

Annual Audit Letter

London Borough of Tower Hamlets

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 3); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I gave an unqualified opinion on the Council's financial statements and its Pension Fund on 6 October 2010. I also issued a certificate closing the audit on this date. I found weaknesses in the Council's arrangements for preparing its accounts and supporting the audit process. These led to the opinions being later than planned.

2 I issued an unqualified opinion on the Council's Whole of Government Accounts (WGA) submission to the Department of Communities and Local Government (CLG) on 25 October 2010.

Value for money

3 I issued an unqualified value for money conclusion on 06 October 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources during 2009/10.

Current and future challenges

4 The Council continues to make progress on the transition to accounting under International Financial Reporting Standards. However, challenges remain, particularly in respect of accounting for leases and the restatement of the 2009/10 accounts.

5 There is scope for improvement in the Council's arrangement for the completion of grant claims and returns. In particular, claims and returns should be submitted to the audit team by the appropriate deadlines.

6 The financial outlook for the public sector is challenging. The Council has already taken action to reduce costs and increase efficiency. The Council should now consider the implications of the government's recent spending review and ensure its plans will achieve financial balance in the medium and long term.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 6 October 2010.

Overall conclusion from the audit

Main financial statements

7 I reported the findings from my audit of the Council's main 2009/10 financial statements to the Audit Committee on 21 September 2010 in my annual governance report and in the addendum annual governance report sent to the Chairman of the Audit Committee on 4 October 2010.

8 I issued an unqualified opinion on 6 October 2010. The most important issues arising from my audit, as reported to the Audit Committee, are set out below.

- I experienced delays in getting responses to my audit queries which resulted in me issuing my opinion after the 30 September publication deadline.
- Two material amendments were made to the Council's accounts. In addition a number of non trivial amendments were identified and corrected by management in the final version of the financial statements.
- The draft financial statements submitted for audit were not approved within the required timetable because the 29 June Audit Committee was not quorate. In accordance with the Accounts and Audit Regulations 2006, the draft financial statements were approved by the Council on 14 July 2010.

9 The delays and errors identified were primarily the result of inadequate documentation being retained, unresolved reconciliation differences and an insufficiently detailed internal quality review of the financial statements prior to the audit.

10 The Council has had a significant turnover of staff in the corporate finance team, new appointments have been made and there is now less reliance on contract staff. The Council should use the recent investment in the corporate finance team to strengthen external financial reporting.

Pension Fund financial statements

11 I reported the findings of my audit of the Pension Fund financial statements to the Audit Committee on 21 September 2010 in my annual governance report and in the addendum annual governance report shared with the Audit Committee Chairman on 4 October 2010.

12 A number of issues were reported in the annual governance report, the most significant relating to material errors in the classification and disclosure of investments. These aspects of the Pension Fund accounts are important because they inform the reader about the types of investment activity the Fund is engaged in. A good understanding of the types of investment is necessary to allow Members to make informed decisions about the risk profile associated with the Fund's assets.

Whole of Government Accounts

13 The WGA consolidation pack submission was submitted for audit in accordance with the CLG timescale. However a number of further packs, incorporating the amendments from the audit of the financial statements, were provided for audit during September and October.

14 Although I was able to certify the Council's WGA pack on 25 October 2010 without qualification, the Council's arrangements for the WGA process require improvement in 2010/11.

Recommendation

R1 Use the recent investment in the corporate finance team to improve external financial reporting.

R2 Implement the recommendations in my annual governance report and final accounts memorandum to strengthen the controls in the Council's financial systems.

R3 Approve the draft financial statements in accordance with the statutory timetable.

Significant weaknesses in internal control

15 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, I identified important weaknesses in the operation of controls in the Council's financial systems. I reported my findings to the Audit Committee in my Annual Governance Reports.

