



**SPECIAL MEETING OF THE BOARD
17 December 2020 15:55 – 16:00**

Via Zoom

<https://us02web.zoom.us/j/81465202029?pwd=dIYvdzJNbTgwZ1N2U2R3ZEVmNEZjQT09>

AGENDA

	<u>Type</u>	<u>Lead</u>
<i>Open Session</i>		
<i>Introductory items</i>		
1. Apologies for Absence	For Information	Chair
2. Declarations of Interest	For Information	Chair
<i>Items for decision and discussion</i>		
3. 2019/20 Final Accounts	For Decision	Neil Isaac
<i>Items for information and limited discussion</i>		
4. Any Other Business	For Discussion	Chair

TOWER HAMLETS HOMES

NOTE BY CHIEF EXECUTIVE

DECLARATIONS OF INTEREST

Where Members of the Board have an interest in any business of the Board, then she/he must disclose this interest.

Members must disclose the existence and the nature of the interest at the start of the meeting and certainly no later than the commencement of the item when the interest becomes apparent.

Personal Interests

A Board Member must regard themselves as having a personal interest in any matter if the matter relates to an interest in respect of which notification must be given, or if a decision upon the matter might reasonably be regarded as affecting, to a greater extent than other tenants or inhabitants of the Tower Hamlets Homes area, the wellbeing or financial position of themselves, a relative or a friend, OR

- a) Any employment or business carried out by such persons;
- b) Any person who employs or appointed such persons, any firm in which they are a partner, or any company of which they are a director;
- c) Any corporate body in which such persons have a beneficial interest in a class of securities exceeding a nominal value of more than 2% of the issued share capital in a company;
- d) Anybody listed in sub-paragraphs (a) to (e) of paragraph 14 of the Resource Pack in which such persons hold a position of general control or management.

Prejudicial Interests

1. Subject to the provisions of paragraph 2 below, a Board member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a tenant of Tower Hamlets Council as covered by the Management Agreement or a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Board member's judgement of the public interest.
2. A Board member may regard themselves as not having a prejudicial interest in a matter if that matter relates to –

- a) Another relevant organisation of which they are a member;
- b) Another public organisation in which they hold a position of general control or management;
- c) A body to which they have been appointed or nominated by Tower Hamlets Homes as its representative;
- d) Where a Board member holds a tenancy or lease with a relevant organisation, provided that they do not have arrears of rent with that relevant organisation of more than two months, and provided that those functions do not relate particularly to the Board member's tenancy or lease.

Participation in Relation to the Disclosure of Interests

A Board member with a prejudicial interest in any matter must –

- a) Withdraw from the room where a meeting is being held whenever it becomes apparent the matter is being considered at that meeting, unless she/he has obtained a dispensation from the Board's Chairman or Company Secretary; and
- b) Not seek improperly to influence a decision about that matter.

Should you require any further information, please contact Neil Isaac, Director of Finance, telephone: 020 7364 7130, neil.isaac@thh.org.uk

Tower Hamlets Homes Limited

Directors' Annual report and
financial statements for the
year
ended 31 March 2020

Limited Company By Guarantee

Registered in England: 06249790

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Company Information

Company Registration No	06249790 Registered in England
Registered office:	Second Floor City Reach 5 Greenwich View Place London E14 9NN
Banker:	National Westminster Bank plc Docklands South Quay Branch 54 Marsh Wall West India Dock London E14 6LJ
Solicitor:	Trowers and Hamlins LLP 3 Bunhill Row London EC1Y 8YZ
Auditor:	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

Board of Directors:

Name	Type	Appointed	Resigned
Ann Lucas (Chair)	Independent	10-Dec-12	
Claire Tuffin	Resident	06-Mar-13	
Caroline Compton-James	Independent	10-Sep-15	July-19
Andrew Bond	Independent	10-Sep-15	
Safia Jama	Independent	06-May-16	
Cllr Sabina Akhtar	Council	14-Jul-15	
Cllr John Pierce	Council	14-Jul-15	
Helen Charles	Resident	20-Jan-17	Nov-19
Cllr Asma Islam	Council	01-Oct-18	
Cllr Tarik Ahmed Khan	Council	29-Oct-18	
Mahbub Anam	Resident	10-Feb-20	
Nikesh Shah	Independent	10-Feb-20	

Company Secretary

Neil Isaac

Company Information (cont.)

Executive Management Team

The members of the Executive Management Team who held office in the year are listed below with their current Directorate responsibilities.

Name	Role	From	To
Susmita Sen	Chief Executive	15-Sept-2015	
Ann Otesanya	Director of Neighbourhoods	15-Feb-2016	
Paul Davey	Director of Business Transformation	13-Jun-2016	
Neil Isaac	Director of Finance	16-Sept-2016	
Will Manning	Director of Asset Management	16 Jan-2018	

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

Legal Status

The Company is a controlled Company (by the London Borough of Tower Hamlets), limited by guarantee without any share capital. The Council undertakes, in the event of the Company being wound up, to contribute such amount as may be required for the payment of the debts and liabilities of the Company providing this amount does not exceed £1.

The Company was overseen by a Board which met regularly throughout the year. The composition of the Board reflects the range and mix of skills and experience required for the effective management of the Company.

The day to day running of the Company's business has been delegated by the Board to the Executive Management Team.

Parent Organisation Address

Tower Hamlets Council Town Hall
Mulberry Place
5 Clove Crescent
E14 2BG

Dividends

The Company is limited by guarantee and does not have a share capital, or shareholders.

Directors and directors' interests

The directors who held office during the period are detailed on page 3. The Company has no shares or shareholders.

Political and charitable contributions

The Company made no contributions to political or charitable organisations.

Employment of Disabled Persons

THH promotes equality of opportunity in its recruitment, selection, training and development policies and practice.

We welcome applications from applicants with disabilities and evaluate solely on ability to carry out the duties of the job, taking into account any reasonable adjustments required.

Communications Policy

The Company communicates all matters of financial or other interest to staff through its monthly electronic in-house newsletter, through team meetings or through other media as appropriate.

Payment of Creditors

The Company's policy is to pay creditors as they fall due.

Going Concern

The company has disclosed its business activities, principal risks and uncertainties in the strategic report on pages seven and eight. Tower Hamlets Homes has significant cash reserves and retains a contractual relationship with its main client until 2024. The new management agreement has been signed which demonstrates that long term commitment from the Council. The directors recognise the greater scrutiny over going concern in the light of significant corporate failings in the recent past and the additional risks and uncertainties arising from the Corona virus pandemic. However even taking these risks into account the directors consider the company is well placed to continue its business while managing the current risks and uncertainties.

Directors' declaration

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with section 489 of the Companies Act 2006 a resolution for KPMG LLP appointment of auditors will be made at the forthcoming annual general meeting. As KPMG have been the auditors of Tower Hamlets homes since its inception the board have decided to tender the external audit function in accordance with best practice. This tender process is due to start in September 2020 and a recommendation to appoint an auditor as a result of that process will be made at the annual general meeting.

The Directors' Report was approved by the Board on 26 November 2020 and signed on its behalf by:

Neil Isaac
Company Secretary
Second Floor
City Reach
5 Greenwich View Place
London E14 9NN

Strategic Report

The Directors present their strategic report for the year ended 31 March 2020.

Business Review

Tower Hamlets Homes Ltd (THH) is an Arm's Length Management Organisation (ALMO) set up by the London Borough of Tower Hamlets (LBTH) to provide housing management services, including the income collection, tenancy management, estate services, day-to-day repairs, major works, planned maintenance, leaseholder services, resident participation, customer services, service development and training to residents of the borough's housing.

The ALMO started on 7th July 2008 under a ten-year term contract with a five-year break clause. Since inception we have achieved the two star performance threshold required to access Government funding and secured £108m grant for investment in stock. We have a solid track record of improved performance, income collection, and resident satisfaction while reducing the annual management fee. In recognising these achievements, on the 6th December 2016 LBTH's Mayoral decision approved a two-year contract extension to the 7th July 2020.

