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The London Borough of Tower Hamlets

Auditor's Annual Report for the years 2020/21, 2021/22 and 2022/23

Issued 12 December 2024

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Key Messages

Introduction

We have pleasure in presenting our Auditor's Annual Report for the three years 2020/21, 2021/22 and 2022/23. This has been prepared as a single report covering all three years following delays in starting and then concluding the audit for 2020/21, the requirement to complete the financial statement audits for this and the subsequent two years of account by the statutory "backstop" date of 13 December 2024 and changes to the Code of Audit Practice which allow open years of account to be reported in a single, consolidated report.

Audit report on the financial statements

2020/21, 2021/22 and
2022/23
Council financial statements

We issued audit reports with a disclaimer of opinion on the London Borough of Tower Hamlets ("the Council") financial statements for 2020/21, 2021/22 and 2022/23 on 12 December 2024, in accordance with the national 'backstop' provisions established by the Accounts and Audit (Amendment) Regulations 2024, and National Audit Office's Code of Audit Practice. This was because it was not possible to complete the financial statement audits for these years by the statutory "backstop" date of 13 December 2024.

Our opinion reported material known misstatements in respect of:

- The failure to prepare group accounts although the Council had material interests in subsidiaries and associates (all years)
 - Misstatement of pension asset/liability and related entries as a result of errors in membership data used to calculate these entries (all years)
 - The failure to disclose the amount and analysis of revenue and from contracts with service recipients and related balances (all years)
 - The misstatement of the disclosure of the number of the council's employees with remuneration over £50,000 falling in bands of £5,000 because the disclosure did not include information for employees at certain schools as information is not held centrally and returns were not made by those schools (2020/21, 2021/22 and comparative information in 2022/23).
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Key Messages

Audit report on the financial statements

2021/22 and 2022/23
Pension Fund financial
statements

We issued an audit report with a disclaimer of opinion on the 2020/21, 2021/22 and 2022/23 pension fund financial statements on 12 December 2024. This was because it was not possible to complete the financial statement audit for this year by the statutory “backstop” date of 13 December 2024.

The Council’s arrangements to secure Value for Money

Significant weaknesses in the Council’s arrangements

Our 2019/20 Value for Money conclusion was qualified in two respects:

- The Council did not have proper arrangements in place for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making.
- The Council did not have proper arrangements in place to manage risks effectively and maintain a sound system of internal control.

Under changed requirements in relation to the scope and reporting of our work on Value for Money which is applicable for the first time to periods from 2020/21 onwards, we no longer give a conclusion on Value for Money but report if we identify a significant weakness in arrangements, as well as providing a commentary on the Council’s Value for Money arrangements.

Based on the work undertaken, we have reported to the Council that there are significant weaknesses in arrangements in 2020/21 in similar areas to the qualification matters referred to in our 2019/20 VFM conclusion (but with updated wording to reflect the revised description of proper arrangements in the changed guidance), being significant weaknesses in:

- Processes and systems for reliable and timely financial reporting
- Arrangements for identifying and managing risks, including maintaining an adequate system of internal control and taking timely and effective corrective action.

Our recommendations for improvements are set out on pages 12 and 17.

We also concluded that both significant weaknesses continued into 2021/22 and 2022/23.

Key Messages (continued)

Significant weaknesses in the Council's arrangements
(continued)

In November 2024, the government published a report by inspectors appointed by ministers to investigate whether the Council was complying with its best value duty established in legislation. The report comments that “the Council has many highly professional committed and motivated people working in it and with it”, recognises the progress which the Council has made towards bringing its statutory financial reporting up to date during 2023/24, commends the Council on the strength of its internal audit function and concluded that “the Council is currently in a strong financial position”.

However, the report also raised serious concerns, in particular around the culture and leadership of the organisation, other aspects of its governance and its partnership working. Ministers concluded on the basis of the report that the Council was failing to comply with its best value duty and in ensuring that properly informed decisions are made. We concluded that the report provided evidence of a significant weakness in these respects in 2022/23. Our recommendation for improvement is set out on page 20.

Financial sustainability
How the body plans and manages its resources to ensure it can continue to deliver its services

The council undertakes an annual refresh of its medium-term financial strategy (“MTFS”) which covers the annual budget and two further financial years. Changes to the base budget are supported by growth or savings business cases as well as an explanation of assumptions such as government funding and inflation. We have recommended the council strengthen its reporting of financial risk within decision reports on the budget and MTFS but have not identified a significant weakness in this regard.

The council performed within its financial plans over the three-year period as a whole (which did not rely on planned use of reserves), reporting an aggregate underspend of £20.7m on its general fund activities, before reserves transfers, in provisional financial outturn reports covering the three years under audit, being underspends of £5.9m and £28.8m in 2020/21 and 2021/22, respectively, and an overspend of £14.0m in 2022/23.

The aggregate net underspend contributed to an increase in the total of the council’s unallocated general fund and earmarked reserves which the council has designated as “without restrictions” increased from £94.7m to £113.3m. The council’s usable reserves, excluding schools and public health reserves, in proportion to its level of net expenditure, were above average for a London Borough at 31 March 2023.

The council set a balanced budget for 2023/24 in March 2023, but which relied on a contribution from earmarked reserves of £22.1m, principally to fund the new mayor’s priority growth schemes. The plans for later years of the MTFS period also relied on delivery of substantial savings which had not been identified at that time, albeit this circumstance is not unusual for the later years of an MTFS. Subsequent to the periods under audit, in the latest budget round in February 2024, the council has identified further savings and the further planned use of reserves across 2024/25 and 2025/26 has been reduced to a minimal level.