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.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

VFM conclusion

18 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

19 The following table shows a summary of my findings.

Criteria	Adequate arrangements?
<i>Managing finances</i>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<i>Governing the business</i>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<i>Managing resources</i>	
Strategic asset management	Yes
Workforce	Yes

20 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Approach to local value for money work from 2010/11

21 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

22 My work will be based on a reduced number of reporting criteria, specified by the Commission and concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

23 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Future developments

24 The wider financial outlook continues to be challenging for the public sector. At the end of the first quarter of 2010/11 the Council reported a forecast overspend of £890k on its General Fund and a £877k overspend on the Housing Revenue Account. Management are confident that action can be taken to maintain the General Fund expenditure within budget at the year end.

25 In his letter of 20 October to Leaders of Local Authorities in England, the Secretary of State for Communities and Local Government set out the implications of the government's spending review for local authorities. On average, Councils will face a 7.25 per cent loss of grant in real terms each year, over a four year period.

26 Clearly, in such a challenging environment effective financial management becomes ever more critical. The Council's 2010/11 savings plan has identified £4,520k of savings, and at the end of the first quarter the Council is on track to deliver £4,274k of this plan.

27 In October 2010, Mayor Lutfur Rahman was elected as the first Directly Elected Mayor of Tower Hamlets. This change to an elected Mayor and Cabinet form of executive decision making will be a big change for Tower Hamlets. It is important that effective governance arrangements and scrutiny arrangements remain, and are updated, as the new structures develop.

Recommendation

R4 Assess the implications of the spending review and take action to ensure that the Council achieves financial balance in the short and medium term.

R5 Ensure that effective governance arrangements remain in place and are updated moving forward, following the appointment of the Borough's first Directly Elected Mayor.

International Financial Reporting Standards

28 Financial statements will be prepared using International Financial Reporting Standards (IFRS) for the first time in 2010/11. The Council has made progress to date on the transition from UK Generally Accepted Accounting Practice to IFRS. The restatement work that was completed for the 2009/10 financial statements was completed on time and was materially correct.

29 However, challenges remain. The high risk areas for the Council are accounting for property, plant & equipment, leases and employee benefits. The Council has missed internal deadlines for the IFRS restatement work. It is important that revised restatement deadlines are set and achieved. I will assist the Council by undertaking early audit work where possible. I will also continue to provide regular feedback on the Council's progress.

Recommendation

R6 Revise the key milestones for the implementation of IFRS and monitor progress against these.

National Fraud Initiative

30 The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and errors. The NFI 2008/09 found record levels of fraud, overpayments and errors of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.

31 The Council has submitted data for the 2010/11 NFI round. The data matched will be released in January 2011 and the Council should ensure that resources are in place to investigate matches.

Certification of claims and returns

32 The administration of the Housing and Council Tax Benefit Subsidy Return continues to be managed well. There is however scope for improvement in the administration of the other grant claims the Council is required to submit for certification.

33 To date we have certified six claims and returns of the eleven expected for the year. Three returns were certified without amendment or qualification, two were amended and one was both amended and subject to a qualification. Four of the six claims were certified by the deadline, however the Authority had to request an extension to the deadline for one of the returns.

34 There have been delays in receiving the grants to be certified. Six of the eleven grants were submitted late to my audit team. Combined with delays in receiving responses to audit queries, this increases the risk that certification deadlines will be missed. Income from grants is an important revenue stream for the Council and late certification could result in delayed or reduced payments from awarding bodies.

Recommendation

R7 Implement the recommendations in my 2008/09 Certification of Claims and Returns report to improve the grant certification process.

Closing remarks

35 I have discussed and agreed this letter with the Chief Executive and the Corporate Director, Resources. I will present this letter at the Audit Committee in December 2010. Copies will be provided to all Council Members.

36 Detailed findings, conclusions and recommendations in the areas covered by the audit were included in the reports issued to the Council during the year.