The Council commissioned an external organisation to undertake a review of Tower Hamlets Homes as part of its consideration of future options for the delivery of Housing Management services. Following the successful outcome of the review, the Council's Cabinet meeting in July 2019 agreed to extend the management agreement with Tower Hamlets Homes for up to eight years to 2028. An updated management agreement has been approved by the Board and the Council to ensure that THH continues to deliver for the Council.

The implementation of a five-year saving strategy by the Council starting in 2017/18 has emphasised the need for THH to focus on efficiency and value-for-money, as a result THH initiated a Company-wide transformational change programme including a review of resources and service delivery models in 2016/17. This will ensure resources are better focussed on the needs of our residents and meeting the Council's aspirations for the service. The Council and THH are working together on updating the HRA Business Plan to ensure that there is a shared understanding of priorities for the HRA and how THH can deliver those priorities for the existing stock.

Results & Performance

The Company's principal activity during the year is the provision of housing management services to residents of LBTH. The Company also manages delivery of the planned and responsive repairs and maintenance programme and manages delivery of the housing investment programme for LBTH. In the last 24 months the performance of THH has been recognised by the housing profession by a range of awards and accreditations won by Tower Hamlets Homes. These awards include being declared landlord of the year at the UK Housing Awards and the Caretaking Service winning the front line team of the year at the Housing Heroes Awards. In the last 12 months THH exceeded the performance target against 10 of the 17 Business Critical Indicators with three close to target. The remaining four that missed the target have been discussed with the Council and recovery plans put in place.

Financial

The Company received management fee and other fees from LBTH of £35.580m (2018/19: £31.913m) to manage and maintain LBTH's HRA stock. Although managed by the Company, the cost of repairs and maintenance and investment programmes are shown in LBTH's financial accounts.

The presentation of the accounts for 2019/20 differed from 2018/19 because we are accounting for a pension fund surplus. We are recognising the pension fund surplus of £5.197m as an asset on our balance sheet (same as 2017/18 accounts). This is included in the total Capital and Reserves figure of £8,812,600 on the balance sheet, but is an ear-marked reserve which can only be utilised if and when it is realised through an actual reduction in pension scheme contribution rates or other means.

We are also required to show the pension fund transactions in the Statement of Comprehensive Income. The underlying performance of the company shows a deficit of £472k (2018/19 surplus of £867k) off-set by planned investment from reserves of £463k for the digital strategy.

Going Concern and Covid - 19

THH recognises that the assessment of whether the organisation is a going concern has become more of an issue in recent years given a number of high profile failures and in more recent times due to the uncertainty to business generally arising from the Covid-19 pandemic.

Structure of THH and relationship with the London Borough of Tower Hamlets

THH is a company limited by guarantee with the Council as the sole Member. It has an agreement with the Council to provide management and maintenance services to the social rented stock (including leaseholders) owned by the Council.

A new management agreement covering the four years from 2020/21 to 2023/24 has been approved by the Board and the Council and will be formally signed in the next few weeks. (The agreement has an option for the Council to extend the arrangement for a further four years)

THH does not undertake any activities that are outside the terms of the management agreement. Thus, THH does not rely on any other sources of finance apart from that provided under the management agreement.

The Council has all the necessary approvals from the government to delegate housing management to Tower Hamlets homes.

Income collection is a significant issue for the HRA especially in the current COVID pandemic. Initial estimates had suggested that a drop in collection rate of up to 5% was possible. In the event to the end of September income collection has been significantly ahead of expectation at 100.9%. This is expected to improve further as more Universal Credit tenants move on to alternative payment arrangements and more contact is made with residents who need to be chased for payments to be made. Given the success to date it is reasonable to expect that arrears will be reduced in the forthcoming 18 months such that there will not be a need to increase the bad debt provision and therefore this will not have an adverse impact on the business plan.

Tower Hamlets Homes is not complacent about the impact of COVID-19. Performance is regularly reported to the Board and a COVID Risk Register has been developed to ensure that risks are identified and adequately managed. Both were reported to Board in May. The pension contribution rates have been confirmed as unchanged by the administering body following the triannual valuation. This confirmation and the fact that the scheme is currently in surplus on an FRS 102 basis show that there are unlikely to be any adverse pension events that could affect the assessment of THH as a going concern.

Contingency and Cash Balances

Within the base budget there is a contingency of £250k to meet unforeseen costs that may arise during the year, this was not required in 2019/20.

THH has cumulative surpluses of some £5m. A small element of this, some £600k, is earmarked for investment in digital initiatives. The balance would be available to fund any increase in day to day running expenses or a restructuring and redundancy programme should that be necessary.

Principal Risks and Uncertainties

The Board has overall responsibility for identifying and mitigating the principal risks it is willing to take to achieve the Company's strategic objectives. This is done within the Company's system of internal control including effective risk management.

Strategic risks are considered by their potential to impact on the delivery of the aims, objectives and the provision of services together with the predicted likelihood of the actual event or occurrence and the score registered on a risk matrix. A member of EMT is assigned as being the risk owner and assumes the responsibility of ensuring effective mitigation actions are in place.

The key risks faced by the business include a serious breach of Health & Safety compliance, a breach of Data protection, and the potential impact of Covid-19 on the business generally and income collection in particular.

The business has set aside appropriate provisions to meet its liabilities and has accumulated reserves to facilitate service delivery and protect the business against uncertain risk.

Neil Isaac

Company Secretary
Second Floor, City Reach
5 Greenwich View Place
London E14 9NN

Statement of Internal Control

The Board of Directors acknowledges its ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Company or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposal.

It is the Board of Directors' responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. The system of financial control includes the following key elements:

- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets. Within the Company's Financial Regulations & Standing Orders authority levels are specified for all authorised signatories and delegated authorities documented;
- experienced and suitably qualified staff to take responsibility for important business functions. Annual employee development review procedures have been established to maintain standards of performance;
- regular internal audit to undertake reviews on the effectiveness of internal controls;
- the establishment of written policies and procedures and a scheme of delegated authorities designed to ensure that proper accounting records are maintained;
- a risk management framework in which priority risks are reviewed by the Chief Executive and senior managers;
- forecasts and budgets are prepared which allow the Board of Directors and management to monitor the key business risks and financial objectives and progress towards financial plans set for the period and the medium term. Regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Board of Directors and officers of the Company;
- The Board of Directors reviews reports from management, from internal auditors and from the external auditors to provide reasonable assurance that control procedures are in place and are being followed. The Head of Internal Audit has reported to the Finance and Audit Committee on a regular basis and has given the internal control environment "substantial assurance".
- The report by management includes a general view of the major risks facing the Company and the Risk Management department monitors these risks and provides countermeasures to the risks where necessary;
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

During the period management has received regular reports from the internal auditors covering the effectiveness of the systems of operational and financial controls. On behalf of the Board, management has reviewed the effectiveness of systems of internal financial control in existence for the year ended 31 March 2019. No weaknesses were found in the internal controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements. The Board of Directors is satisfied that this remains the case up to the signing of these documents.

SIGN REQUIRED FROM ANN LUCAS

Ann Lucas
Chair
Second Floor, City Reach, 5 Greenwich View Place
London E14 9NN
Reg. No. 06249790

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWER HAMLETS HOMES LIMITED

Opinion

We have audited the financial statements of Tower Hamlets Homes Limited ("the company") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in [the strategic report and] the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11&12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Joanne Lees (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf, London, E14 5GL
Date: 26 November 2020

Statement of Comprehensive Income
For the year ended 31 March 2020

	Notes	2019-20	2018-19
		£	£
Turnover (Management Fee)	2	33,236,220	31,913,495
less Cost of Sales		(33,491,268)	(31,072,111)
Operating profit / (loss)		<u>(255,049)</u>	<u>841,384</u>
Net interest on pension scheme assets	6	(244,000)	0
Interest receivable & similar income	6	32,815	31,135
Profit / (loss) before Tax	3	<u>(466,234)</u>	<u>872,519</u>
Tax	7	(6,235)	(5,916)
Surplus / (deficit) for the Financial Year		<u>(472,469)</u>	<u>866,603</u>
Other comprehensive income:			
Actuarial (Loss)/Gain in Pension Scheme	13	13,833,000	(10,972,000)
Related Movement in Reimbursement Right Asset	13	(8,636,000)	8,636,000
Total comprehensive Surplus/(Loss) for the year		<u>4,724,531</u>	<u>(1,469,397)</u>

The notes on pages 20 - 34 form part of these statements.