Based on our risk assessment procedures, which included gaining an understanding of relevant arrangements, consideration of financial plans for the three year-period, review of outturn reports and consideration of indicators of financial resilience in comparison to similar local authorities, we did not identify a risk of significant weakness in relation to financial sustainability in respect of the periods under audit.

Key Messages (continued)

Governance

How the body ensures that it makes informed decisions and properly manages its risks

The Council publishes and maintains its Constitution which details the structure and workings of the council, including the rules and procedures under which it operates. There is a dedicated audit committee which is responsible for ensuring there is sufficient assurance over governance, risk and control. The audit committee oversees the work of the Internal Audit, Anti-Fraud & Risk service who undertake a risk-based programme under the local internal audit charter and Public Sector Internal Audit Standards to provide assurance over the council's management of risk and system of internal control. The Internal Audit, Anti-Fraud & Risk service also carry out fraud investigation and prevention work.

An earlier report in 2019/20 on the council's management of risks by the council's outsourced internal audit provider identified significant areas of non-compliance with the council's policies. The council concluded in its annual report on risk management for 2022/23 that it made slow progress on its implementation of the report's recommendations, principally as a result of the failure to appoint a dedicated resource to drive these improvements and that as a result, risk management practices were established, but not fully embedded and mature. As a result, the weaknesses identified in the report, which we also referred to in the basis for our qualified opinion on VFM in our report on 2019/20, continued throughout the three year period under audit.

The head of internal audit was able to provide only limited assurance over the effectiveness of the council's framework of internal control in 2020/21 and 2021/22, principally as a result of the proportion of individual internal audit reviews with unsatisfactory conclusions within the internal audit programme for each year. Whilst internal audit were able to provide reasonable or substantial assurance over the effectiveness of the council's controls in 2022/23, taking account of the results of individual audits included within the 2022/23 internal audit programme, this fell back to an overall limited assurance rating again in 2023/24. Internal audit's work is undertaken on a cyclical basis and the proportion of internal audit reviews with unsatisfactory findings will, as a result, vary from year to year depending on the composition of the internal audit programme for each year. Based on our procedures, which included analysing internal audit's reporting to assess whether reported deficiencies arose from in-year circumstances or were likely to have also been present in earlier years, we concluded that the extent of weaknesses in the overall internal control framework (and reflected in the head of internal audit's opinions in 2020/21 and 2021/22) are likely to have been at a similar level over the three-year period covered by our report.

We also identified weakness in arrangements to take timely corrective action on recommendations.

As a result of these conditions, we have reported a significant weakness in the council's management of risks and in maintaining an adequate system of internal control. We have set out the work performed and basis for this conclusion at pages 13 to 17.

Key Messages (continued)

Governance (continued)

The audit of the council's statement of accounts for 2018/19 and 2019/20 continued through 2020/21, 2021/22 and 2022/23 and was completed in November 2023. The delay between the audit was caused by the volume of errors, including material errors, identified in the original and subsequent versions of the accounts and the time taken to investigate and correct the misstatements. There were also some errors and omissions which the council was unable to remediate resulting in our qualification of the financial statements for these years. Our reports on the financial statements for 2020/21, 2021/22 and 2022/23 were also qualified for some of the same matters. These circumstances resulted from deficiencies in internal control which we have reported to the audit committee in our report dated 25 November 2024. Officers reported to the audit committee in November 2023 that progress had been made on our recommendations, but that action in a number of areas was not regarded as complete.

As a result of these conditions, we have also reported a significant weakness in financial reporting arrangements. We have set out the work performed and basis for this conclusion at pages 9 to 12.

The council has invested significant time and resource in improving its financial processes and the capability and capacity of its team and, notwithstanding our conclusion on this area, we report that we have observed an improvement in financial reporting over the period of our appointment, albeit from a low base in 2018/19.

We have also made recommendations in relation to the operation of the audit committee and the format of the council's management accounts reporting but have not identified significant weaknesses in this regard.

As further commented on below, the report of best value inspectors identified a significant weakness in current arrangements for properly informed decision-making which we concluded was also present in 2022/23.

Other matters

In February 2024, the secretary of state appointed inspectors to carry out a best value inspection of the council. Their report identifies significant concerns in relation to culture, leadership, governance and partnership working and ministers concluded on the basis of the report that the Council was not complying with its best value duty, including in respect of decision-making.

We have set out the work performed and basis for this conclusion at pages 18 to 20.

Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under two areas:

Financial Sustainability *How the body plans and manages its resources to ensure it can continue to deliver its services*

Governance *How the body ensures that it makes informed decisions and properly manages its risks*

In 2019/20, we were also required to consider arrangements in a third area dealing with improving economy, efficiency and effectiveness. Consideration of this was suspended as part of the government and National Audit Office response to the national audit backlog and therefore is not reported on here.

In this report, we set out the findings from the work we have undertaken:

We identified two risks of significant weakness, which are set out with our conclusions and recommendations in the following pages.

Our overall VfM commentary on both of financial sustainability and governance are set out on pages 20 to 27 with additional commentary on other matters on pages 29 and 30.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Review of Council and committee reports and attendance at Audit meetings.



Reviewing reports from third parties and internal audit.



Considering the findings from our audit work on the financial statements.



Review of the Council's Annual Governance Statement and Narrative Report.