Report	Date issued (Council)	Date issued (Pension Fund)
Audit fee letter	June 2009	June 2009
Certification of claims and returns - annual report	February 2010	n/a
Opinion audit plan	March 2010	March 2010
Annual governance report	September 2010	September 2010
Addendum annual governance report	October 2010	October 2010
Opinion (main financial statements and pension fund financial statements) and VFM conclusion	October 2010	October 2010
WGA opinion	October 2010	n/a
Final accounts memorandum covering the main financial statements and the pension fund financial statements.	November 2010	November 2010

The future of the Audit Commission

37 The Secretary of State for CLG announced in August 2010 the proposed abolition of the Audit Commission. The government has announced its plan to seek legislation in this session of Parliament to effect this.

38 The Audit Commission's Managing Director for Local Government & Community Safety has written to the Chief Executive to confirm there is no immediate change to the audit arrangements for the Council. My focus remains on maintaining the high-quality audit service the Council expects.

39 The Audit Commission is in discussion with CLG about the proposed legislation and the details that will need to be worked through. I will keep the Council informed about progress.

Acknowledgment

40 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Jon Hayes
District Auditor

November 2010

Appendix 1 – Audit fees

Council audit	Actual (£)	Proposed (£)
Financial statements and annual governance statement	310,000	310,000
Value for money	161,500	161,500
Whole of government accounts	8,500	8,500
Total audit fees	480,000	480,000

Pension Fund Audit	Actual (£)	Proposed (£)
Financial statements	35,000	35,000
Total audit fees	35,000	35,000

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 accounts, auditors must give their 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.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Use the recent investment in the corporate finance team to improve external financial reporting.

Responsibility Alan Finch

Priority High

Date June 2011

Comments The appointment of the Chief Accountant in May means that we now have a team whose sole responsibility is to ensure quality financial reporting. The Council has now adopted monthly budget reporting to Corporate Management Team and is also considering monthly reporting to Cabinet. Further improvements will be made to internal and external reporting in the coming months.

Recommendation 2

Implement the recommendations in my annual governance report and final accounts memorandum to strengthen the controls in the Council's financial systems.

Responsibility Chris Naylor

Priority High

Date June 2011

Comments Detailed officer responses have been provided to the reports in question.

Recommendation 3

Approve the draft financial statements in accordance with the statutory timetable.

Responsibility Alan Finch/ John Williams (Service Head- Democratic Services)

Priority High

Date June 2011

Comments All efforts will be made to work with Members to ensure the June Audit Committees are quorate in future and consider the draft Statement of Accounts. The process for closing the accounts will be improved to allow more time for quality assurance at the end of the process.

Recommendation 4

Assess the implications of the spending review and take action to ensure that the Council achieves financial balance in the short and medium term.

Responsibility	Chris Naylor
Priority	March 2011
Date	High
Comments	Government announcements are being monitored and the implications of spending review are being integrated within the medium term financial plan and detailed plans have been drawn up to achieve significant savings targets. The Programme Management Office has been enhanced to manage and monitor delivery.

Recommendation 5

Ensure that effective governance arrangements remain in place and are updated moving forward, following the appointment of the Borough's first Directly Elected Mayor.

Responsibility	Kevan Collins
Priority	High
Date	October 2010
Comments	Revised constitutional arrangements are in place and officers are working with the Mayor and his Cabinet to establish day-to-day working arrangements.

Recommendation 6

Revise the key milestones for the implementation of IFRS and monitor progress against these.

Responsibility	Kevin Miles
Priority	Medium
Date	June 2011
Comments	Progress being monitored to implement IFRS. Accounting policies being revised, a large amount of work has been conducted in reviewing leases and property and outline revised balance sheet for 2009/10 will be available in November 2010 (subject to change with issue of further guidance) - final version should be established by end of January 2011.

Recommendation 7

Implement the recommendations in my 2008/09 Certification of Claims and Returns report to improve the grant certification process.

Responsibility	Kevin Miles
Priority	Medium
Date	July 2011
Comments	Officers will liaise with auditors to improve grant claim audit process.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946