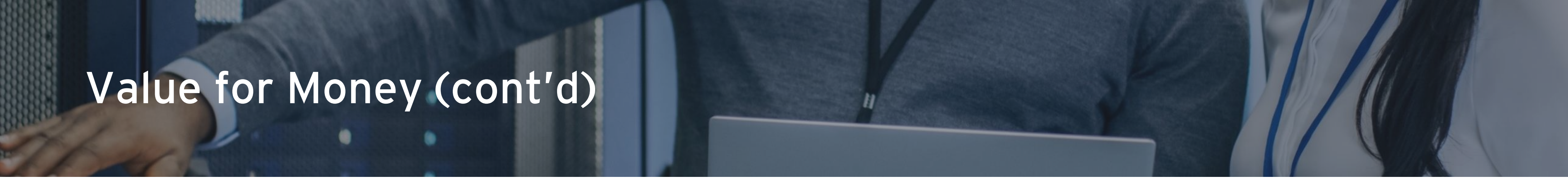
On the pages that follow we set out the identified risks of significant weaknesses in our Audit Planning Report presented to the Audit Committee in October 2024, the procedures undertaken and our findings.

Based on the work undertaken we have identified four significant weaknesses in the Council's arrangements for securing value for money for the year ended 31 March 2024.

We have also considered the use of our other reporting powers. Under section 24 of the Local Audit and Accountability Act 2014, we may designate any audit recommendation as one that requires the Group and the Council to consider it at a public meeting and to decide what action to take in response. Under Schedule 7(2) we have issued Statutory Recommendations in relation to three of the identified significant weaknesses.

We have also identified a weakness relating to the completion of our procedures for one instances of non-compliance with laws and regulations that we consider requires reporting to those charged with governance.





Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Arrangements for reliable and timely statutory financial reporting

The 2018/19 and 2019/20 financial statement audit opinions were qualified for a number of reasons. The Value for Money conclusion also contained an 'except for' opinion in relation to the number of issues and amendments associated with the financial statements.

Previously the financial statements (2018/19 and 2019/20) were qualified for the following reasons:

- Failure to prepare group financial statements.
- Pension liability errors in membership data used.
- Related party disclosures interests of elected members and members of their close family were not obtained.
- Officers' remuneration information from schools.

What arrangements did this impact?

Governance

What did we do?

We:

- Discussed the causes of previous financial statement qualifications and obtained an update of actions taken by management to reduce the likelihood of similar qualifications occurring in 2023/24.
- Understood the steps taken by management to improve processes to obtain the required information to prepare financial statements and take into account experiences and observations in undertaking the 2023/24 audit.

Findings

During the 2023/24 financial year (November 2023) the 2018/19 and 2019/20 audits were concluded with qualified opinions. The remaining three years relating to 2020/21, 2021/22 and 2022/23 were subject to disclaimed audit opinions in advance of the 13 December 2024 backstop date.

The opinions were disclaimed in line with the Government's proposals for resetting the local audit backlog. The basis for disclaimer referenced significant delays in the preparation and publication of the financial statements and continued to include reference to the failure to prepare group financial statements, pension liability errors in membership data and officer remuneration. In addition, a new matter was identified and related to the disclosure of revenue from contracts with service recipients. The value for money reporting identified significant weaknesses in the processes and systems for reliable and timely financial reporting due to significant control deficiencies identified in earlier audits for which corrective action was not completed.

The Council are yet to finalise the work required to address the errors in membership data that has been used to calculate the pension liability. Whilst we understand that the Council has taken action to address all the remaining matters, we have been unable to gain sufficient and appropriate evidence to substantiate this in 2023/24.

The Council published their 2023/24 financial statements ahead of the May 2024 requirement, which is a substantial improvement on the previous years where significant delays in the financial statement preparation process was experienced as the Council sought to clear the backlog of historic audits.

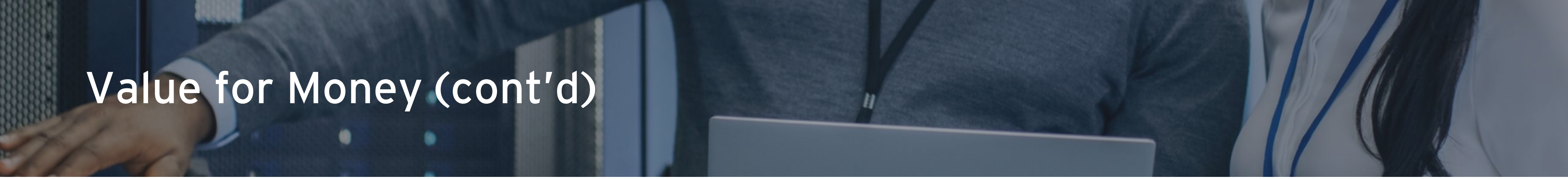
As set out in this report, the financial statements audit has proved difficult for management to provide the level of support required. There are a large number of areas where management's response times have led to work being delivered outside of the required timeframe, or delays or issues which have required responses from the finance team have led to work being deprioritised or ultimately abandoned.

As set out in the basis for disclaimer of this audit opinion the Council has not been able to provide timely, sufficient and appropriate audit evidence in relation to several areas of the financial statements because of significant control deficiencies. Therefore, there is a weakness in proper arrangements for supporting the statutory financial reporting requirements of the Council, effective processes and systems for accurate and timely financial information. We have raised the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

To meet its objectives and the requirements of the Audit and Accounts Regulations the Council should:

- continue to re-assess roles, responsibilities and resource requirements for financial reporting;
- take action to ensure that sufficient and appropriate audit evidence is available in relation to transactions in the financial statements; and
- respond to audit recommendations and findings and implement corrective actions plans in a timely manner.

This issue is evidence of significant weaknesses in proper arrangements that the Council does not have effective processes and systems in place to support its statutory financial reporting requirements.



Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Arrangements for assessing risk and gaining assurance over the effective operation of internal controls

Prior year value for money conclusions (back to 2018/19) have reported significant weaknesses in relation to the Council's internal control environment and risk management processes.

There are a high volume of outstanding recommendations from audit and external agencies, arising from limited assurance reports or significant control deficiencies.

What arrangements did this impact?

Governance

What did we do?