Reading the council officers' description of arrangements and supporting evidence provided and clarifying points with officers

Risk of significant weaknesses in VfM arrangements

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

Risk of significant weaknesses in VfM arrangements

Risk title

1. Processes and systems for reliable and timely financial reporting

Work performed

We have:

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

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

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

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

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

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

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

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

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

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

Risk of significant weaknesses in VfM arrangements

Risk title

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

Work performed (continued)

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

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

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

Risk of significant weaknesses in VfM arrangements

Risk title	1. Processes and systems for reliable and timely financial reporting (continued)		
Work performed (continued)	Our audit opinions on 2018/19 and 2019/20 accounts were qualified as a result of the omission of group accounts information, certain other disclosures and the quality of information used to calculate the pension liability. Our opinions on the 2020/21, 2021/22 and 2022/23 accounts report misstatements in respect of some of these matters. These issues relate to weaknesses in arrangements to identify all required disclosure information and to establish adequate systems to capture the information and to resource the compilation of the required disclosure information; and weaknesses in arrangements to check the quality of information provided to the actuary for calculation of the pension liability. The council was also not able to publish these accounts by the date set out in legislation.		
Conclusion	We have concluded that there is a significant weakness in the Council’s arrangements in processes and systems for reliable and timely financial reporting due to significant control deficiencies identified during the audits of 2018/19 and 2019/20 financial statements in respect of which corrective action was not complete. As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.		
	Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23? Yes - as set out above we have concluded that there is a significant weakness in the council’s governance arrangements in 2020/21, 2021/22 and 2022/23.	Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23? Yes – recommendations have been set out below.	Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23? Yes - the significant weakness identified and our recommendations are referred to in our audit reports for 2020/21, 2021/22 and 2022/23.
Recommendation	We recommend the council implement our remaining recommendations on financial reporting and ensure timely implementation of other recommendations which support reliable and timely financial reporting in line with agreed action plans and timetables. This should include: <ul style="list-style-type: none"> • Officers review all reports of audit findings issued by us during the period of our appointment, identify recommendations which remain pertinent and where action is not complete and identify the specific action(s) required to address the remaining gap, with agreed timescale for action (R1); • The audit committee receives a tracker to each meeting showing progress on completing these actions (R2); and • The audit committee request as part of the tracker whether actions have been applied retrospectively to all open years of account and an explanation of how assurance has been obtained over the accounts for the impacted years of account in the event that retrospective action is not proposed and/or possible (R3). 		

Risk of significant weaknesses in VfM arrangements

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control
Relevant VFM criteria per AGN03	<i>Governance: how the body ensures it makes informed decisions and properly manages its risk</i> <ul style="list-style-type: none">• <i>how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</i>• <i>how the body ensures effective processes and systems are in place to ensure ... corrective action is taken where needed</i>
Risk description	<p>In our 2019/20 audit report, we reported that: “In the Annual Governance Statement, the Council has reported on significant governance issues identified from its annual review of effectiveness and concludes that the council has had “significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council”. In his annual opinion for 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council has adequate systems of governance, risk management and internal control and provided limited assurance opinions on approximately half the reviews in the 2019/20 internal audit programme, including in respect of risk management. In addition, there were instances where recommendations in reports by external parties had not been actioned as implementation had not been tracked”.</p> <p>There is a significant risk that significant weaknesses in arrangements for identifying and managing risks and maintaining a sound system of internal control continued into later years.</p>

Risk of significant weaknesses in VfM arrangements

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

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)
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| Work performed (continued) | <ul style="list-style-type: none">• Considered progress on action taken in response to findings in an internal audit report on the council’s risk management processes issued as part of their 2019/20 internal audit programme.
The original report found that whilst arrangements for managing the council’s risks were appropriately designed, the council was not consistently complying with its policies and procedures in this regard, in particular:<ul style="list-style-type: none">○ There was a lack of evidence that regular review of risks within directorate and divisional meetings takes place;○ From a review of a sample of risk registers, internal audit found that entries were not being appropriately populated and maintained;○ It could not be determined who had attended training events;○ The Risk Champions Group was not attended regularly by risk champions, and discussions are not always documented sufficiently;○ There was insufficient management review and challenge of the Corporate Risk Register by the Corporate Leadership Team; and○ A review of a sample of minutes from the Audit Committee meetings found that there was no documented evidence to demonstrate that actions relating to the risk register were being followed up.As a result of a recruitment freeze (in particular appointment of a dedicated Risk Officer), as well as corporate processes deteriorating during the pandemic as a result of a focus on temporary arrangements introduced to enable the council to respond agilely to pandemic related risks, progress on the annual plan for risk management to address issues raised by the internal audit report and completion of some actions was delayed beyond 31 March 2023.
The council’s annual report on risk management for 2022/23 reported that: “The current position at the Council is that Risk Management practices are established but not fully embedded and mature. Moreover, there are inconsistent levels of engagement in the underlying processes (reviewing risk articulation, updating controls, removing redundant risks), and consequently there is limited confidence that the underlying risk data held on JCAD [the council’s risk management software] is accurate and useful as a tool for managing risk”.• Considered reports prepared by independent investigating accountants regarding procurement of certain homecare services
The findings include that, across a number of years, the actual amount of services commissioned from a particular social care provider exceeded the annual value of the contract with that provider by a large multiple. As the services had not been re-procured at their actual commissioned level, the council may not have obtained best value. |
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Risk of significant weaknesses in VfM arrangements