Statement of Financial Position

At 31 March 2020

	Notes	31-Mar-20 £	31-Mar-19 £
Fixed Assets			
Tangible Assets	8	737,109	74,221
		<u>737,109</u>	<u>74,221</u>
Pension Surplus			
	13	5,197,000	0
Current Assets			
Reimbursement Right Asset	13	0	8,636,000
Debtors	9	740,135	570,749
Cash	15	5,279,899	7,275,460
		<u>6,020,034</u>	<u>16,482,209</u>
Current Liabilities			
Creditors: Amounts falling due within one year	10	(2,774,958)	(3,226,794)
		<u>(2,774,958)</u>	<u>(3,226,794)</u>
Net Current Assets		3,245,075	13,255,415
Total Assets less Current Liabilities		9,179,185	13,329,636
Provisions for Liabilities			
Pension Liability	13	0	(8,636,000)
Other Provisions	11	(366,585)	(605,568)
Net Assets		<u>8,812,600</u>	<u>4,088,068</u>
Total Capital & Reserves		<u>8,812,600</u>	<u>4,088,068</u>
Analysis of Capital & Reserves			
Pension surplus reserve		5,197,000	0
General reserve		3,615,599	4,088,068
Total Capital & Reserves	12	<u>8,812,600</u>	<u>4,088,068</u>

The notes on pages 19 - 32 form part of these statements.

The financial statements were approved by the board on 26 November 2020 and were signed on its behalf by:

Ann Lucas
 Chair
 Second Floor, City Reach, 5 Greenwich View Place
 London E14 9NN
 Reg. No. 06249790

Statement of Cash Flows
For the year ended 31 March 2020

	Notes	2019-20 £	2018-19 £
Cash flows from operating activities			
Operating Surplus / (deficit) for the financial year		(255,049)	841,384
Adjustments for:			
Depreciation of tangible assets		156,010	33,778
Movements in pension scheme	13	(244,000)	0
Taxation		(6,235)	(5,916)
Decrease/(Increase) in debtors		(169,386)	189,732
Increase in creditors		(826,028)	70,547
Decrease in provisions		(238,983)	(286,606)
Deficit on disposals		2,669	1,476
Net cash from operating activities		<u>(1,206,808)</u>	<u>844,395</u>
Cash flows from investing activities			
Purchases of tangible assets	8	(821,568)	(46,649)
Interest received	14	32,815	31,135
Net cash from investing activities		<u>(788,753)</u>	<u>(15,514)</u>
Cash flows from financing activities			
Interest paid		0	0
Net cash from financing activities		<u>0</u>	<u>0</u>
Cash & cash equivalents at start of year		7,275,460	6,446,579
Cash & cash equivalents at end of year		5,279,899	7,275,460

The notes on pages 20 - 34 form part of these statements.

Statement of Changes in Equity
For the year ended 31 March 2020

	Pension Surplus Reserve	General Reserve
	£	£
Surplus & deficit account at 31 March 2018	2,336,000	3,221,465
Deficit for the year	0	866,603
Actuarial loss on Pension Scheme	0	(10,972,000)
Reduction in reimbursement right	0	8,636,000)
Total comprehensive surplus for the year	<u>0</u>	<u>(1,469,397)</u>
Transfer to Pension Surplus Reserve	(2,336,000)	2,336,000
Surplus & deficit account at 31 March 2019	0	4,088,068
Deficit for the year	0	(472,469)
Actuarial gain on Pension Scheme	0	13,833,000
Increase in reimbursement right	0	(8,636,000)
Total comprehensive surplus for the year	<u>0</u>	<u>4,724,531</u>
Transfer from Pension Surplus Reserve	5,197,000	(5,197,000)
Surplus at 31 March 2020	5,197,000	3,615,599

The notes on pages 20 - 34 form part of these statements.

Notes

(forming part of the financial statements)

1. Accounting policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company's financial statements.

Status of Company & Composition of the Board

The Company is limited by guarantee and does not have any share capital. The London Borough of Tower Hamlets, the ultimate parent organisation, undertakes in the event of the Company being wound up, to contribute such amount as may be required for the payment of the debts and liabilities of the Company providing this amount does not exceed one pound. After the satisfaction of all the debts and liabilities the remaining assets will be transferred to the Council's Housing Revenue Account (as defined in the 1989 Act).

A Board of non-executive directors provides strategic management of the Company and is intended to be comprised as follows:

- 4 Borough Council nominees;
- 4 appointed tenants and leaseholders;
- 4 independent members appointed from the local community.

The composition of the Board reflects the range and mix of skills and experience required for the effective management of the Company. The Board is supported by executive management team which is responsible for the day to day running of the Company.

Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards including *FRS102 - The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* and with the *Companies Act 2006* and on the basis of the company's Going Concern which is set out in page 6.

Tower Hamlets Homes Limited undertakes the management and maintenance of the housing stock of The London Borough of Tower Hamlets under a management agreement. Tower Hamlets Homes Limited is a wholly owned subsidiary of The London Borough of Tower Hamlets and in the event of Tower Hamlets Homes Limited winding up, all assets and liabilities will transfer to The London Borough of Tower Hamlets.

Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, including the impact of the COVID-19 pandemic, the company will have sufficient funds to meet its liabilities as they fall due for that period.

The impact of Covid-19 is still to be fully understood. The company is not reliant on rents, but on long-term contractual income from LB of Tower Hamlets Council. It is intended that a revised financial plan, including revised cash flow forecasts, will be presented to the Board at their March 2021 meeting.

A new management agreement has been approved by the Board and the Council, which covers four years from 2020/21 to 2023/24. The agreement has an option for the Council to extend the arrangement for a further four years.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Turnover

Turnover represents the amounts derived from Management Fees in respect of the provision of goods and services to the London Borough of Tower Hamlets. It is stated net of value added tax.

In 2019-20, the Company received £35,580,220 in total, being £33,236,220 in management fee and £2,344,000 towards pension contributions.

Notes - continued

Fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings & equipment	5 Years
ICT equipment	3 Years

Basic Financial Instruments

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, and monies deposited with banks for investments.

The company has no interest bearing borrowings.

Leases

Operating lease rentals are charged to the Income & Expenditure Account on a straight line basis over the period of the lease.

Post-retirement benefits

The company participates in the Local Government Pension Scheme (LGPS). The scheme is a defined benefit pension scheme based partly on final and partly on average pensionable salary. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full, based on professional advice received from the Company's auditors. The movement in the scheme surplus/deficit is split between operating charges, finance items and actuarial gains and losses. To reflect the volatility of, and uncertainty relating to, the recovery of a pension scheme surplus, any gain creating an overall surplus is allocated to a separate reserve, which will only be transferred back to general reserves if and when the surplus is realised.

Pension reimbursement rights

It has been agreed with The London Borough of Tower Hamlets that where a deficit arises that they will provide an indemnity in respect of the pension obligations of the company. Accordingly where a deficit arises, an equivalent reimbursement right asset is recognised on the balance sheet to reflect the Council indemnity. The change in value of this reimbursement right asset over the year is shown in the statement of comprehensive income.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required, full provision is made without discounting.

Notes - continued

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and bank deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

2. Analysis of turnover before taxation

	2019-20	2018-19
	£	£
Management fee	35,580,220	34,121,495
Less pension contributions	<u>(2,344,000)</u>	<u>(2,208,000)</u>
Turnover	<u>33,236,220</u>	<u>31,913,495</u>

The change in presentation from 2018-19 to 2019-20 is due to there being no pension reimbursement position in 2019-20.