We:

- Considered reports taken to the Audit Committee, including observing the processes for governance and oversight.
- Reviewed the Annual Governance statements for identification and disclosure of significant governance issues.
- Reviewed Internal Audit reports and the Head of Internal Audit Opinion, undertaken discussions with key individuals in the internal audit team.
- Considered the findings set out in the external review of risk management.
- Took into account findings arising from the 2023/24 financial statement audit to inform our view of the control environment.
- Considered procedures performed on non-compliance with laws and regulations and how the matters arose.

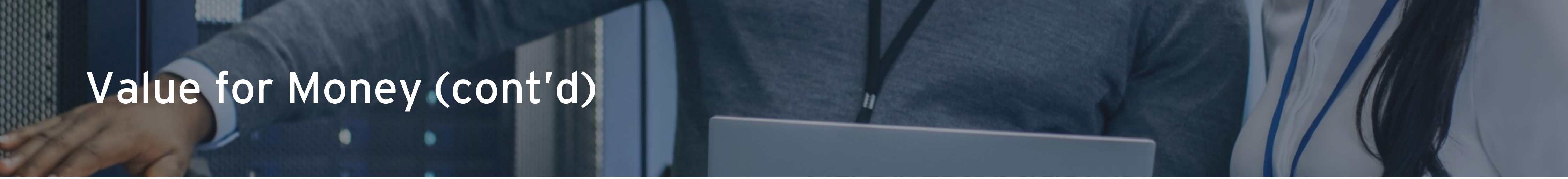
Findings

Reporting to the Audit Committee has identified inadequate engagement across the organisation to resolve a significant number of internal control recommendations in a timely manner, identified by audit and other external agencies. This has resulted in pervasive weaknesses in the control environment. There has been a lack of governance and oversight through the Corporate Leadership Team (CLT) and the Audit Committee to ensure that there is accountability and timely resolution of recommendations. The overall head of internal audit opinion for 2023/24 provides 'Limited Assurance that the Council has adequate systems of governance, risk management and internal control'. Except for the 2022/23 opinion, which was issued with "Reasonable Assurance", the Head of Internal Audit Opinion has been awarded "Limited Assurance" each year since 2019/20. There is a lack of tracking of recommendations and less than half of Internal Audit recommendations were actioned from within the 9 audits that were followed-up on in 2023/24. Due to the pervasiveness of the internal control environment findings, we have raised the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

- The Council should develop an action plan with clear actions, responsible owners and timescales to address recommendations raised by internal and external audit, as well as other external agencies.
- The action plan should be owned by the Corporate Leadership Team with a view to embedding a culture of continuous improvement and the importance of addressing findings in the control environment.
- Progress should be regularly reported to and monitored by the Corporate Leadership Team before being presented to each meeting of the Audit Committee.
- The Audit Committee should ensure that they apply appropriate governance and oversight to the arrangements in place by management to address control findings, as well as considering the adequacy of the arrangements implemented to address findings.

Risk management arrangements have been identified by the Council and external agencies as requiring improvement and have been included in the Annual Governance Statement as a significant governance matter since 2018/19. Action has been taken to address some of the recommendations, but processes and practices are yet to be fully embedded. An external review of the Council's risk management arrangements in 2024 identified the risk management processes as lacking maturity, with a risk strategy that is severely out of date and in need of review. Governance and oversight of risk management, along with timely risk register reviews and changing the culture associated with risk management were also identified as key areas of focus. The Council is refreshing its strategy in 2024/25, however the weaknesses that should be addressed in this process should have been addressed earlier without waiting for the previous risk management strategy to reach the end of its natural life. Actions are being taken, but the timeframe over which this has been happening is not commensurate with the importance of the weakness. It is not clear or obvious where the Council may have been left exposed because of this, however as the new strategy is developed it should reveal the extent of exposure the Council potentially faced. In relation to risk management, we recommend the following:

- The Council should update the risk management strategy and take action to ensure that risk management processes are embedded throughout the Council.
- An action plan to address the recommendations arising from the external review of risk management should be implemented, regularly reviewed and reported to the Audit Committee.
- The Audit Committee should consider annually whether the risk management strategy remains fit for purpose and ensure appropriate arrangements by officers to embed risk management appropriately across the Council.



Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Contract Management and Procurement

The Council has identified potential overpayments made in relation to Homecare services.

Internal audit reviews throughout the period have regularly highlighted issues with procurement being a factor in findings, with improvements frequently appearing within recommendations.

What arrangements did this impact?

Governance and Improving economy, efficiency and effectiveness

What did we do?

We have engaged colleagues within our forensics team to review specific cases where there has been a clear breakdown in procurement and contract management controls.

We will consider findings from our financial statements audit work for any indicators that procurement controls are not operating effectively or are being circumvented.

We will perform a review of significant contractual arrangements held by the Council, assessing against our other work if there are any omissions.

Findings

We have previously highlighted to the Audit Committee that we are working with forensic colleagues to review two potential instances of non-compliance with laws and regulations brought to our attention by the Council. Since our Audit Planning Report was presented, we have been alerted to a third issue that we continue to investigate. A common theme of the events and conditions that have led to two of these incidents, is that an inadequate control environment, particularly in procurement, contract management and general oversight of Council expenditure, has resulted in the Council suffering some extent of financial loss.

In relation to the Homecare contract, over a number of years, insufficient controls resulted in a material value of unreconciled payments being made that subsequently required further investigation. The Council engaged PwC to undertake a scope of work related to the concerns identified. At the time of preparing this report, PwC's final report is pending. This issue was reported by the predecessor auditor in their 2020/21, 2021/22, 2022/23 audit reports to the Audit Committee in December 2024. The predecessor auditor also reported that payments made to one supplier far exceeded the annual contract value. A new Homecare procurement contract award commenced in 2023/24 for a four-year period. This was abandoned following challenges by bidders during the standstill phase. This was a highly significant contract, with an expected value over the contract life of £163 million. Although the Council consider that it can be demonstrated that the decision to abandon the procurement protects the Council against potential future loss or litigation, the abandonment of the exercise at such a late stage increases the risk to the Council's reputation in delivering a highly critical service. This matter remains outstanding at the time of preparing this report and we are unable to conclude on the extent of the matter. This will be referred to as part of our basis of disclaimer in our audit opinion,

Internal audit reports have also included findings and recommendations on ineffective procurement and contract management controls across a range of areas. This has also been reported in the Annual Governance Statement.