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued).
Work performed (continued)	<p>The report also identified concerns in relation to the making and maintenance of sealed contracts.</p> <ul style="list-style-type: none">• We considered the council’s arrangements for taking corrective action in response to weaknesses identified in governance and risk management. <p>The audit committee received a report in November 2023 on corrective action taken in response to recommendations made by us in respect of the 2019/20 audit but had not previously received reporting. Officers reported that further actions were needed but lacked clarity on the further action to be taken and proposed timescales.</p> <p>The head of internal audit highlighted an ongoing concern in respect of follow-up audits completed in 2023/24 that agreed management actions were not being implemented on a timely basis with only 38% of high priority recommendations and 23% of medium priority recommendations fully implemented. The equivalent performance in 2020/21 was 69% of high priority and 53% of medium priority recommendations; in 2021/22 was 38% of high priority and 39% of medium priority recommendations; and in 2022/23 was 36% of high priority and 50% of medium priority recommendations. Internal audit follow-up and report on some, but not all of their recommendations each year.</p> <p>Internal audit carried out an audit as part of their 2023/24 internal audit programme on arrangements for implementation of the improvement plan in response to the unsatisfactory outcome of an Ofsted inspection of the effectiveness of the area in implementing the special education needs reforms set out in the children and families act 2014. The internal audit review found that effective and timely corrective action was not being taken as a result of weaknesses in governance arrangements.</p> <p>We previously reported to the audit committee in May 2023 that the predecessor auditor had issued a formal recommendation under Schedule 7 of the Local Audit and Accountability Act 2014 in relation to contract monitoring but had not complied with the statutory process for consideration of the recommendation either on receipt of the recommendation in August 2019 or subsequently. We recommended that the council considers what mechanism is needed, in the event that recommendations or reports are issued under Schedule 7 in the future, to ensure that the council follows the process laid down in legislation. We also highlighted in May 2023 that it had come to light during 2020/21 that reports which the council had previously commissioned from independent consultants and which identified weaknesses in financial management practices had not been provided to the corporate leadership team or audit committee and as a result the council had lost sight of the recommendations made, indicating a weakness in arrangements for handling recommendations made by external parties. We recommended that a register be maintained of recommendations relating to the internal control environment made by external parties an action planned and taken. We said that as a minimum, there should be reporting on this to the audit committee as part of the annual review of internal control effectiveness.</p>

Risk of significant weaknesses in VfM arrangements

Risk title	2. Arrangements for identifying and managing risks, including maintaining an adequate system of internal control (continued)		
Conclusion:	<p>We have concluded that there is a significant weakness in the Council’s arrangements in arrangements for identifying and managing risks, including maintaining an adequate system of internal control due to findings identified in internal audit reports, including weaknesses reported in risk management arrangements, and weaknesses in arrangements to take timely and effective corrective action in relation to recommendations made by internal and external audit and other external agencies.</p> <p>As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.</p>		
	<p>Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes - as set out above we have concluded that there is a significant weakness in the council’s governance arrangements in 2020/21, 2021/22 and 2022/23.</p>	<p>Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes – recommendations have been set out below.</p>	<p>Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23?</p> <p>Yes - the significant weakness identified and our recommendation are referred to in our audit reports for 2020/21, 2021/22 and 2022/23.</p>
Recommendation	<p>We recommend:</p> <ul style="list-style-type: none"> • The council implements the remaining recommendations from the internal audit’s report on risk management and our past recommendations on financial reporting and ensure timely implementation of other recommendations from internal and external reviews in line with agreed action plans and timetables (R4). • The audit committee request more frequent reporting on progress on implementing internal and external audit recommendations and consider how it gains assurance that timely action has been taken on recommendations made by other external agencies relevant to its areas of responsibility (R5). • The audit committee report annually to full council on what impact the committee has on the improvement of governance, risk and control arrangements within the council (R6). 		

Risk of significant weaknesses in VfM arrangements

Risk title	3. Arrangements for complying with the Council’s best value duty and ensuring that properly informed decisions are made
Relevant VFM criteria per AGN03	<p><i>The inspectors’ report includes findings which: brings to our attention matters relevant to the council’s arrangements to secure value for money which do not fall within the scope of reporting criteria applicable to the years under audit; are reported as separate significant weaknesses on pages 9 to 17; findings relevant to the following specified reporting criterion:</i></p> <ul style="list-style-type: none"><i>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.</i>
Risk description	<p>Ministers appointed inspectors to undertake a new inspection of Tower Hamlets Council’s compliance with its Best Value Duty on 12 February 2024. The inspectors produced their report on 31 July 2024, which was published on 12 November 2024.</p> <p>The Secretary of State was satisfied on the basis of the report and other relevant material that the council is failing to comply with the requirements of Part 1 of the 1999 Act, namely failing to comply with the Best Value Duty under section 3.</p> <p>The inspectors’ report identifies serious concerns which indicate a risk of significant weakness in the council’s arrangements for complying with its best value duty, as well as in relation to ensuring the Council makes properly informed decisions.</p>
Work performed	<ul style="list-style-type: none">We considered the findings reported by the inspectors in relation to our reporting responsibilities for the years under audit. <p>We identified findings which raise significant concerns relevant to the Council’s arrangements for ensuring properly informed decisions as well as more broadly in relation to arrangements to ensure compliance with the Council’s duty under Part 1 of the 1999 Act relevant to the 2022/23 year of account.</p> <p>We noted that Ministers considered that the findings amounted to failings by the Council of its best value duty under the 1999 Act.</p>

Risk of significant weaknesses in VfM arrangements

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

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

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

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

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

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

Risk of significant weaknesses in VfM arrangements

Risk title	3. Arrangements for complying with the Council’s best value duty and ensuring that properly informed decisions are made (continued)		
	<p>Does a weakness exist in 2020/21 and/or 2021/22 and/or 2022/23? Yes - as set out above we have concluded that there is a significant weakness in the council’s governance arrangements in 2022/23.</p>	<p>Is a recommendation required in 2020/21 and/or 2021/22 and/or 2022/23? Yes – recommendations have been set out below.</p>	<p>Has this matter been referred to in our audit reports for 2020/21 and/or 2021/22 and/or 2022/23? Yes - the significant weakness identified and our recommendation is referred to in our audit report for 2022/23.</p>
Recommendation	<p>We recommend the council:</p> <ul style="list-style-type: none"> • Prepares and monitors an action plan to address the various findings of the best value inspectors (R7). 		