Turnover is made up exclusively of the management fee, the sole activity being management of the Council's housing stock.

3. (Deficit)/Surplus before taxation

	2019-20	2018-19
	£	£
Surplus before Taxation	(466,234)	872,519
Auditor's remuneration	28,500	27,950
Depreciation	156,010	33,778
Gain on disposal of fixed assets	2,669	1,476

4. Remuneration of directors

The Directors are defined as being members of Tower Hamlets Homes Limited Main Board. None of the Directors received any remuneration or taxable benefits, and none were members of the pension scheme.

Notes - continued

5. Staff numbers and costs

The average number of full time equivalents employed by the Company during the period, analysed by service, was as follows:

Directorate	2019-20	2018-19
Asset Management	89	72
Business Transformation	90	41
Chief Executive	1	1
Finance	15	14
Neighbourhoods	289	335
	484	463

The aggregate payroll costs of these persons were as follows:

	2019-20	2018-19
	£	£
Wages & Salaries	17,732	16,060
Social security costs	1,829	1,636
Other pension costs	2,344	2,208
Total	21,905	19,904

The emoluments of the highest paid employee amounted to £150,000 (2018-19: £150,000) excluding employer's pension contributions of £27,600 (2018-19: £27,600).

The highest paid employee received emoluments 6.4 times that of the lowest paid full time employee.

During the 2019-20 financial year there were 5 payments of termination by the Company. The total severance costs came to £131,656, (2018-19 there were 6 payments of termination amounting to £145,970 in relation to severance cost).

No further termination benefits were agreed in the year.

Notes - continued

6. Interest and similar charges

	2019-20	2018-19
	£	£
Interest receivable and similar income	32,815	31,135
Net interest on pension scheme assets	(244,000)	(20,000)
Related movement in reimbursable asset	<u>244,000</u>	<u>20,000</u>
	<u>32,815</u>	<u>31,135</u>

7. Taxation

A. Analysis of charge in period

	2019-20	2018-19
	£	£
UK Corporation Tax in the Period	<u>6,235</u>	<u>5,916</u>
Tax on Surplus	<u>6,235</u>	<u>5,916</u>

B. Current tax reconciliation

Factors affecting the tax charge for the current period:

The tax assessed for the year differs from the standard rate of corporation tax. The differences are explained below.

	2019-20	2018-19
	£	£
Interest Received	<u>32,815</u>	<u>31,135</u>
Total current tax charge at 19%	<u>6,235</u>	<u>5,916</u>

Published guidance from HMRC states that transactions between an ALMO and a Council do not constitute trading and are therefore non-taxable. The Company is liable to tax on dealings with any third parties and any interest received; the rate and amount payable reflects this position.

The basis of this ruling is that the relationship between the ALMO and the Council lacks the necessary degree of commerciality to be trading for corporation tax purposes. Should the relationship between the bodies change, or should the ALMO diversify its activities, then this exemption may not be available.

Notes – continued

8. Tangible fixed assets

Fixtures Fittings & Equipment	£
At Cost 31 March 2019	716,014
Additions	821,568
Disposals	(6,849)
At Cost 31 March 2020	<u>1,530,732</u>
Accumulated Depreciation 31 March 2019	(641,792)
Depreciation	(156,010)
Disposals	4,180
Accumulated Depreciation 31 March 2020	<u>(793,623)</u>
Net Book Value 31 March 2019	74,221
Net Book Value 31 March 2020	737,109

The majority of fixed assets included above are IT equipment with an assumed life of 3 years, or other office equipment with an assumed life of 5 years. The additions (£789k) has increased due to fitting and fixture at our new office move at City Reach and £124k of this amount has been depreciated.

9. Debtors & Prepayments

	2019-20	2018-19
	£	£
LBTH Debtor	179,979	458,281
Staff Loans	39,574	37,822
Third Party Debtors	39,832	34,213
Prepayments	480,751	40,433
	<u>740,135</u>	<u>570,749</u>

10. Creditors: amounts falling due within year

	2019-20	2018-19
	£	£
Third Party Creditors	1,221,413	1,199,239
LBTH Creditor	1,196,153	1,923,441
Corporation Tax Creditor	6,235	5,916
VAT Creditor	351,157	98,198
	<u>2,774,958</u>	<u>3,226,794</u>

Notes – continued

11. Provisions for Liabilities and Charges

	£
At beginning of period	605,568
Decrease during the year (use of provision in year)	<u>(238,983)</u>
At end of period	<u>366,585</u>

Provisions have been created in light of on-going business transformation costs. The balance represents provisions for on-going employee litigation (70k), disrepair claims (152k) and the other business transformation costs (144k).

12. Reserves

	Pension Reserve	General Reserve
	£	£
At beginning of period	0	4,088,068
Retained Profit for the period	0	4,724,531
Transfer between reserves	5,197,000	-5,197,000
At end of period	<u>5,197,000</u>	<u>3,615,599</u>

Notes – continued

13. Pension Scheme

A. Introduction

The Company participates in the London Borough of Tower Hamlets Pension Fund. The pension cost charge for the period for current service costs amounted to £5,527,000 (2018-19: £4,413,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

The pension scheme provides benefits based on final or average pensionable pay, contributions being charged to the surplus and deficit account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary. The most recent valuation was at 31 March 2020.

The Company recognises the entirety of its pension scheme rights and obligations on its own books, rather than only those rights and obligations that have arisen since the transfer of staff to the ALMO.

If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future (as with THH) or through refunds from the plan. Where a pension scheme deficit arises, an equivalent reimbursement right asset is recognised on the balance sheet to reflect the Council indemnity. This reimbursement right asset is further explained above in Note 1.

B. Retirement Benefits

Under the requirements of FRS17 the Company is required to disclose further information on the assets and liabilities of the scheme on a market value basis at the end of the accounting period.

The required information is set out below:

The major categories of plan assets as a percentage of total plan assets

The Actuary has used the most recent asset split provided to them and allowed for index returns, where required, on each asset category to determine the estimated split of assets as at 31 March 2020.

Period Ended	31-Mar-2020	31-Mar-2019
Equities	60%	60%
Bonds	29%	29%
Property	10%	10%
Cash	1%	1%

The Actuary estimates the bid value of the Fund's assets as at 31 March 2020 to be £1,520,409,000 based on information provided by the Administering Authority and allowing for index returns where necessary. Please note the Employer's fair value of plan assets is approximately 8% of the Fund's total

Financial Assumptions

Period ended	31-Mar-2020	31-Mar-2019
Pension increase rate	1.9%	2.5%
Salary increase rate	2.1%	2.3%
Discount rate	2.3%	2.4%

Mortality Assumptions

	Males	Females
Current pensioners	21.5 years	23.5 years
Future pensioners	22.6 years	25.0 years

Notes – continued**C. FRS102 Pension Scheme Disclosures at 31 March 2020**

Period ended 31 March 2020	Assets £(000)	Obligations £(000)	Net (liability)/asset £(000)
Fair value of plan assets	110,959		110,959
Present value of funded liabilities		119,595	(119,595)
Present value of unfunded liabilities		0	0
Opening Position as at 31 March 2019	110,959	119,595	(8,636)
Service cost			
Current service cost		5,414	(5,414)
Past service cost (including curtailments)		113	(113)
Effect of settlements	0	0	0
Total service cost	0	5,527	(5,527)
Net interest			
Interest income on plan assets	2,684		2,684
Interest cost on defined benefit obligations		2,928	(2,928)
Impact of asset ceiling on net interest	0	0	0
Total net interest	2,684	2,928	(244)
Total defined benefit cost recognised in Profit/(Loss)	2,684	8,455	(5,771)
Cashflows			
Plan participants' contributions	910	910	0
Employer contributions	2,344		2,344
Estimated benefits paid	(1,984)	(1,984)	0
Estimated Unfunded benefits paid	0	0	0
Est Contributions in respect of unfunded benefits paid	0	0	0
Effect of business combinations and disposals	0	0	0
Expected closing position	114,913	126,976	(12,063)
Remeasurements			
Changes in demographic assumptions		(10,162)	10,162
Changes in financial assumptions		(3,977)	3,977
Other experience		(2,384)	2,384
Return on assets ex amounts included in net interest	737		737
Total remeasurements recognised in OCI	737	(16,523)	17,260
Fair value of plan assets	115,650		115,650
Present value of funded liabilities		110,453	(110,453)
Present value of unfunded liabilities		0	0
Closing position as at 31 March 2020	115,650	110,453	5,197