A second instance of non-compliance with laws and regulations which we were alerted to remains under external investigation. This has involved the alleged inappropriate procurement of services and payments to conflicts of interest. This matter remains outstanding at the time of preparing this report and we are unable to conclude on the extent of the matter. This will be referred to as part of our basis of disclaimer in our audit opinion.

Inadequate arrangements related to procurement and contract management as well as an ineffective control environment exposes the Council to the risk of fraud and non-compliance with laws and regulations as well as financial, operational and reputational risk. This issue is evidence of significant weaknesses in proper arrangements for:

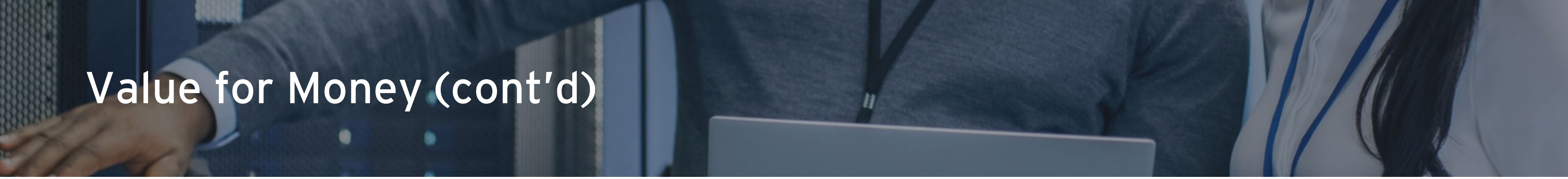
- governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We have made the following Statutory Recommendations under section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014:

The Council should:

- Undertake a detailed review of procurement and contract management arrangements and implement an action plan to improve the processes and controls.
- Improve controls associated with payments, including segregation of duties and identification of conflicts of interest.
- Embed arrangements for training and compliance of the Council's policies and procedures related to procurement and contract management.

The Audit Committee should apply governance and oversight of the actions being undertaken by management.



Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?

Best Value Inspection

On 22 February 2024, the then Secretary of State for Levelling Up, Housing and Communities appointed inspectors to undertake an inspection of the Council under section 10 of the Local Government Act 1999. The Secretary of State decided to commission this inspection to provide him with direct, independent assurance that the Council is complying with its Best Value duty. This duty requires the Council to make arrangements to secure continuous improvement in the way in which its functions are exercised, with regard to economy, efficiency and effectiveness.

What arrangements did this impact?

Governance and improving economy, efficiency and effectiveness

What did we do?

We have obtained the Best Value Inspection report, the statement made by the Minister of State for Local Government and English Devolution, and the Council's initial response to the report.

We have also read communications to the Council from MHCLG on 22 January 2025 outlining the ministerial directions related to the findings of the inspection.

Findings

The report outlines that Best Value inspectors noted that many of the concerns arising from their report should have been raised and dealt without the need for external reviews. They found insufficient evidence that the organisation is open and transparent, and values the constructive criticism required to drive improvement. We have drawn parallels with our findings elsewhere in this area of work, that the organisation does not have a good track record of responding to internal audit recommendations, driving accountability for delivering improvements where weaknesses are reported. The Council must recognise the messages being delivered and take responsibility for actions that need to be implemented. The Best Value report also recognised that, at times, a lack of respect and co-operation between political parties which is having a negative effect on good governance - this message must be absorbed in order for the Council to improve and develop in the way that the directions from MHCLG intend.

The Secretary of State for Housing, Communities and Local Government ("the Secretary of State") has exercised powers under section 15(5) of the Local Government Act 1999 ("the 1999 Act") in relation to the Council to secure its compliance with the Best Value Duty. The Best Value Inspection report identifies concerns in five of the seven best value themes, being Leadership, Governance, Culture, Partnerships and Community Engagement and Continuous Improvement. Insufficient evidence was provided to the inspectors to demonstrate the openness, transparency and valued assigned to constructive criticism to drive required improvements.

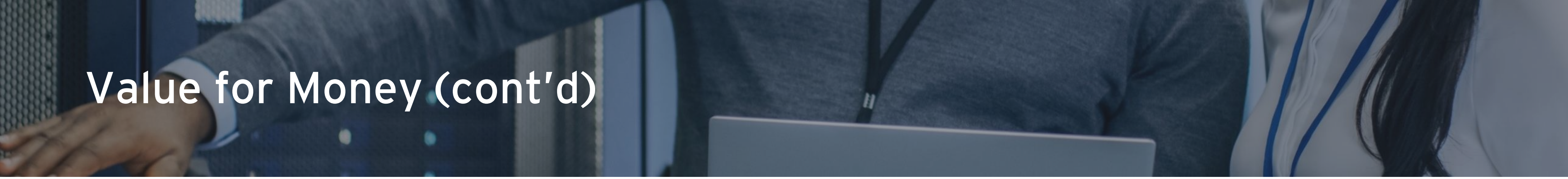
The Council has been provided with clear directions, by the Secretary of State for Housing, Communities and Local Government that it must follow within expected timelines:

- Reconfigure the existing Transformation Advisory Board into a Transformation and Assurance Board.
- Undertake recruitment of a permanent appointment to lead the improvement work in the Authority and progress against the Directions.
- Prepare and implement programmes of cultural change and political mentoring.
- Prepare and implement a Continuous Improvement Plan.
- Work with the LGA to agree a review visit to the 2023 Corporate Peer Challenge.
- Cooperate with the Envoys and provide assistance and access to them as set out in the Directions and required to deliver improvement.
- Have regard to recommendations from the Board.
- Report to the Board, the Council and Minister on delivery against these Directions.

This is evidence of significant weaknesses in proper arrangements for:

- governance, including how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services. This criteria is linked to the concerns raised in relation to partnership working.

