

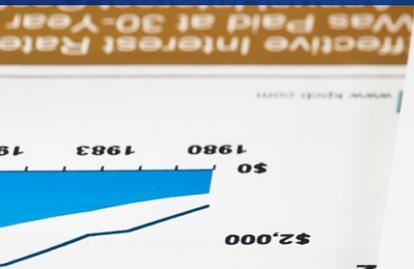


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# Annual Audit Letter 2012/13

London Borough of Tower Hamlets

11 October 2013



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

**This report summarises the key findings from our 2012/13 audit of the London Borough of Tower Hamlets (the Authority).**

**Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.**

**Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.**

|                                    |  |
|------------------------------------|--|
| <b>VFM conclusion</b>              | <p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 30 September 2013.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>  |
| <b>VFM risk areas</b>              | <p>We identified one key risk to reaching our VFM conclusion in terms of the scale of the savings needed to deliver the Authority's medium term financial plans. We considered the arrangements you have put in place to mitigate the risk and we did not identify any significant matters to report to the Authority.</p>   |
| <b>Audit opinion</b>               | <p>We issued an unqualified opinion on your financial statements on 30 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund and the Authority's Group, which consists of the Authority itself and Tower Hamlets Homes.</p>   |
| <b>Financial statements audit</b>  | <p>Our audit identified two audit adjustments with a total value of £4.6 million. Both of them were amended by the Authority before we gave our audit opinion. These adjustments:</p> <ul style="list-style-type: none"> <li>■ Reduced the surplus on provision of services balance as at 31 March 2013 by £1.184 million; and</li> <li>■ Reduced the net worth of the Authority as at 31 March 2013 by £1.184 million;</li> </ul> <p>There was no impact on the general fund account balance as at 31 March 2013 or on the resources available to the Authority.</p> <p>We noted some issues in relation to the quality of the draft accounts that resulted in a number of disclosure adjustments. In addition we noted issues in relation to the timeliness of reconciliations; explaining budget variations; and school bank account processes. Whilst we do not consider any of these to be significant we raised a number of recommendations in our report to the Audit Committee summarising the results of our audit work.</p> <p>The quality of supporting working papers submitted for audit have been of a high standard and the finance staff have been responsive to audit requests that have allowed the audit to progress to time.</p> |
| <b>Annual Governance Statement</b> | <p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>  |

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

|                                     |   |
|-------------------------------------|---|
| <b>Pension fund audit</b>           | <p>We are pleased to report that our audit of the Fund's financial statements did not identify any significant amendments. However, we identified a number of disclosures required by the CIPFA Disclosure Checklist that were not included in the initial draft accounts submitted for audit.</p> <p>Controls over the Fund's key financial systems are generally sound. However, we are concerned that there is insufficient separation between the operation of the Authority and Fund bank accounts. Regulations require payments and receipts relating to a pension fund to be processed through the pension fund's separate bank account. This was our only high priority recommendation and further details are set out in Appendix 1.</p> |
| <b>Whole of Government Accounts</b> | <p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>  |
| <b>Certificate</b>                  | <p>We issued our certificate on 30 September 2013.</p> <p>The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>   |
| <b>Audit fee</b>                    | <p>Our fee for the audit of the 2012/13 financial statements was £310,095 (excluding VAT). This represents a 37% reduction compared with 2011/12, but was £11,805 higher than our planned fee due to dealing with a number of enquiries that we received from local government electors during 2012 and 2013 relating to Councillors' expenses; virements; potential sale of a heritage asset; a television advert; and a letter from the Mayor about Council Tax benefit changes.</p> <p>Further detail is contained in Appendix 3.</p>  |