Notes – continued**Changes in Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year ended 31 March 2019**

Period Ended 31 March 2019	Assets £(000)	Obligations £(000)	Net (liability)/asset £(000)
Fair value of plan assets	103,175		103,175
Present value of funded liabilities		102,816	(102,816)
Opening Position as at 31 March 2018	103,175	102,816	359
Service cost			
Current service cost		4,412	(4,412)
Past service cost (including curtailments)		1	(1)
Effect of settlements	0	0	0
Total service cost	0	4,413	(4,413)
Net interest			
Interest income on plan assets	2,807		2,807
Interest cost on defined benefit obligations		2,827	(2,827)
Total net interest	2,807	2,827	(20)
Total defined benefit cost recognised in Profit/(Loss)	2,807	7,240	(4,433)
Cashflows			
Plan participants' contributions	835	835	0
Employer contributions	2,208		2,208
Contributions in respect of unfunded benefits	0		0
Estimated Benefits paid	(1,302)	(1,302)	0
Unfunded benefits paid	0	0	0
Effect of business combinations and disposals	0	0	0
Expected closing position	107,723	109,589	(1,866)
Remeasurements			
Changes in demographic assumptions		0	0
Changes in financial assumptions		10,006	(10,006)
Other experience		0	0
Return on assets ex amounts included in net interest	3,236		3,236
Total remeasurements recognised in OCI	3,236	10,006	(6,770)
Fair value of plan assets	110,959		110,959
Present value of funded liabilities		119,595	(119,595)
Closing position as at 31 March 2019	110,959	119,595	(8,636)

Notes – continued

14. Analysis of adjustments to cash flows

Returns on investment and servicing of finance	2019-20	2018-19
	£	£
Interest receivable from bank	31,486	30,066
Interest receivable from staff	1,329	1,069
	<u>32,815</u>	<u>31,135</u>

15. Analysis of movement of net funds

	2019-20	Cash flow	2018-19
	£	£	£
Cash in hand & at bank	5,279,899	1,995,561	7,275,460

16. Commitments

Lease Commitments	31-Mar-20	31-Mar-19
		re-instated
Within one year	494,050	135,000
Within two to five years	1,347,150	270,000
Over five years	0	0

The company holds two leases on offices at Harford Centre, Harford Street, London E1 and City Reach, London E14

THH signed a five year lease for office space at City Reach on 1st May 2019. The costs of sales figure includes £494,050 rent for City Reach and Harford Centre

Notes – continued

17. Related party disclosures

Details as to the status of the Company and composition of the Board of Directors are given in Note 1.

The ultimate controlling party is The London Borough of Tower Hamlets.

The Company's main source of income is a management fee for the management of The London Borough of Tower Hamlets housing stock: this amounted to £35,580,220 (2018-19: £34,121,495), at the end of the financial period. Of this £2,344,000 relates to reimbursement of employer pension contributions (2018-19: £2,208,000).

There was a related party debtor balance of £179,979 at 31 March 2020 (£458,281 at 31 March 2019).

There was a related party creditor balance of £1,196,153 at 31 March 2020 (£1,923,441 at 31 March 2019).

In the event of the Company being wound up, The London Borough of Tower Hamlets undertakes to contribute such amount as may be required for the payment of the debts and liabilities of the organisations providing this amount does not exceed one pound. The exception to this is the reimbursement rights asset relating to the pension liability which fully covers this. After the satisfaction of all debts and liabilities the remaining assets will be transferred to the Housing Revenue Account (as defined in the 1989 Act) of The London Borough of Tower Hamlets.

One of the board Members of Tower Hamlets Homes also hold senior management positions or Chair for organisations that THH transacts with throughout the year are as follows:

- Somali Integration Team - £8,415 expenditure

18. Contingent Liability

The Company had no contingent liabilities as at 31 March 2020 (2019: Nil).

19. Financial Instruments measured at fair value

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

	2019/20	2018/19
	£	£
Carrying amount of financial instruments		
<i>The carrying amounts of the financial assets and liabilities include:</i>		
Assets measured at fair value through profit or loss	740,135	570,749
Liabilities measured at fair value through profit or loss	2,774,958	3,226,794
Loan commitments measured at cost less impairment	<u>0</u>	<u>0</u>

20. Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a wholly owned subsidiary of The London Borough of Tower Hamlets, although the Council has determined that the accounts of Tower Hamlets Homes Ltd are not sufficiently material to warrant consolidation into its own accounts.

21. Post Balance Sheet Events

There have been no significant events subsequent to the balance sheet date of 31 March 2020.



Tower Hamlets Homes Limited

Report to the Audit and Risk Committee

Financial Statements for the year ended 31 March 2020

—

26 November 2020

Introduction

To the Audit and Risk Committee of Tower Hamlet Homes Limited

We are pleased to have the opportunity to discuss the results of our audit of the financial statements of Tower Hamlet Homes Limited (the 'Company'), as at and for the year ended 31 March 2020.

This report should be read in conjunction with our audit plan and strategy report, presented in March 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy other than consideration of the impact of Covid-19 as a specific focus of our going concern work.

Subject to the Board's approval, we expect to be in a position to sign our audit opinion on the financial statements in line with Company's timetable.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report; and
- Limitations on work performed;
- Restrictions on distribution of this report.

Yours sincerely,

Joanne Lees

26 November 2020

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, independence, **ethics** and **integrity**.

Contents	Page
Important notice	3
Our audit findings	4
Audit risks	5
Key accounting estimates	10
Appendix	12



Important notice

This report is presented under the terms of our audit engagement letter.

- Circulation of this report is restricted.
- The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Tower Hamlets Homes Limited (the 'Company'), prepared in accordance with Financial Reporting Standards ('FRS 102'), as at and for the year ended 31 March 2020.

This Report has been prepared for the Association's Audit and Risk Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarizes the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Company's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Company's members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is complete. However matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Risk Committee of the Company; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.



Our audit findings

Significant audit risks
Pages 6 –8

Significant audit risks	Page
Valuation of pension fund liability	6
Revenue recognition - fraud risk related to revenue recognition	7
Management override of controls	8

Other areas of focus

Going concern	9
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The impact of Covid-19 is discussed as part of going concern on page 9

Key accounting judgements **Page 11**

Pension Liabilities	Neutral	We utilised our KPMPG specialists to review the assumptions used by the actuary – all were deemed to be within the acceptable range.
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Corrected and uncorrected audit misstatements

Based on our work to date, there is one corrected misstatement.

Page 17

Control deficiencies identified

We have identified one control deficiency

Page 13

Outstanding matters

Our audit is substantially complete except for the following areas:

- Receipt of management representation letter



Significant risks and other areas of audit focus

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Tower Hamlet Homes Limited operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

We have considered the significant risks / areas of audit focus for the impact of Covid-19 as discussed on slide 13.