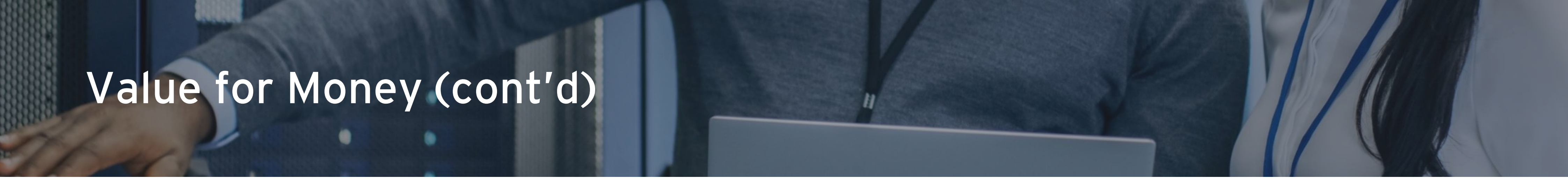
We will monitor progress in this area through our attendance at the Audit Committee and regular liaison with management. We will continue to consider our responsibilities under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 should, in our view, insufficient progress be made at pace to address these matters.



Value for Money (cont’d)

Risk of significant weakness in VFM arrangements

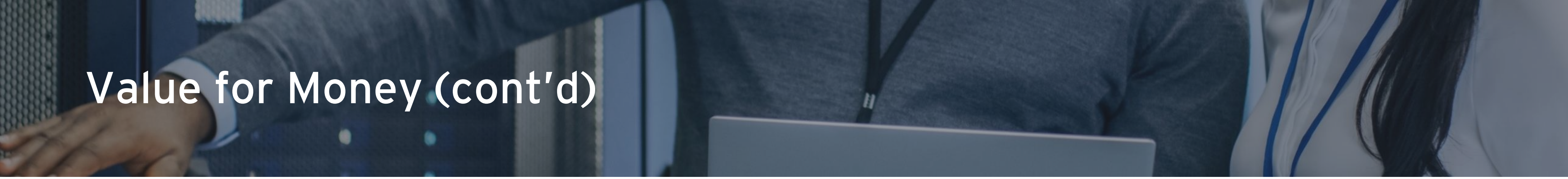
What is the risk of significant weakness?	What arrangements did this impact?	What did we do?	Findings
PFI contract management The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools, the Mulberry and Grouped Schools schemes, until the years 2029 and 2028 respectively. The Council has a third PFI contract, with an energy services company, to provide heating and hot water until October 2025. The expiry phase of PFI contracts, including asset hand back and the transition to future services provision, presents additional risks, including potential operational disruption, lack of service continuity, financial loss and reputational damage. The effective management of the expiry process is a key challenge for authorities as the end of the contract grows close.	**Governance**	We discussed with management the progress made in identifying solutions for the Council's PFI schemes and assessing the oversight that is being given to these projects to ensure that the process is effectively managed.	Based on the procedures undertaken we have not identified a significant weakness in the arrangements to manage the forthcoming PFI contract expiration to ensure decisions made are informed and risks are being managed appropriately. The PFI contract for the Barkantine combined power and heating plant has been extended by two years to 2027.
Insourcing of Council Services In the period, the Council has brought back in-house the services run by Tower Hamlets Homes (THH) and is currently expecting to insource leisure services in 2024/25. In August 2022, Cabinet approved plans to bring the management of seven leisure centres in-house when the current contract with leisure provider GLL expires in April 2024. On 1 November 2023 the Council became responsible for managing and maintaining Council houses which was a service previously provided by Tower Hamlets Homes, a wholly owned subsidiary of the Council.	Improving economy, efficiency and effectiveness	We would expect that there has already been significant work performed including risk management, legal work and financial analysis relating to the insourcing of leisure services. We will seek the most up-to-date understanding on the progress of this and review the decision-making process to-date. We will also review the steps the Council took to reach the decision to insource THH and whether there have been any lessons learned to be considered for the insourcing of leisure services.	The paper presented to Cabinet in August 2022 sets out continuing to outsource leisure services as the preferable option under qualitative and quantitative metrics. Based on a decline in service satisfaction between 2019 to 2023 the Mayor took the decision to bring the services back under the control of the Council to deliver wider benefits and health outcomes. This decision was taken understanding that significant capital investment would be required regardless of the insourcing or outsourcing of the services. We have not identified any significant weaknesses in the arrangements for overseeing the insourcing of services with programme boards set up to address the risks and complexities associated with the process.



Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?	Findings
Effectiveness of the Local Safeguarding Children Board, which was rated as inadequate Previously the VFM conclusion (in 2018/19 and 2019/20) was qualified. This was because of an OFSTED inspection of the Council's services for children in need of help and protection, children looked after and care leavers undertaken in January and February 2017, which reported in April 2017, rating children's services, overall, as 'inadequate'.	Improving economy, efficiency and effectiveness	We have reviewed inspection reports released by Ofsted over the period since the service was rated 'inadequate' and gained an understanding of the steps the Council took in response and has maintained to ensure the service remains fit for purpose. We met with senior members of staff within Children's Services to supplement our audit work.	The Council received six monitoring inspections by the end of March 2019 and in June 2019 the service was judged as "Good". The most recent OFSTED report, published on Monday 13 January, has rated Tower Hamlets' Children's Services as 'Outstanding' - the highest rating attainable. Based on the work performed we have not identified a significant weakness in the arrangements the Council has in place.



Value for Money (cont'd)

Weaknesses arising from procedures on non-compliance with laws and regulations

As external auditor we have specific responsibilities to consider the implications of any suspected or actual non-compliance with laws and regulations. During 2023/24, management informed us of several matters.

In performing our procedures, we consider the implications of non-compliance matters on the financial statements and the Council's arrangements for securing value for money.

As a result of the procedures we performed in response to one instance of potential non-compliance we have identified weaknesses in the Council's governance arrangements.

We received insufficient evidence from officers to demonstrate:

- How the Council fully complied with their process for investigating complaints in accordance with the Code of Conduct Appendix C - Arrangements for dealing with complaints of breach of the code of conduct for members.
- Whether the Council evaluated all available sources of information and considered whether additional actions or procedures were necessary to reach an informed decision before concluding the closure of conduct matters.
- How any matters identified during investigations that require further consideration and action are addressed.

No documentation has been provided that summarises the scope of the enquiries / investigation, evidence sources, key findings, and rationale for undertaking further procedures or not, and setting out how the Council has ensured that all reasonable steps were taken so that it reached fully informed decisions.

