

Annual Audit Letter

London Borough of Tower Hamlets

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 28 September.

Value for money

I issued an unqualified conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources on 28 September.

Other audit work

I have also completed other work in the year including:

- certification of the Council's whole of government accounts submission;
- monitoring of progress on the national fraud initiative; and
- the certification of grant claims with a total value of £262 million.

Current and future challenges

Local Government Finance Settlement

The Local Government Finance Settlement reduced Central Government funding available to the Council. Significant savings are required to achieve a balanced medium term financial plan. Whilst the Council is well positioned, the scale of the challenge means there is a risk that it could fail to deliver the required savings. The Council should continue its work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Mayor's priorities.

Financial statements

With International Financial Reporting Standards implemented, the framework for preparing local government financial statements will remain relatively stable in 2011/12. However there are some changes, notably:

- changes to the Housing Revenue Account financing system;
- Councils will be required to account for tangible heritage assets in accordance with FRS30 Heritage Assets; and
- CIPFA may publish additional guidance on how to account for schools.

The Audit Commission will run a series of workshops in early 2012 to help ensure finance teams are briefed on the impact of such changes and that lessons are learned from IFRS implementation.

IT systems upgrade

The Council is seeking to update major components of its IT systems in the 2012/13 year. This is a significant project and the Council must ensure that there are appropriate project management arrangements in place. These are required to deliver value for money, realise service improvement and maintain service provision during the upgrade.

Olympic Games

The Council is making progress in its preparations for its role as an Olympic borough during next year's games. The games will place notable demands on the Council and on the transport infrastructure in the Borough. We will work with officers to minimise the impact of this on next year's audit.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements of the Council and its Pension Fund on 28 September. The Council met its statutory deadline to publish its financial statements and there was a reduction in the value and number of errors that my work identified. This is a notable improvement on last year when the opinion was issued after the statutory deadline. It is also a significant achievement in light of the additional work required to make the transition to International Financial Reporting Standards and update the Council's plans in response to the Comprehensive Spending Review.

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Comprehensive Spending Review (CSR) requires the Council to save £72m between 2011/12 and 2013/14. My review found that the Council has arrangements in place to respond to the CSR.</p> <p>Significant further savings are required to achieve a balanced medium term financial plan. Whilst the Council is well positioned, the scale of the challenge means there is a risk that it could fail to deliver the required savings.</p> <p>The Council should continue the work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Mayor's priorities.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>In my Annual Governance Report last year, I reported weaknesses in the Council's financial systems and financial reporting. The Council has made good progress in implementing the recommendations in my report. Whilst some further improvement could be made, my work found that the controls in material financial systems are more robust and the quality of financial reporting has improved.</p>

Criterion

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

In 2010/11, the Council made the transition to an elected Mayoral system. The Council updated its governance arrangements in response to this change. I undertook a review of the Council's governance arrangements which found that there are suitable arrangements in place.

Other audit work

Whole of Government Accounts

I issued an unqualified opinion on the Whole of Government Accounts pack on 18 October. This was after the 30 September target date, but was an improvement on the previous year.

Grant claim certification

My work on the certification of grant claims and returns is in progress. I will issue a report on my main findings from this work in early 2012.

National Fraud Initiative

Since 2006 the Audit Commission has conducted the National Fraud Initiative (NFI). This biennial data matching exercise matches electronic data within, and between, participating bodies to detect and prevent fraud. As at June 2006, the NFI had led to the detection of £765m of fraudulent payments nationally. The Council submitted data for the biennial National Fraud Initiative programme and NFI matches were made available to the Council on 25 January 2011. The Council has made some progress in investigating these matches but further work is required to make the most effective use of the reports.

Enquiries from the public

I have received a number of letters querying the publication of East End Life in the light of the new Code of Practice on Publicity. Whilst I have not taken any formal audit action as a result of this, the Council will need to ensure it keeps the publication under review in the light of the Code's requirements.

Closing remarks

I have discussed and agreed this letter with the interim Chief Executive and the Corporate Director of Resources. I will present this letter at the Audit Committee on 12 December 2011 and will provide copies to all Members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
Certification of claims and returns 2009/10 annual report	February 2011
Opinion Audit Plan	March 2011
Opinion Audit Plan (Pension Fund)	March 2011
Annual Governance Report	September 2011
Annual Governance Report (Pension Fund)	September 2011
Final Accounts Memorandum	November 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to my audit. I wish to thank the Council staff for their support and co-operation during the audit.

The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, Department for Communities and Local Government Ministers confirmed their preference for transferring this work to the private sector through a contractual outsourcing exercise. The Audit Commission is therefore carrying out a procurement process to give private sector bidders the chance to compete for this audit work. This will mean all the Audit Commission's in-house work undertaken by the Audit Practice, including the Council's audit, will be

outsourced from the audit of the 2012/13 accounts. The Audit Commission itself will remain in place to oversee the contracts and its other statutory functions, but will be significantly smaller following the outsourcing.

Against this background, my focus remains:

- fulfilling my remaining responsibilities and delivering the Council's 2011/12 audit to the high standards the Council expects; and
- managing a smooth transition to the new audit provider for 2012/13.

Jon Hayes
District Auditor
November 2011

Appendix 1 - Fees

	Actual (£)	Proposed (£)	Variance (£)
Council scale fee	513,500	513,500	0
Pension fund scale fee	35,000	35,000	0
Grant claim certification work*	100,000	105,000	5,000
Non-audit work**	7,000	7,000	0
Total	655,500	660,500	5,000

The Audit Commission is paying a rebate of £52,077 to you in respect of the financial year 2010/11 as part of its strategy to reduce costs for audited bodies. This rebate is not reflected in the figures above.

* Latest estimate of work still in progress

** Relates to the fraud briefing that was produced for the London Borough of Tower Hamlets and presented to the Audit Committee in September 2011.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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