Commentary on VFM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium term plans and builds these into them
- How the Council plans to bridge its funding gaps and identifies achievable savings
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

In internal reporting on provisional outturn financial performance, the council reported an underspend against its general fund budget, before reserve transfers, of £5.9m in 2020/21 (underspend of £1.9m after reserve transfers); an underspend, before reserve transfers, of £28.8m in 2021/22 (underspend of £0.2m after reserve transfers); and an overspend, before reserve transfers, of £14.0m in 2022/23 (underspend of £0.6m after reserve transfers).

The council holds an unallocated general fund and earmarked general fund reserves. The council designates certain earmarked reserves as “without restrictions” which are either not subject to legal restrictions on their use or which the council otherwise considers cannot be reallocated from their current intended use for financial management reasons. The total of the unallocated general fund reserve and earmarked reserves without restrictions increased over the period from 31 March 2020 to 31 March 2023 from £94.7m to £113.3m.

The council refreshes its MTFS alongside its annual budget setting process for the year ahead. These plans are taken to Cabinet and then to full Council each year. The council identifies financial pressures from its in-year budget monitoring and prepares business cases for growth items for approval alongside the MTFS where financial pressures cannot be contained and for new investments. In July 2020, Cabinet received a report explaining how the MTFS had been refreshed for the impact of the pandemic. The MTFS provides a preliminary assessment of the budget gaps for later years and informs decisions on the scale of savings which the council needs to find. Business cases for savings are prepared and submitted alongside the MTFS.

The council set a balanced budget for 2023/24 in March 2023 which relied on a contribution from earmarked reserves of £22.1m, principally to fund the new mayor’s priority growth schemes. The council reported an overspend against this budget, before reserve transfers, of £6.0m. The total of the unallocated reserve and earmarked reserves without restrictions reported in the draft statement of accounts for 2022/23 fell as a result to £92.2m.

The additional spending programmes are substantially recurring and as part of the surrounding medium term financial strategy (“MTFS”) refresh exercise, the council recognised this position was not sustainable by identifying the need to make significant savings in later years of the MTFS, but individual saving schemes at that time were not sufficiently developed to include within the MTFS. The MTFS also anticipated that further calls on council reserves would be required to balance budgets for 2024/25 and 2025/26 of £15.6m and £4.8m, respectively, before realignment of spending programmes to the new mayor’s priorities was complete.

Commentary on VFM arrangements: Financial Sustainability

Commentary

The council projected that this would have the effect of reducing the total of the council's unallocated and earmarked reserves without restrictions to £40.2m at 31 March 2026, the end of the period covered by the MTFS. The council was therefore set to significantly run down its "unrestricted" reserves position from a peak at 31 March 2023 of £113.3m.

Subsequent to the periods under audit, the council has set a budget for 2024/25 and refreshed its MTFS. In the latest budget round in February 2024, the council agreed new savings which were slightly ahead of the target set a year earlier and, as result of this and funding changes, the planned net contribution from reserves in 2024/25 has reduced from £15.6m to £6.4m. Also, the council now expects in 2025/26 that it will make a net contribution to reserves of £5.4m, compared to the previous forecast of a contribution from reserves of £4.8m. As a result of these changes, the council is now projecting the total of the unallocated reserve and reserves without restrictions at 31 March 2026 to be £81.7m. Actual unrestricted reserves at 1 April 2024 were £8.7m ahead of the starting position estimated for the purposes of the reserves projection in the February 2024 version of the MTFS.

The council identifies risks to financial resilience through processes including analysis of trends in income and expenditure, market analysis in demand led service areas and analysis of changes in government policy and monitors short term variations through its budget monitoring process. **Whilst risks in relation to financial sustainability had been identified and listed in budget decision reports, an assessment of the size and likelihood of each risk had not been provided and a sensitivity analysis to demonstrate the possible range of outcomes had not been presented and we recommend that the council consider doing this (R8).**

Commentary on VFM arrangements: Governance

Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- 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;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and.

Commentary

The council has a risk management policy and strategic and operational risk registers that are reviewed and updated. The council's internal audit provider reported weaknesses in the council's compliance with its policies on risk management in a report in 2019/20. Those weaknesses are set out in more detail on page 15. As further explained there, the council prepared an action plan to respond to the reports recommendations, but was not able to complete all actions over the subsequent three years, in particular due to a recruitment freeze which meant that the post of Risk Officer was not filled. The council's annual report on risk management concluded that: "The current position at the Council is that Risk Management practices are established but not fully embedded and mature. Moreover, there are inconsistent levels of engagement in the underlying processes (reviewing risk articulation, updating controls, removing redundant risks), and consequently there is limited confidence that the underlying risk data held on JCAD is accurate and useful as a tool for managing risk". These findings were taken into account in us identifying a significant weakness in governance arrangements as set out on pages 13 to 17.