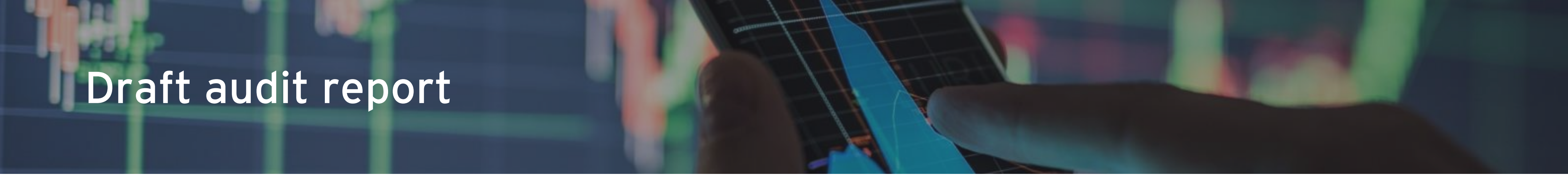
The Council should ensure that the rationale for all key judgements and decisions are documented and there is robust evidence to demonstrate that all aspects of conduct matters are fully investigated in accordance with the Code of Conduct Appendix C - Arrangements for dealing with complaints of breach of the code of conduct for members.

Appendix C states that the arrangements were agreed by Council on 5 December 2016. The Council should undertake a review of the arrangements for dealing with complaints of breach of the code of conduct for members to ensure that they are robust and aligned with best practice.

We do not consider this to be a significant weakness, but we do consider this issue is evidence of weaknesses in proper arrangements for governance, in particular:

- how the body demonstrates that it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

04 Audit Report



Draft audit report

Expected modifications to the audit report

The 2022/23 predecessor auditor report, presented to the December 2024 audit committee meeting, reported a disclaimer of opinion on the Council's 2022/23 financial statements, under the arrangements to reset and recover local government audit. The 2020/21 and 2021/22 financial statements were also reported at the same time and resulted in a disclaimed audit report.

As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we do not have assurance over 2023/24 in-year movements and some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild this assurance in our 2023/24 audit.

As set out within this report we have also not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over closing balances and in-year transactions. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

The form and content of the Audit Report will be shared with the Section 151 officer to enable you to formally authorise the 2023/24 financial statements for issue.

05 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have no misstatements exceeding £3.48 million to highlight which have been corrected by management that were identified during the course of our audit that impacted the 2023/24 financial statements. We did however identify historic errors in relation to the application of an inappropriate Minimum Revenue Provision policy. Amounts totalling £8.90 million were adjusted in the previously unapproved financial statements (dating back to 2020/21), prior to their approval ahead of the backstop date in December 2024. These amendments have been updated in the draft 2023/24 financial statements and comparatives.

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We ask that the Audit Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2024 (Currency'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI	CIES	Assets current	Assets non- current	Liabilities current	Liabilities non-current
Errors	Debit/ (Credit)		Debit/ (Credit)			
Known differences:						
► 2023/24 expenditure not accrued for within the financial statements		2,531			(2,531)	
► Long-term debtor which should have been impaired as no payments have been received and considered that this debt will not be paid		646		(646)		
► Due to a formula error in the service charge provision for bad debt, the increase to the provision was understated.		1,324	(1,324)			
► Remeasurement of provision has been recognised as revenue rather than a release of the provision expense		400 (400)				
Judgemental differences:						
► Due to Council Dwelling flats being split between Land and Buildings at 30:70 we have identified a difference based on our view that they should be split 20:80, this leads to depreciation being understated. ► Depreciation is written back on revaluation through the revaluation reserve (OCI), thus there is no impact on the final Balance Sheet	(1,973)	1,973				
Cumulative effect of uncorrected misstatements	(1,973)	6,474	(1,324)	(646)	(2,531)	

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control including group-wide or at components.

The matters reported in this section are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2023/24 audit (including IT controls).

	High	Moderate	Low	Total
Total points identified	5	5	2	12

Key:

- Low (green): A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- Moderate (amber): Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- High (red): Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

Control observations 2023/24

Financial Statements Area	R/A/G Rating	Observation	Impact / Recommendation	Management Comment
Audit preparedness		As noted in our reporting; we have experienced delays in the provision of the receipt of timely, accurate audit evidence. This has contributed to an inability to gain full assurance in a number of areas across the 2023/24 financial statements.	In order to rebuild assurance in future years, management will need to take action to address the quality and timeliness of working papers, together with reviewing the capacity within the finance team to support the delivery of high-quality audited financial statements supported by sufficient and appropriate audit evidence.	In the current financial year, as set out in the auditor's report, the Council has undergone an intense period of audit scrutiny with work supporting the completion of historic audits (2020/21 to 2022/23) coinciding with production of the 2023/24 statement of accounts, coupled with a change in audit firm, a best value inspection and maintaining business as usual finance work and activities. Facilitating these requirements has been challenging but, with the implementation of the backstop arrangements, it should enable a more focussed approach to this area of work moving forward. Recognising the resourcing constraints, the corporate accountancy team has obtained additional capacity to meet the closure and audit requirements, alongside engagement with EY setting out their expectation around working papers, which will be delivered via a training session to finance staff in March 2025. The burden of significant additional sampling and testing due to the low materiality and 'close monitoring' designation of the audit by EY has had an impact on the timeliness of audit query responses. Early actions are underway to further mitigate this risk, including additional audit planning meetings.