## Appendix 1: Key issues and recommendations

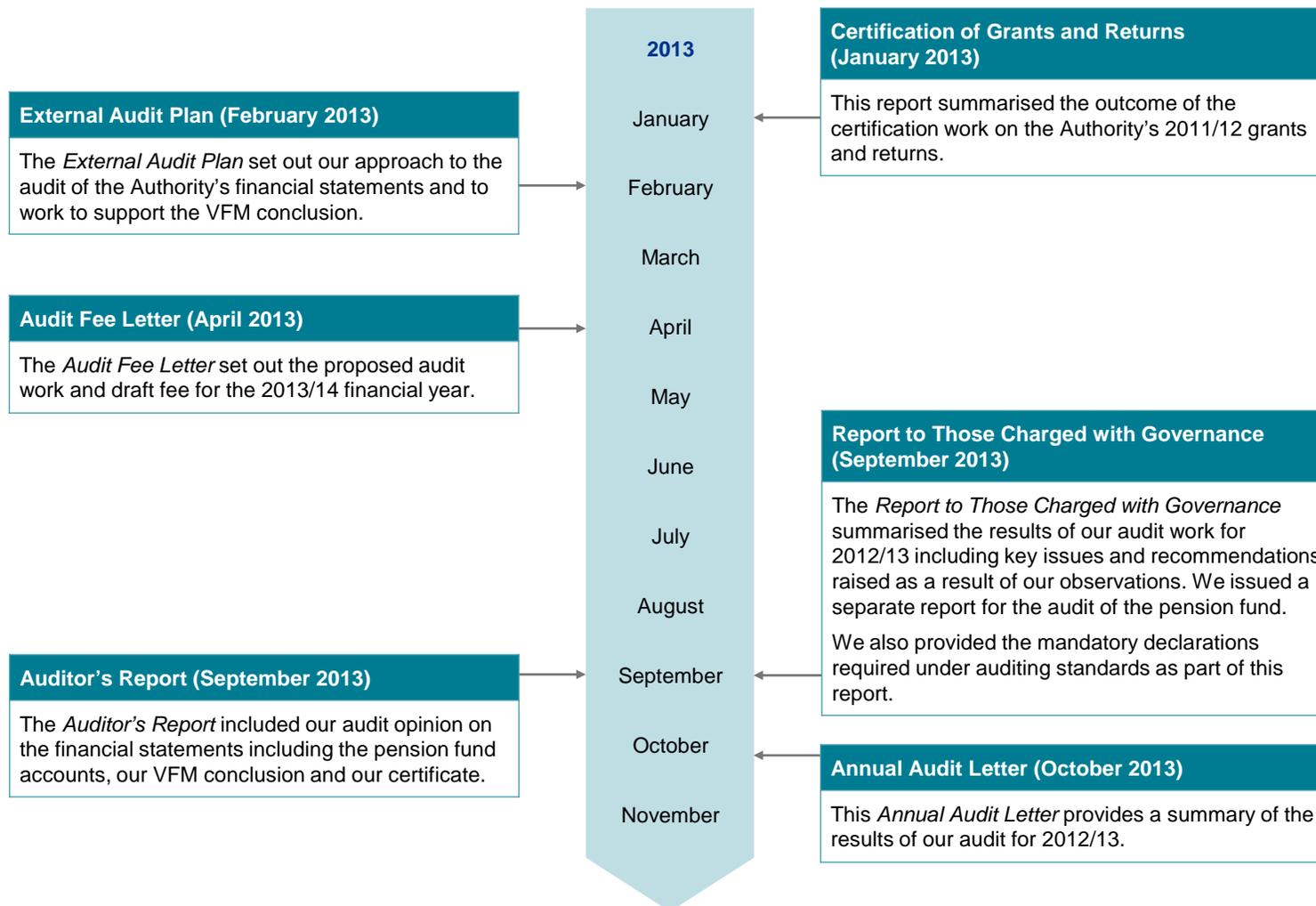
This appendix summarises the high priority recommendation that we identified during our 2012/13 audit, along with your response to it.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