Internal audit undertakes a risk-based programme of internal audit work under the local internal audit charter and Public Sector Internal Audit Standards. The audit committee was due to receive an external assessment of internal audit's compliance with Public Sector Internal Audit Standards (which is required every 5 years by those Standards) in 2022/23, but this has been delayed. Internal audit reported that it was generally compliant with Standards, but highlighted the effect of vacancies on its programme and the need to improve coordination with other assurance providers in successive years, in addition to the delay in obtaining an external assessment in 2022/23. **We recommend the audit committee request a plan with timescales which addresses the areas of non-compliance with relevant standards and monitor action against this at each meeting (R9).**

Commentary on VFM arrangements: Governance

Commentary

The head of internal audit gives an annual overall opinion on the internal control environment on whether the council had adequate systems of governance, risk management and internal control. The head of internal audit was able to provide only limited assurance in 2020/21 and 2021/22. His opinion was limited primarily because of the proportion of the individual internal audit reviews in the internal audit programme for the relevant year which had unsatisfactory conclusions, but also took into account control deficiencies reported by us in relation to financial reporting.

The proportion of internal audit reviews in 2022/23 improved, but fell back again in 2023/24. It is likely that a number of weaknesses identified through the 2023/24 were also present during the preceding year or years.

Across the period 2019/20 to 2023/24, areas where a significant proportion of internal audits resulted in a limited assurance rating included internal audits looking at aspects of procurement and contract management and internal service level agreement management and monitoring, governance of capital projects and property disposals, corporate governance including arrangements to comply with laws and regulations, financial control and reviews of individual services. A significant proportion of internal audit reviews looking at the controls in areas involving vulnerable groups, including safeguarding, such as non-compliance with internal policies on Disclosure and Barring Service checks, received limited assurance ratings from internal audit. Internal audit identified findings in relation to management of the capital programme. We observed significant slippage and rescheduling of capital projects during the years under audit.

The head of internal audit also reported a concern that agreed action plans prepared by management in response to their recommendations are not being consistently implemented on a timely basis.

We have identified a significant weakness in arrangements to maintain an adequate system of internal control and to take timely corrective action when issues are identified (by both internal audit and others) and have provided further details on this at pages 13 to 17.

The Council has agreed a set of fraud policies, including a Corporate anti-fraud and corruption strategy. All fraud investigation work is carried out by a multidisciplinary team sitting within the internal audit service. The Internal Audit and Anti-Fraud Service includes a dedicated Fraud Prevention Officer role.

The audit committee has oversight of arrangements to prevent and detect fraud. Whilst the committee's terms of reference include reviewing the assessment of fraud risk, the committee did not receive an assessment of fraud risk during the three year period under audit to enable it to consider the fraud risk profile. Also, whilst the committee received an account of fraud investigation and prevention activities, it did not agree the plan for this work or seek assurance that it was in line with the strategy and fraud risk profile. **We recommend the council considers its arrangements in this area (R10).** The CIPFA guidance on the preparation of the Annual Governance Statement also recommends that the council's assessment of the adequacy of counter fraud arrangements using the CIPFA counter fraud code is reported in the Statement. **We recommend this is done (R11).**

Commentary on VFM arrangements: Governance

Commentary

We reported a number of observations to the council concerning the format and timing of budget monitoring reports during the three years under audit but have noted that the council has also made changes in this area subsequently. **We have recommended the council consider whether there are any further changes which should be made in the light of our observations to ensure that the information needs of different levels of user are best served (R12).**

The first full year of compliance with the CIPFA Financial Management Code was 2021/22. **We recommend the audit committee receive a report on the council's compliance with this Code and the council report on the outcome of this review in its Annual Governance Statement (R13).**

Our audits of the council's 2018/19 and 2019/20 statement of accounts did not conclude until November 2023 as a result of errors in the original and subsequent versions of the financial statements presented for audit and the time taken to resolve these issues. We reported to the audit committee on significant control deficiencies in January 2022, January 2023 and November 2023 which contributed to this position, including in relation to the close process which operated during 2020/21 and subsequent audit process which continued through 2021/22 and 2022/23.

The audit committee received a report on the status of the council's implementation of these in November 2023, a number of which were reported to still be in progress, consistent with our observations during the 2020/21 audit, carried out during 2023/24.

Our opinions on each of the accounts from 2018/19 to 2022/23 were qualified in respect of disclosures which are incomplete or omitted, non-preparation of group accounts and issues over the quality of pension membership data used to calculate the council's pension liabilities.

Commentary on VFM arrangements: Governance

Commentary

The head of internal audit has also reported on significant weaknesses in the council's core financial systems which support the financial reporting process.

The council has faced challenges common to other local authorities in recruiting to and retaining staff in key positions in the finance function which has complicated the accounts process and work to improve supporting processes over the three year period under audit, as well as the preceding two years but has been able to make substantive appointments to senior positions during 2024.

Together these control issues form part of a significant weakness in financial reporting arrangements in 2020/21, 2021/22 and 2022/23 which we set out in more detail on pages 9 to 12.

The council commissioned an independent review of the 2018/19 closure process which reported in 2020/21 and created a wide-ranging improvement programme to address recommendations in this and an earlier report by CIPFA on financial management which was implemented during 2021/22 and into 2022/23. Notwithstanding our comments above, we have seen meaningful improvements in the quality of the council's financial reporting processes and capability over the period of our appointment, but the council needs to continue to focus on its quality assurance processes and demonstrate that it can deliver at pace.

The Council publishes and maintains its Constitution which details the structure and workings of the Council, including the rules and procedures under which it operates. The Constitution sets out who makes decisions, how they are made and the rights of citizens to obtain information and influence decisions. Relevant member and officer decisions are supported by structured reports which include the results of internal consultations on financial, legal and other considerations.