Assessment of Control Environment

Control observations 2023/24

Financial Statements Area	R/A/G Rating	Observation	Impact / Recommendation	Management Comment
Property, Plant and Equipment - Valuations		Our testing identified a significant volume of differences where our view differs from management's specialists. Management and their specialist have also been unable to provide adequate support for some assumptions included in their work.	Management should ensure that they thoroughly review and evaluate the work of their specialists and provide sufficient challenge to ensure that the valuations are conducted appropriately, in line with the Code, and ensure that they present a materially correct position in the draft unaudited financial statements.	It should be noted that the Council commission external valuers to carry out its valuation work, who are professionally qualified and carry out valuations across a large number of local authorities. The Council does hold challenge sessions between the valuers and its asset management and finance teams to validate valuations. The Council will reflect on how it can engage the valuers and auditors to finding common ground on valuation assumptions in advance of valuations being prepared (including officers looking to include as a specification for our future commissioned valuation services) and how the current challenge sessions operate in light of the recommendation made.
Cash receipting		We have been unable to complete testing in relation to debtors and income. One of the more significant reasons relates to the Council's cash receipting system, where management has been unable to provide a suitable audit trail demonstrating that cash has been received for income and debtors.	Management should identify a solution to this ahead of the 2024/25 audit or set aside sufficient resource to enable those staff who can access the required information to do so on a timely basis.	This issue relates specifically to the level of data available at the time to enable the tracking of transactions from the financial system to the bank account. Whilst information was available at an aggregate level within the bank account, the detailed transactional information was not. The Council is currently working with external suppliers to develop reports to enable audit trails as expected by EY.
Property, Plant and Equipment		The fixed asset register includes a number of fully depreciated assets (where the gross book value is disclosed in the financial statements) but the Council does not have a specific process to identify whether these are in use or not and / or remove them from the fixed asset register.	A deficiency in management information in this area can have a number of impacts including: ▸ Incorrect disclosures and balances reported in the financial statements. ▸ Unexpected capital requirements due to assets becoming obsolete at a rate out of line with their depreciation policy. ▸ Lack of knowledge of, and controls over, in-use assets which could lead to increased opportunity for misappropriation. Management should identify and review all assets with nil net book value to assess if they remain in use or should be removed from the Fixed Asset Register.	These assets are historic assets and will not be in use. These assets have net nil effect on the closing net book value of the Council's balance sheet. As part of the 2024/25 closedown process, we will review and remove all obsolete assets from the Fixed Asset Register. Moving forward we will engage service departments to help us maintain our records on other assets appearing particularly under Vehicle, Plants and Equipment.

Assessment of Control Environment

Control observations 2023/24

Financial Statements Area	R/A/G Rating	Observation	Impact / Recommendation	Management Comment
General Ledger controls		Our work on journals identified 15 entries where the approval audit trail could not be obtained as no journal workflow was available. During 2023/24 the Council moved to a new two-step journal system requiring an 'inputter' and 'authoriser'. This move was not complete, and some journals were input using a single step process requiring no authorisation.	Evidence of approval was not retained. Where evidence of approval is not held within the ledger management should ensure that, that there is a process in place to clearly document how the approval has been obtained, and that this evidence is retained consistently.	The Council does have a process in place for approval of journals which occur within the financial systems. A small number of journals do not route through this process but are subject to manual approval processes. The Council will integrate these manual approval processes into the financial systems authorisation process
Property, Plant and Equipment		PPE disposals included derecognition of an asset owned by Transport for London which the Council had failed to dispose of previously.	Management should conduct regular reviews to ensure they have the rights to all assets.	We will undertake regular (at least annual) reviews of the asset register, cross-referencing with legal and operational records to verify ownership and rights to each asset, and we will promptly dispose of any assets no longer owned by the Council under clear, updated procedures that include necessary sign-offs and documentation. Furthermore, we will introduce periodic reporting to senior management on asset reviews and disposals to maintain ongoing oversight and compliance.
Minimum Revenue Provision		We identified errors in the Council's MRP policy.	Management should ensure that its MRP policy does not contain clauses in respect of Housing Revenue Account assets and any amendments to the policy are appropriately approved in advance.	These recommendations will be taken into account in all future MRP policies.
Investment Properties		We identified an asset classified as "Other Land and Buildings" earning significant rental income.	Management should periodically assess their asset portfolio for whether income generating assets should be classified as investment properties ad ensure there is robust evidence and rationale to support the classification.	Further work required - the Council does conduct a review of assets to ensure their classification are correct and will continue to do so regularly.
Property, Plant and Equipment – Highways Infrastructure Assets		Expenditure on infrastructure assets and some equipment is grouped by year of expenditure rather than individual assets / components	In respect of Highways Infrastructure Assets, there is currently an amendment to the CIPFA Code which applies from the financial year 2021/22 to the financial year 2024/25. This means that for the current and subsequent financial year, the Council do not need to disclose Gross Book Value and Accumulated Depreciation, which would require management information on an asset-by-asset basis; however, to be prepared for the expiration of this amendment, management should be planning how they will meet disclosure requirements should there be an expectation that both GBV and Accumulated Depreciation is needed.	It should be noted that the information deficiencies set out here are a national issue and is why the current amendments to the CIPFA code are in place. It is currently not clear what next steps may be taken in this area as the current consultation on the CIPFA code of practice for 2025/26 indicates that a further extension of these amendments is necessary given the lack of development on a new approach. This means that the information requirements going forward are not clear. However, the Council will explore ways to attain additional levels of detail available on this spend.

Assessment of Control Environment

Control observations 2023/24

Financial Statements Area	R/A/G Rating	Observation	Impact / Recommendation	Management Comment
Bank reconciliation - Rents Direct Debits		The Council did not perform a bank reconciliation for the Rents direct debits bank account.	This is a significant account with a balance of £18.2 million at year end. Without an appropriate reconciliation, mistakes or discrepancies are less likely to be identified on a timely basis. This has subsequently been performed with no reconciling difference identified, however the reconciliation must be performed in timely basis in future periods.	The council will ensure that the housing rent reconciliation is conducted on more frequent basis with monthly checks carried out on the status of the reconciliation.
Housing rents reconciliation		The Council only reconcile the housing rents bank account and Northgate system once a year at year-end.	The more often systems are reconciled, the easier it is for mistakes to be identified and rectified. Management should perform reconciliations more regularly.	The council will ensure that the housing rent reconciliation is conducted on more frequent basis with monthly checks carried out on the status of the reconciliation.
Property, Plant and Equipment		The Council currently manages its PPE using Microsoft Excel.	For an asset base with a Net Book Value of £3bn, this presents risks to the Council in terms of accurate record keeping, in particular the exposure of a spreadsheet-based workbook to error and becoming corrupted without an adequate audit trail or a secure database. Management should consider whether a purpose-built fixed asset register would carry additional benefits in relation to improved management information, enhanced reporting functionality and increased confidence in the integrity of the data held.	The Council has procured an asset management system but due to the resources required for the current financial year where an intense period of audit scrutiny with work supporting the completion of historic audits (2020/21 to 2022/23) coinciding with production of the 2023/24 statement of accounts, coupled with a change in audit firm, a best value inspection and maintaining business as usual finance work and activities, has impacted the implementation of the system - which has been subsequently delayed. The full implementation will occur during 2025/26.