KEY

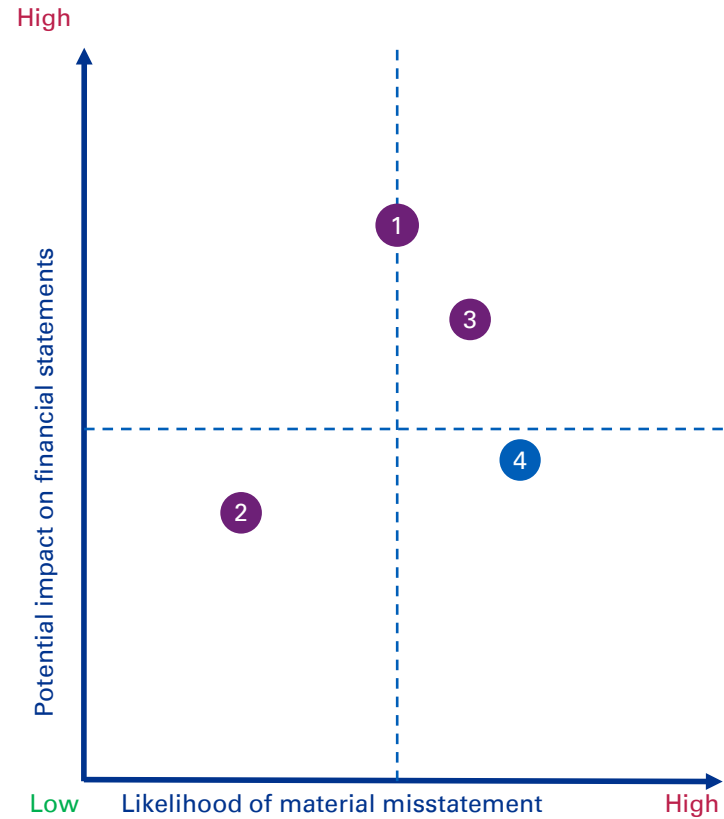
- ① Significant financial statement audit risks
- ① Other areas of audit focus
- ① Change compared to prior year
- ① New matter
- ① Key audit matter

Significant risks

- ① Valuation of pension fund liability
- ② Revenue recognition - fraud risk related to revenue recognition
- ③ Management override of controls

Other areas of audit focus

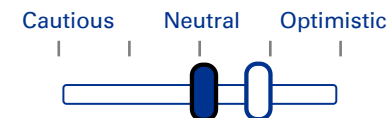
- ④ Going concern



See the following slides for the cross-referenced risks identified on this slide.



Significant risks



1 Valuation of post retirement benefit obligations

Significant risk

The risk

- The entity is a member of London Borough of Tower Hamlets Local Government Pension Scheme. The valuation of such Local Government Pension Schemes relies on a number of assumptions, most notably around the actuarial assumptions.
- It is important that the assumptions used reflect the profile of the entity's employees. It is also important that assumptions are derived on a consistent basis year to year, or updated to reflect the entity's current position. There are also generic financial assumptions and demographic assumptions used in the calculation of the entity's liability.
- In addition due to the nuances of the Local Government Pension Scheme, the allocation of assets is an actuarial procedure, as opposed to a direct allocation of investments. This is based on a methodology applied by the Scheme actuary.

Our response

We will perform the following procedures:

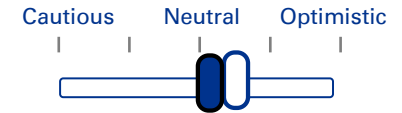
- Evaluated the competency, objectivity of the Scheme actuaries;
- Reviewed the information provided to the Pension Schemes Actuaries by the Company which input into the calculation of the scheme valuation;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.
- Reviewed the accounting treatment and entries applied by the Company are in line with FRS102 and the SORP;
- Reviewed the methodology for valuation of the Company's share of scheme assets, including consideration as to the return on assets achieved during the year; and
- Reviewed the actuarial valuation report produced by the Scheme's Actuary and confirm the information is accurately disclosed in the financial statements.

Our findings

- Our actuarial team performed their procedures in respect of the assumptions that underpin the actuarial valuation and found these to be within the expected range.
- The competency and objectivity of the scheme actuaries was found to be appropriate.
- Key assumptions and the methodology applied in the valuation are considered to be appropriate by our actuarial expert.
- The pension disclosure accurately reflects the actuarial valuation and findings.
- We utilised KPMPG actuarial specialists to review the assumptions used by the actuary – all were deemed to be within the acceptable range.



Significant risks



2 Revenue recognition - fraud risk related to revenue recognition

Significant risk

The risk

- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.
- The nature of income from the management fee which represents a significant element of Tower Hamlets Homes Ltd’s business, means that revenue is recorded and collected on a regular basis. The fraud risk from revenue recognition on the management fee income is therefore not regarded as significant and as such the risk is rebutted for this income stream.

Our response

We have performed the following procedures:

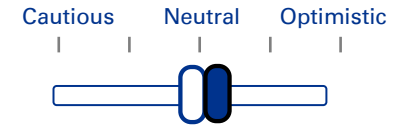
- We have rebutted the presumed risk of fraud over the management fee income stream. We have not rebutted this risk for other income streams.
- Our audit team has remained alert to indications of fraud during the course of the audit, and have responded accordingly;
- In response to the presumed fraud risk to revenue recognition over these income streams, we have assessed whether transactions either side of the balance sheet date at year end are recognised in the correct period.

Our findings

- We obtained confirmation of the rental income and management fee balances from the Company’s parent (London Borough of Tower Hamlets).
- We tested a sample of repairs income billed to the Council and confirmed that all invoices were accepted and paid.
- We tested a sample of transactions either side of the year-end to assess whether balances were accounted for in the correct period. We did not identify any errors.
- Our testing did not identify any issues we wish to bring to the attention of the Audit Committee



Significant risks



3 Management override of controls

Significant risk

The risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

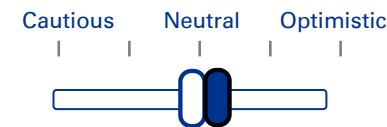
Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, we have:
- Tested the operating effectiveness of controls over journal entries and post closing adjustments.
 - Substantively tested identified high risk journals to supporting evidence. In addition we have substantively tested all material post closing adjustments.
 - Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
 - Assessed the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual.

Our findings

- We have tested the completeness of the journals listing for the year and a sample of individual journals based upon a set of high risk criteria. We do not have any findings that we wish to bring to the attention of the Audit Committee.
- We have not identified any significant transactions that are outside of the normal course of business
- Our audit work has not presented any changes to the assumptions and methods used to present accounting estimates.

Other areas of audit focus



4 Going Concern

Area of audit focus

- Management’s assessment of the entity’s ability to continue as a going concern involves significant judgement with respect to key estimates and judgements.
- During March 2020 the government put in place restrictions over non-essential travel and work as a response to the coronavirus pandemic. This had an impact on the day to day operations of the Company
- The economic impact of these restrictions has led to higher estimation uncertainty within year end valuations, including pensions.
- In addition, there is an enhanced financial risk associated with reduced income from management fees due to additional pressure on the Council.

Our response

- We evaluated the going concern assessment made by management to determine, in particular:
- whether the assumptions are realistic and achievable and consistent with the external and/or internal environment taking into account the impact of Covid-19 and other matters identified in the audit.
 - the reasonableness of management’s budgets/forecasts and evaluated whether key assumptions are within a reasonable range.
- We challenged management’s plans for future actions, and verified the reliability and relevance of data used
- We considered the implications of the pandemic on assumptions and judgements made in respect the valuations of assets and liabilities including pensions assets and liabilities.
- We have undertaken appropriate internal consultation over the impact of Covid-19 on the going concern assumption including the nature and extent of stress testing performed by management and whether appropriate disclosure has been made in the financial statements.

Our findings

- Management have developed their budget and cash forecast scenarios to incorporate Covid-19 related stress tests.
- We reviewed management agreement in place between Tower Hamlets Homes Limited and the Council and noted a four year extension of the existing contract.
- We have reviewed the basis of preparation used by Management and consider this to be appropriate.
- We have no issue to report on this matter.