The council has a dedicated audit committee which is responsible for ensuring there is sufficient assurance over governance, risk and control. Its terms of reference give the committee oversight over the internal audit plan, the external audit plan, the counter fraud plan and the outcome of this work. The committee also had oversight of risk management. In addition to these core responsibilities, the committee also had wider responsibilities in relation to treasury management.

Commentary on VFM arrangements: Governance

Commentary

The committee also receives the annual governance statement, including the scope and outcome of the annual review of effectiveness of the system of internal control. This is a key responsibility for the audit committee. The original annual workplan for the audit committee for 2021/22 included the review of the 2021/22 statement in July 2021 and a review of a draft of the 2022/23 statement in March 2022. Consideration of these statements was deferred as the statements had not been prepared. The statements for 2021/22 and 2022/23 were not considered by the audit committee until an extraordinary meeting for that purpose in October 2023.

The audit committee included three members of Cabinet during 2022/23. The audit committee considered a report on its membership in January 2024 which included consideration of CIPFA guidance on audit committees in local government which recommended that members with executive roles should not sit on the audit committee to safeguard the committee's independence. The council subsequently decided in May 2024 to limit the number of Cabinet members who can sit on the audit committee to one.

The audit committee carried out a self-assessment of the effectiveness of its operation during 2020/21 and reported to full council on the outcome of this and its activities in the year. CIPFA, in guidance on the operation of audit committees in local government, recommends that audit committees report an annual basis to promote accountability. The annual report should cover matters including consideration of whether the committee has fulfilled its agreed terms of reference and whether the committee has adopted recommended practice. This procedure was not carried out in respect of 2021/22 or 2022/23.

We recommend the council reinstates the practice of preparing an annual report that provides assurance to all those charged with governance that it fulfils its purpose and can demonstrate its impact (R6). We further recommend that as an input to the next annual report, the audit committee formally considers whether it is complying with all aspects of CIPFA guidance on audit committees in local government, such as whether it has formally considered whether there are gaps in skills and experience which should be addressed, for example through appointment of an additional independent member (R14). Where the council and audit committee chooses to depart from recommended practice, such as in relation to allowing members who are part of the political executive to sit on the audit committee (albeit capping this at one member), the rationale for this should be clearly explained in the committee's annual report.

Commentary on VFM arrangements: Governance

Commentary

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

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

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

As reported in pages 13 to 17, we qualified our conclusion in 2018/19 and 2019/20, and are reporting a significant weakness in 2020/21, 2021/22 and 2022/23, in relation to identifying and managing risks, including maintaining an adequate system of internal control and taking timely and effective corrective action. This takes into account internal audit findings which include limited assurance opinions in relation to procurement (including findings in relation to the design and compliance with internal procurement rules), contract monitoring and maintenance of sealed contracts and, now, the evidence from this investigation.

In addition to apparent weaknesses in procurement governance, the report highlighted past issues in relation to the electronic home care monitoring system (in place through to March 2020) which had previously been reported in the 2018/19 and 2019/20 annual governance statements. The system issues had resulted in delays in paying suppliers, but also a temporary workaround introduced to ensure continuity of the service had led to the possibility that overpayments had been made to individual care providers with the need for a subsequent reconciliation and payment or recoupment process. We have provided comments on this in our reporting to the audit committee in our report dated 25 November 2024.

As further commented on in the next section, the report of best value inspectors identified a significant weakness in current arrangements for properly informed decision-making which we concluded was also present in 2022/23.

Commentary on VFM arrangements: Other matters

Commentary

During the three years under audit, the council received reports from regulators and other external agencies including:

- A local area SEND inspection published on 27 September 2021 following a joint inspection by the Care Quality Commission and Ofsted to judge the effectiveness of the area in implementing the special education needs reforms set out in the Children and Families Act 2014. The report raises significant concerns about the effectiveness of the area. A subsequent internal audit review identified concerns over the management of the delivery of the council's action plan in response to the recommendations.
- A report by HM Inspectorate of Probation published in July 2022 on youth offending services. The Tower Hamlets and City of London Youth Justice Service received a score of 8/36 and a rating of Requires improvement.
- A report arising from a focused visit by Ofsted, published 31 August 2022, which looked at the council's arrangements for children in care. The report's headline finding was that the vast majority of children in care are living in placements that are meeting their individual needs well and helping to improve their experiences and progress.
- The Local Government and Social Care Ombudsmen Annual Report to the council for 2022/23 which reported concerns that recommendations were not completed within the agreed timescales and that it had experienced responses to investigation enquiries which were delayed and inadequate and recommended the council review its arrangements for liaising with the Ombudsmen.
- The information commissioner issued a practice recommendation in July 2023 as the council had consistently failed to meet the expected level of performance in terms of responding within the statutory timeframe.

We refer to our recommendation made in respect of 2019/20 that a register be maintained of recommendations relating to the internal control environment made by external parties an action planned and taken with, as a minimum, reporting on this to the audit committee as part of the annual review of internal control effectiveness.

In September 2023, the council received a feedback report from a Local Government Association (LGA) corporate peer challenge process. The report highlighted a number of areas of strength but also identified a number of concerns or areas for improvement, including:

- the emergence of a "two council" culture separating senior management and the mayor's office which, together with a perception of a lack of trust between some officers and members and overly complicated internal governance structures, was impacting negatively on the speed and effectiveness of decision-making.
- a period of considerable churn at a senior management level since the change in political administration in May 2022 which, while not unusual, needed action and recommended the development of a new workforce strategy.
- the relative inexperience of the majority of Cabinet and recommended the council look to enhance its member development programme.
- Whilst the corporate peer challenge team praised the council's understanding of the needs of its residents and communities, it reported on the need to improve the tracking and understanding of the impact of its policies. The team also identified scope for improvement in the support given to members to better understand performance information presented to them.