| No. | Issue and recommendation  | Management response/ responsible officer/ due date  |
|-----|---|---|
| 1   | <p>During our audit of the Pension Fund we observed that all of the payments in March 2013 were to the Authority's bank account and no payments were made in April 2013 (because of the change in financial systems from JD Edwards to Agresso). We are satisfied that there is an effective system for working out the value of payments made from the General Fund on behalf of the Pension Fund on a monthly basis and we have been able to verify the transactions taking place and their allocation to the Pension Fund.</p> <p>However, the Authority should continue working towards ensuring all payments and receipts relating to the pension fund are processed through the Fund's separate bank account, in accordance with the Regulations.</p> | <p>The Council is committed to putting in place systems and processes that ensure that all receipts and payments relating to the pension fund are directly credited/debited to the Fund bank account. One of the work-streams that has been established as part of the Agresso implementation plan, and is already underway, should facilitate this process and ensure that all transactions relating to the Pension Fund go through the Fund account by the end of the year.</p> <p>O Shonola<br/>March 2014</p> |

## Appendix 2: Summary of reports issued

This appendix summarises the reports we have issued since your last *Annual Audit Letter*.



This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

### External audit

Our final fee for the 2012/13 audit of the Authority was £310,095. This is an overall reduction of 37 percent on the comparative total fee for 2011/12 of £497,150. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

The final fee was £11,805 higher than the planned fee of £298,298. The reasons for this variance were due to dealing with a number of enquiries that we received from local government electors during 2012 and 2013 relating to Councillors' expenses; virements; potential sale of a heritage asset; a television advert; and a letter from the Mayor about Council Tax benefit changes.

Our final fee for the 2012/13 audit of the Pension Fund was in line with the planned fee of £21,000. This is also a reduction of 40 percent on the comparative total fee for 2011/12 (£35,000).

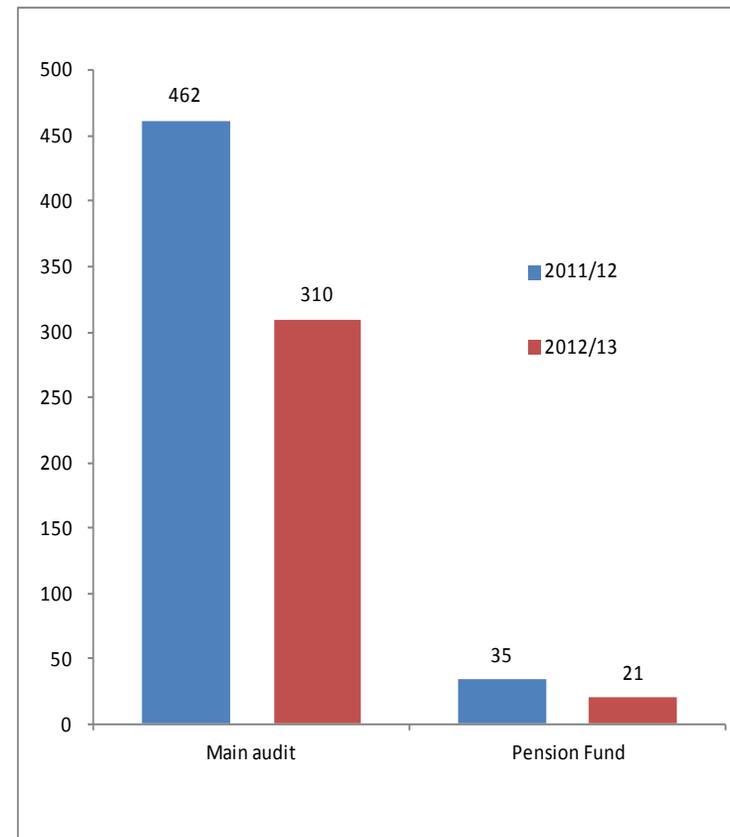
### Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

### Other services

We also charged £18,000 for tax services and £20,000 for an IT review of the preparations for the implementation of a new general ledger system. This work was not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

External audit fees 2012/13 (£'000)





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