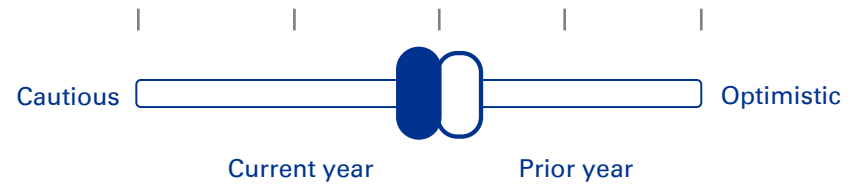


Key accounting estimates - Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious means a smaller asset or bigger liability; optimistic is the reverse.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
	Cautious Neutral Optimistic 				
Pensions Defined benefit asset		115.7	4.7	Acceptable	We utilised our KPMPG specialists to review the assumptions used by the actuary – all were deemed to be within the acceptable range.
Pensions Defined benefit liabilities		110.5	(9.1)	Acceptable	No adjustment was deemed necessary with respect to GMP and McCloud.



Significant audit misstatements and other matters

Misstatements

There are no uncorrected audit misstatements to report.

Management has approved the correction of the audit misstatements detailed on page 17 and they are reflected in the financial statements. There were no uncorrected audit misstatements.

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Company's internal control.

We have identified a control deficiency in relation to management review controls over pensions valuation. Please see page 13.



Appendix

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Appendix One

Recommendations raised and followed up



The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	<p>Review of pensions assumptions</p> <p>We noted from our review of the pensions process that there are currently no process in place for the review and sign off of the pension assumptions prepared by the actuary by senior management.</p> <p>There is a risk that management does not review the assumptions to a sufficient precision which will allow them to identify significant issues</p> <p>We recommend that management evidence their review of the year end assumptions and document in more detail the precision with which they review the assumptions and challenge the actuaries on the assumptions they have set.</p>	

Appendix One

Recommendations raised and followed up



#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2020)
1	2	<p>Legal position of pension surpluses</p> <p>The Company's reimbursement agreement with the Council with respect to the pension scheme provides specific treatment as to how pension deficits should be reimbursed.</p> <p>No guidance is, however, disclosed for when the pension scheme is in surplus.</p> <p>Under current accounting guidelines, the Company is unable to recognise a pension surplus. However, changes to the Local Government Pension Scheme in the future may mean that the Company is able to recognise exit credits and hence a surplus.</p> <p>Consequently, it is necessary to clarify now how surpluses are reimbursed to be adequately prepared for future potential surpluses.</p> <p>The Company should reach a new agreement with the Council as to the reimbursement position of any future pension surplus rights.</p>	<p>Agreed</p> <p>This is being discussed with the Council and a form of words being agreed for inclusion in the new Management Agreement, due to take effect from 1st April 2020.</p> <p><i>Director of Finance</i></p> <p>Due Date: October 2019</p>	<p>Implemented</p> <p>The new management agreement with the Council has a wording that addresses how pension surplus or deficit should be treated if the company winds up or the management agreement is terminated.</p>
2	2	<p>Rolling forward balance sheet totals</p> <p>Tower Hamlets Homes does not roll forward balance sheet codes at the start of the financial year. Instead, to obtain the value of balance sheet accounts, the Company downloads all transaction that had occurred since the ledger was introduced in 2013. Most other organisations roll forward the balance sheet code totals at the start of each financial year and therefore transaction reports are simplified. As a side effect of this process, the amount taken to retained earnings is manually calculated each year during the production of the accounts, because no amount is journalled over to the reserves code.</p> <p>The process for producing the balance sheet is laborious and open to error. The transaction reports will, over time, become increasingly large and unwieldy, which will also reduce the efficiency of the accounts production process.</p> <p>We recommend that the Company, at the end of each financial year, rolls forward balance sheet code totals to make opening balances. As part of this, the total profit/loss for the year should be journalled onto a retained earnings code.</p>	<p>Agreed</p> <p>Subject to LBTH timeframe for the upgrade of Agresso.</p> <p><i>Director of Finance</i></p> <p>Due Date: October 2019</p>	<p>In progress</p> <p>The Agresso upgrade is due to happen soon, Council colleagues are deciding whether to make changes before or after the upgrade.</p>

Appendix One

Recommendations raised and followed up



#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2020)
3	2	<p>Accuracy of pension reporting</p> <p>One of the two pension misstatements identified last year arose because the Company both accounted for its in-surplus pension scheme as being in deficit, and recorded the wrong amount as an actual gain through other comprehensive income.</p> <p>The figures from the Actuary’s report were copied onto the accounts template, without posting to the ledger. This approach has historically worked, however the manual intervention can result in error, and is not responsive to unusual movements, such as the pension scheme entering into surplus.</p> <p>By not posting the balances into the ledger, the Company is unable to ensure that movements on the balance sheet pension items reconcile to movements through OCI, because the balance sheet movements are not formally quantified or reviewed.</p> <p>The Company should produce a template for converting the Actuary’s report balances into the final accounting presentation, taking into account any audit adjustments identified outside of the Actuary’s report.</p> <p>The Company should ensure that pension balances are recorded on the ledger as part of the accounts production process.</p>	<p>Agreed</p> <p>In place</p> <p>Subject to LBTH timeframe for the upgrade of Agresso.</p> <p><i>Head of Finance</i></p> <p>Due Date: October 2019</p>	<p>In progress</p> <p>The Agresso upgrade is due to happen soon, Council colleagues are deciding whether to make changes before or after the upgrade.</p>



Appendix One

Recommendations raised and followed up



#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2020)
4	2	<p>Completeness of Related Parties Disclosure</p> <p>During our review of Board declarations of interest last year, we noted three entities which fit the definition of a related party and had transactions with THH during the year. These entities had not been disclosed in the draft related parties note.</p> <p>We recommend that the finance team perform a full review of the Board declaration of interests and related transactions to identify any additional required disclosures at year end. These should be reflected in the related disclosures and communicated to auditors.</p>	<p>Agreed</p> <p>In place.</p> <p><i>Director of Finance</i></p> <p>Due Date: October 2019</p>	<p>Implemented</p> <p>All Board declaration of interest and related party disclosures were identified and reflected in the financial statement disclosures.</p>
5	2	<p>Calculation of Full Time Equivalent</p> <p>As part of our prior year testing of the full time equivalent staff numbers, we noted six individuals where their FTE average did not agree to our recalculation in our sample of 25, which caused the staff number disclosure to be overstated by 2 FTE.</p> <p>We enquired of management and noted that there was a significant amount of manual entry and manipulation of the payroll report in order to calculate FTE, particularly for leavers, whose contract hours are not pulled automatically from the system at year end.</p> <p>We recommend the process for calculation of FTE be reviewed to reduce the amount of manual input required. Where manual input is required, the calculation should be subject to more robust review in order to identify potential instances where manual input was not accurate.</p>	<p>Agreed</p> <p>Agreed: Current process is extremely manual. We are working on a process that ensures compliance and improves the accuracy of the calculation.</p> <p><i>Director of Finance</i></p> <p>Due Date: October 2019</p>	<p>Implemented</p> <p>This process is now in place and operating effectively.</p>

Appendix Two

Corrected and uncorrected audit misstatements



Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£'000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
3	Dr Creditors		(374)	As part of intercompany reconciliation with London Borough of Tower Hamlets, it was identified that an intercompany creditor was not included in the books of Tower Hamlets Homes. This has a direct impact on bottom line and this adjustment has been effected to correct this.
	Cr Cost of sales	374		
Total		374	(374)	

There are no uncorrected audit misstatements to report.

We have also set out below a number of presentational adjustments made by management to disclosures within the accounts:

- Staff numbers categorisation – rounding errors for high paid staff ratios.
- Leases – correction of lease amounts into the right expected year end banding categories.

Appendix Three

FRC's areas of focus

The areas of focus from the FRC's Annual Review of Corporate Reporting 2018/19 along with four thematic reviews issued in 2019 should be considered for reporting in the current financial period. Further improvements and candid disclosures in corporate reporting are called for to address matters of increasing concern to investors as well as enhancing public trust in business. The FRC suggests lack of disclosures on key and emerging issues implies that management is unaware of their potential impact, is not managing the issues effectively or is being opaque.

Narrative reporting

The FRC expects the information included in the strategic report to provide quality communication with shareholders and other stakeholders regarding a range of environmental, social and governance issues, including climate risk, as well as a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year.