07 Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

As we are issuing a disclaimer of opinion we do not provide an opinion on the consistency of the financial and non-financial information in the Group Statement of Accounts 2023/24 with the financial statements.

Notwithstanding our disclaimer of opinion on the financial statements we consider whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council.

We have reviewed the Annual Governance Statement and can confirm, that following amendments made by management, it is consistent with other information from our audit of the financial statements. However, the Annual Governance Statement, along with the Narrative report have needed to be updated to ensure it reflects the most recent position of the Council and our basis of disclaimer and value for money reporting, including the statutory recommendations. We have no matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office (NAO). As the NAO have yet to provide guidance on the 2023/24 process, we have not yet performed the procedures required on the Whole of Government Accounts submission. We cannot issue our audit certificate until these procedures are complete.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

We did not identify any issues which required us to issue a report in the public interest. However, we have issued statutory recommendations under Schedule 7. Further information on these is included in Section 3 of this report.

Other Reporting Issues (cont'd)

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

Other Reporting Issues (cont'd)

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

Given that your prior audits were disclaimed we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
    - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

Our work in this area has not identified any issues to bring to your attention.

08 Independence

Independence - Relationships, services and related threats and safeguards

Confirmation

At the Audit Committee meeting on 10 October 2024, we highlighted the communications that we are required to make at the planning stage and at the conclusion of the audit, as well as during the course of the audit.

In this report, we provide disclosure of the relationships (including the provision of non-audit services) which bear on our integrity, objectivity and independence, the related threats and safeguards, as well as details of our fees and the other required confirmations.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 February 2025.

This report is intended solely for the information and use of the Audit Committee, Full Council, management, and others within the Council and should not be used for any other purpose.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

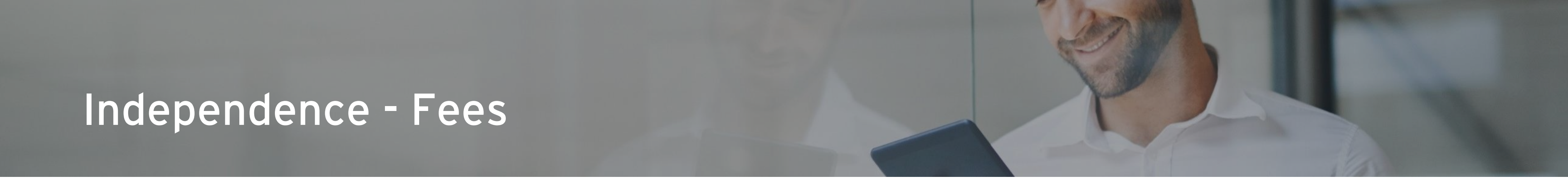
Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.



Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table to the right.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statements opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment
- The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. Details of our proposed scale fee variations for the audit of the Council are set out in the fee analysis on this page.

	Current Year	Scale fee
	£	£
Total Fee – Code Work	505,893	505,893
Proposed scale fee variation Note 1	590,785	0
Total fees	**1,096,678**	**505,893**

All fees exclude VAT

Note 1

In our Audit Planning Report, presented to the October Audit Committee, we set out an estimated fee, including Scale Fee of £ 891,893 - £ 1,050,893, based on our expected work.

Since then, some elements of the expected additional work were not completed in full or were not started. We have provided overleaf an analysis that shows our estimate of the proposed Scale Fee Variation.

Independence — Fees reconciliation to planning report

	2023/24		
All fees exclude VAT	**Estimate at planning £**	**Expected Variation £**	**Scale Fee £**
Code Work – Scale fee		505,893	505,893
Estimated variations to the Scale Fee		590,785	
ISA 315 – additional IT environment work	15,500 - 20,500	21,084	
Close Monitoring designation	25,000 - 45,000	21,495	
Impact of CM designation on materiality	120,000 - 150,000	119,436	
Use of forensics in the Audit	36,000 - 50,000	43,007	
Consideration of IFRS 16 Implementation	2,000 – 3,000	0	
Club Oops and Project Winter NOCLAR considerations	4,000 – 8,000	21,930	
Pensions assurance (triennial and asset ceiling)	12,500 – 20,000	8,851	
Additional work to review actions taken on LGPS membership data (noted in PY)	12,500 – 17,500	0	
PFI (incl Use of Experts)	12,000 – 16,000	25,000	
MRP (incl Use of Experts)	7,500 – 10,000	9,090	
PPE Valuations (incl Use of EY Real Estates))	45,000 – 75,000	82,229	
Increased number of Exit Packages	2,000 – 5,000	5,022	
Increased work in relation to Related Parties	7,000 – 10,000	7,362	
Group assessment, consolidation and direct testing of subsidiary balances for group assurances	10,000 – 15,000	17,687	
Increased risks identified in relation to VfM	50,000 – 65,000	50,382	
Increased risk assessment (fraud risks)	25,000 - 35,000	35,865	
Quality of workpapers and responses	TBC	33,660	
HRA testing	N/A	19,125	
PPE additions	N/A	28,370	
Payroll	N/A	25,290	
Total audit fees	**891,893 - 1,050,893 (excl TBC items)**	**1,096,678**	

09 Appendices

Appendix A – Summary of assurances

Summary of Assurances

As we have set out in earlier in this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements. The table below summarises the audit work we have completed on the 2023/24 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the 2023/24 financial statements audit. We do not provide a separate opinion on these matters as the assurance we have gained is in the context of our audit of the financial statements as a whole, and our disclaimer of opinion on those financial statements.

Key to assurances table:

- Substantial – all procedures planned have been performed on the balances and assertions for 2023/24
- Partial – all testing has been performed, but work has not been concluded.
- None – we have not completed all required procedures to obtain assurance over balances and disclosures

Note that the impact of disclaimed opening balances have not been considered for making the below assessment.