Commentary on VFM arrangements: Other matters

Commentary

The council has reported to Cabinet on the implementation of its action plan and has requested the LGA perform an updated review to validate the progress made.

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

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

The inspectors' report identifies serious concerns and, as set out in more detail on pages 18 to 20, we concluded the report provides evidence of a significant weakness in the council's arrangements for complying with its best value duty, including in relation to decision-making.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that includes our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed under the Code of Audit Practice.

The scope of our work

Our observations are developed in the context of our [audit work](#).

We described the scope of our work in our report[s] to the Audit Committee.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

London | 12 December 2024

Appendix A: Summary of recommendations

Reference	Recommendation	Relates to an identified significant weakness?
R1	We recommend that officers review all reports of audit findings issued by us during the period of our appointment, identify recommendations which remain pertinent and where action is not complete and identify the specific action(s) required to address the remaining gap, with agreed timescale for action.	Yes
R2	We recommend the audit committee receives a tracker to each meeting showing progress on completing these actions.	Yes
R3	We recommend the audit committee request as part of the tracker whether actions have been applied retrospectively to all open years of account and an explanation of how assurance has been obtained over the accounts for the impacted years of account in the event that retrospective action is not proposed and/or possible.	Yes
R4	We recommend the council implements the remaining recommendations from the internal audit's report on risk management and our past recommendations on financial reporting and ensure timely implementation of other recommendations from internal and external reviews in line with agreed action plans and timetables.	Yes
R5	We recommend the audit committee request more frequent reporting on progress on implementing internal and external audit recommendations and consider how it gains assurance that timely action has been taken on recommendations made by other external agencies relevant to its areas of responsibility.	Yes
R6	We recommend the audit committee report annually to full council on what impact the committee has on the improvement of governance, risk and control arrangements within the council.	Yes
R7	We recommend the council prepares and monitors an action plan to address the various findings of the best value inspectors.	Yes
R8	Whilst risks in relation to financial sustainability had been identified and listed in budget decision reports, an assessment of the size and likelihood of each risk had not been provided and a sensitivity analysis to demonstrate the possible range of outcomes had not been presented. We recommend that the council consider doing this.	No

Appendix A: Summary of recommendations (continued)

Reference	Recommendation	Relates to an identified significant weakness?
R9	We recommend the audit committee request a plan with timescales which addresses the areas of non-compliance with public sector internal audit standards and monitor action against this at each meeting.	No
R10	The audit committee has oversight of arrangements to prevent and detect fraud. Whilst the committee's terms of reference include reviewing the assessment of fraud risk, the committee did not receive an assessment of fraud risk during the three-year period under audit to enable it to consider the fraud risk profile. Also, whilst the committee received an account of fraud investigation and prevention activities, it did not agree the plan for this work or seek assurance that it was in line with the strategy and fraud risk profile. We recommend the council considers its arrangements in this area.	No
R11	The CIPFA guidance on the preparation of the Annual Governance Statement recommends that the council's assessment of the adequacy of counter fraud arrangements using the CIPFA counter fraud code is reported in the Statement. We recommend this is done.	No
R12	We recommend the council considers, in the light of our comments on the format, content and timing of finance reports in the periods under audit, whether there are any further changes which should be made.	No
R13	The first full year of compliance with the CIPFA Financial Management Code was 2021/22. We recommend the audit committee receive a report on the council's compliance with this Code and the council report on the outcome of this review in its Annual Governance Statement	No
R14	We recommend that as an input to the next annual report, the audit committee formally considers whether it is complying with all aspects of CIPFA guidance on audit committees in local government, such as whether it has formally considered whether there are gaps in skills and experience which should be addressed, for example through appointment of an additional independent member.	No

Appendix B: Council's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer, as Section 151 Officer of the Council, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting. In preparing the Statement of Accounts the Chief Financial Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The Chief Financial Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The Chief Financial Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Chief Financial Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The Chief Financial Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council is legally required to publish its draft Statement of Accounts and the Annual Governance Statement by 30 September each year, even if the audit of the preceding year has not been completed. The Council met this requirement for 2021/22 and 2022/23.

The Accounts and Audit (Amendment) Regulations 2024 establish a backstop date by which the Council is required to publish its Statement of Accounts (other than in specific circumstances). The Council has met its responsibilities to publish its Statement of Accounts for years up to 2022/23 by 13 December 2024. The next statutory backstop date is 27 February 2025 for the 2023/24 Statement of Accounts.

Appendix C: Auditor's responsibilities

Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in November 2024, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the 2024 Code of Audit Practice, our work for 2021/22 and 2022/23 has only considered arrangements in respect of two reporting criteria (financial sustainability and governance), in line with the national requirements for audits affected by the backstop arrangements.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

Auditor's responsibilities for the audit of the financial statements

Where it is not possible to complete the audit of the financial statements by the relevant "backstop" date established by the Accounts and Audit (Amendment) Regulations 2024, the auditor is required to issue an audit opinion with a limitation of scope or with a disclaimer of opinion (depending on the extent of assurance it is possible to obtain by that date).

A description of our responsibilities for the audit of the financial statements is located on the FRC's website at:

www.frc.org.uk/auditorsresponsibilities.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
 - make a referral to the Secretary of State if we believe that the Council or an officer of the Council is: about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
 - issue a report in the public interest.
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