Account area	Assurance rating	Summary of work performed
Journals	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024.
Property, Plant and Equipment ('PPE') - Other Land and Building and Surplus Assets – including Depreciation, Amortisation and Impairment, revaluation movements in the CIES	None	We have completed testing of the 2023/24 reclassifications and disposals to the fixed asset register. We performed procedures to obtain assurance over the existence of assets on the fixed asset register and the Council's right to recognize the assets. We identified that there are assets in the FAR that are fully depreciated that indicates a need for management to establish the extent of assets that may no longer be in use, therefore, we do not have assurances over existence. We have completed our testing of capital additions made in the year to 31 March 2024. We were unable to gain sufficient assurance over the valuation of assets revalued in the year, therefore we do not have substantial assurance over PPE overall. Due to delays in the provision of appropriate and sufficient audit evidence, we were unable to complete our testing of REFCUS balances.
PPE – Infrastructure Assets	None	We have been unable to complete all planned procedures to test the balance of infrastructure assets which have been treated by management in line with the temporary provisions of the statutory instrument. Our work identified a control recommendation which we have reported in Section 6 of this report.
PPE – Council Dwellings	None	We have completed the majority of planned procedures for Council dwellings but were unable to complete all required reviews therefore we are unable to provide any assurance over this significant account. We have identified a misstatement of £1.97 million in relation to Council dwellings which we have included in Section 6, which management has opted not to amend.
PPE – Assets under Construction	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024.
Heritage Assets	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance as at 31 March 2024.
Intangible Assets	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance as at 31 March 2024.
Investments (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance as at 31 March 2024.

Appendix A - Summary of assurances

Summary of Assurances

Account area	Assurance rating	Summary of work performed
Long Term Debtors	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance as at 31 March 2024.
Short Term Debtors	None	We have not been provided with a breakdown of tenants' rents in sufficient time to be able to perform our testing ahead of the backstop date. We have encountered issues in relation to the Council's cash receipting system, where management has been unable to provide the requested audit trail. We have raised a control recommendation in relation to this.
Cash and Cash equivalents	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024.
Provisions (short and long term)	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024.
Borrowings (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Unrecorded liabilities	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024. This results in expenditure and creditors being understated by £2.47 million.
Short term Creditors	None	Information to support the samples selected was not provided by the Council. There were several sets of analysis that were not provided and therefore we were unable to select our sample for testing from these balances.
CIES Expenditure	None	We have not been able to complete our testing ahead of the backstop date. This includes expenditure related to Schools.
Staff costs	Substantial	We have completed all planned audit procedures for this area and have gained assurance over the transactions in the year to 31 March 2024.
CIES Income, including taxation and non-specific grant income	None	We have not been able to complete our testing ahead of the backstop date given the issues encountered in relation to cash receipting. This includes income related to Schools.
Capital grants received in advance	None	We have not started work on this area. Following discussions with management on which areas of work to prioritise, grant income was deprioritised given the issues encountered in relation to cash receipting.
Pension liabilities – LGPS and LPFA inc. remeasurement in the CIES	None	We have not been able to complete our testing ahead of the backstop date. Further, the Council has not addressed the findings resulting in previous qualifications associated with membership data.
Reserves (usable and unusable) and MiRS	None	Until we have completed work on rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements.
Cashflow statement	None	Given the extent of assurance gained across the financial statements, we would not be able to provide assurance over the cash flow statement.
Collection Fund	None	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024, however as we have performed substantive analytical procedures from the opening balances per the financial statements, until we have performed procedures to build back from the last audited position, we are unable to have full assurance in this area.

Appendix A - Summary of assurances

Summary of Assurances

Account area	Assurance rating	Summary of work performed
Deferred Liabilities - Leases	None	We have not been able to complete our testing ahead of the backstop date.
AGS and Narrative statement	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the disclosure for the year ended 31 March 2024.
Minimum Revenue Provision	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024. We identified issues that led to adjustments being made by management, that have been reported elsewhere in this report.
Exit Packages	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the disclosure for the year ended 31 March 2024.
Members Allowances	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the disclosure for the year ended 31 March 2024.
Officers Remuneration	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the disclosure for the year ended 31 March 2024.
Related Parties	Partial	All planned substantive audit procedures in this areas have been performed; however, this has not been subject to senior executive review. We have gained partial assurance over the closing balance at 31 March 2024.
PFI Liabilities	None	Our internal specialists have completed their work in relation to the Mulberry and Grouped Schools schemes and identified no issues. However, the Barkantine Heat and Power Scheme has yielded additional queries to be worked through before we can conclude on the appropriateness of the accounting treatment. This work could not be concluded prior to the backstop date; for the purposes of our 2023/24 audit we are unable to obtain the required level of assurance.
All other notes to the accounts (including the EFA)	None	For all other notes (unless otherwise separately identified) we have not completed our planned audit procedures. This includes pooled budgets, which we were unable to complete our testing, due to the difficulty getting to individual items to test and the quality of evidence to support the expenditure.
Group financial statements and consolidation	None	We performed significant work to review and challenge the Group boundary assessment that management produced in their first year of preparing consolidated financial statements and gained assurance over the entities that were incorporated into the Group disclosures. Due to the number of areas feeding into the consolidated statements that were not subject to full audit procedures, it was determined to reduce the priority of reviewing group disclosures, as such this area has not been audited.
HRA income and expenditure	None	We have completed some of the planned audit procedures in this area but have been unable to conclude over the closing balance as at 31 March 2024, for both income and expenditure. We faced considerable challenges testing the HRA expenditure due to the complex nature of apportionment across the cost centres and individual properties. The Council were unable to provide us with appropriate evidence.
Contracts	None	We did not complete our testing ahead of the backstop date. This would impact the completeness and accuracy of Income and Expenditure.
Suspected Non-Compliance with Laws and Regulations (NOCLAR)	Partial	We have completed all work in relation to Club Oops and work is currently paused in relation to Project Winter awaiting the outcome of decisions made by management in relation to the procurement process. We have been alerted to an additional matter that is unlikely to be concluded prior to the backstop date. Where we are unable to conclude of matters related to non-compliance with laws and regulations we will include reference to these in our audit opinion.

Appendix B - Required communications with the Audit Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - October 2024
Planning and audit approach	Communication of: ▸ The planned scope and timing of the audit ▸ Any limitations on the planned work to be undertaken ▸ The planned use of internal audit ▸ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report - October 2024
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process ▸ Findings and issues regarding the opening balance on initial audits	Audit results report - February 2025
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report - February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going Concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Audit results report - February 2025
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report - February 2025
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report - February 2025
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report - February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report - October 2024; and Audit results report - February 2025
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report - February 2025
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report - October 2024; and Audit results report - February 2025
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report - February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
System of quality management	▸ How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report - February 2025
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report - February 2025
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - February 2025
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - February 2025

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