In times of uncertainty investors look for greater transparency in reporting to inform decision making and so careful disclosure is expected in areas exposed to heightened levels of risk such as going concern, Brexit and all areas of material estimation uncertainty.

Section 172

For this new reporting requirement the FRC expects an explanation on how the company has regard to wide ranging factors when promoting the success of the business and the consequences which they have on all stakeholders including the impact on the environment.

Brexit

Improvements in disclosures have seen companies highlighting a range of specific risks which varied by industry. The FRC noted that they should also identify mitigating action that had been taken and disclosures in this area would continue to be monitored.

Alternative Performance Measures (APMs)

The FRC still finds deficiencies in identifying and reconciling APMs to audited IFRS numbers, absent or unclear definitions of APMs and explanations of why certain amounts were excluded from adjusted measures, when they appear to be part of the normal business. The FRC's existing checklist set out in its APM thematic review issued in 2017 continues to be its benchmark.

Significant accounting Judgements


Several cases of insufficient disclosures where a particular judgment had a significant impact on reporting were found, including complex cases relating to consolidation judgment and the question of control over another entity. The FRC expects disclosures of judgment demonstrating full understanding of the rights and obligations arising from the relevant arrangements distinguishing between substantive and protective rights.










FRC's areas of focus (cont'd)

Significant estimates	The FRC continues to focus on disclosure of significant estimates to give clearer insight into possible future material changes in balance sheet values over the twelve months ahead. Disclosures regarding the sensitivity of changing assumptions and range of possible outcomes are expected.
Reporting on cash	The FRC continues to identify basis errors involving misclassification of cash flows between operating, investing and financing activities many of which inflate operating cash flows. There is a concern these errors are not being picked up during quality testing.
Supplier financing arrangements	The FRC still believe many companies are not providing relevant information about this type of arrangement, including why they are being used and the extent of their dependency.
IFRS 16 Leases	Expectations for the new standard include a clear explanation of the impact of transition and the practical expedients taken, a reconciliation between the previous IAS 17 commitment and IFRS 16 liability along with details of the key judgments applied. APMs will need to address the inconsistencies as a result of comparatives information not being restated.
Non-financial assets	The FRC will expect disclosures to explain circumstances leading to an impairment, how CGUs have been derived, significant judgment applied, and that the disclosures requirements of IAS 36 and IAS 1.125 . 2019/20 specific issues include the effect of Brexit, and/or other political-macro economic risks, the impact of climate change and environmental impact and the effect of IFRS 16.
Revenue	The FRC expects improvements in the description of the specific nature of performance obligations, and when are such obligations met (over time or at a point in time), company-specific disclosures of significant judgements, as well as consistency between the financial statement disclosures and other information (i.e.: strategic report).
Financial instruments	For corporates, the focus will continue on the application of the ECL requirements to contract balances, lease receivables and intercompany loan assets, credit risk disclosures, key assumptions and sensitivity analysis of ECL when ECLs are identified as a source of significant estimation uncertainty.

Required communications with the Audit and Risk Committee

Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2020.
Adjusted audit differences	 There was one adjusted audit differences.
Unadjusted audit differences	 There are no unadjusted audit differences.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing in this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving Company management, employees with significant roles in Company-wide internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Type	Response
Significant difficulties	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 None.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the Company's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	 The matters arising from the audit were discussed, or subject to correspondence, with management.



Confirmation of independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Tower Hamlet Homes Limited

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Company and its affiliates for professional services provided by us for the reporting period.

Total fees charged so far by us for the period ending 31 March 2020 can be analysed as follows:

Service	2019/20 (£)	2018/19 (£)
Total Audit fee	28,500	27,950
Total non-audit	0	0
TOTAL	28,500	27,950



Confirmation of Independence

For each individual piece of non-audit work an assessment of any potential threats to our independence is completed if any safeguards are required we will notify the Audit and Risk Committee. To date we have not identified any threats to our independence.

Reliance on the work of external experts

We do not anticipate using external experts engaged by KPMG. However, if we do use work from external experts engaged by KPMG we will ensure that we receive a confirmation from them regarding their independence before they assist in any work.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP



KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

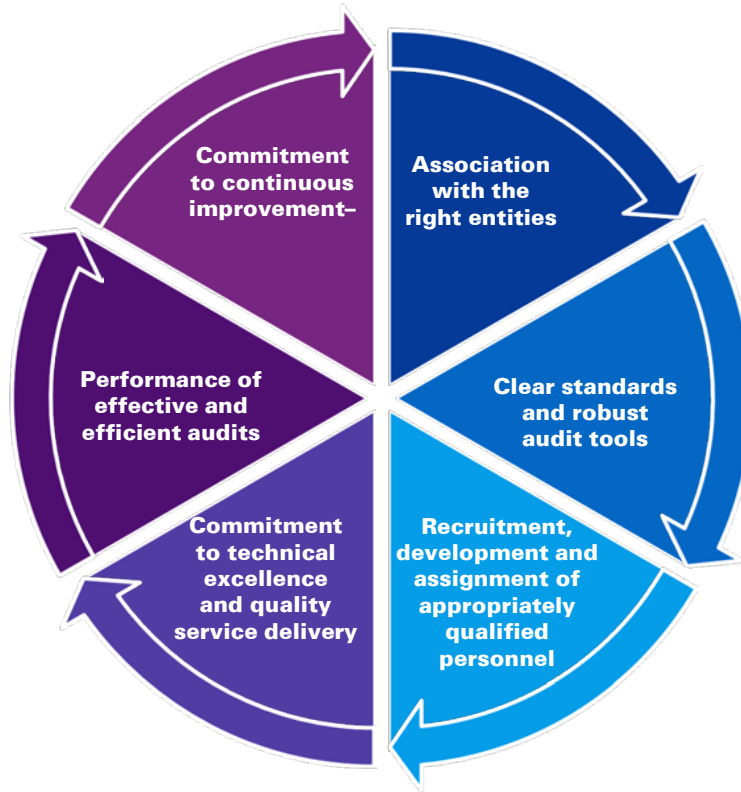
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists





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26 November 2020

Tower Hamlets Homes
Second Floor, City Reach
5 Greenwich Place View
E14 9NN

KPMG LLP
 15 Canada Square
 London
 E14 5GL

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Tower Hamlets Homes Limited ("the Company"), for the year ended 31st March 2020, for the purpose of expressing an opinion:

- i. as to whether the financial statements give a true and fair view of the state of the Company's affairs as at 31st March 2020 and of the Company's Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, and Statement of Changes in Equity for the year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102");
- iii. whether the financial statements have been prepared in accordance with the Companies Act 2006.

These financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated March 2020, for the preparation of financial statements that:

- give a true and fair view of the state of the Company's affairs as at the end of its financial year and of the Company's and 's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102); and
- have been prepared in accordance with the requirements of the Companies Act 2006

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which Section 32 of FRS 102 (*Events after the End of the Reporting Period*) requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Board has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Board for the purpose of the audit; and
 - unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Board confirms the following:
 - (i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- (ii) The Board has disclosed to you all information in relation to:
 - (a) Fraud or suspected fraud that it is aware of and that affects the Company and involves:
 - management;
 - employees who have significant roles in internal control; or

- others where the fraud could have a material effect on the financial statements; and
- (b) allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with FRS 102 Section 21, *Provisions and Contingencies*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Board has disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with FRS 102 Section 33, *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102.

11. The Board confirms that:
- (a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the 's and Company's ability to continue as a going concern as required to provide a true and fair view and to comply with FRS 102.
 - (b) No material events or conditions have been identified that may cast significant doubt on the ability of the and the Company to continue as a going concern.
 - (c) The Board confirms that the financial statements disclose its plans for future action relevant to the 's ability to continue as a going concern, and its assessment of the feasibility of these plans.'
12. On the basis of the process established by the Board and having made appropriate enquiries, the Board is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with the requirements of section 28 of FRS 102 .
13. The Board further confirms that:
- (a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;

- funded or unfunded; and
 - approved or unapproved,
- have been identified and properly accounted for; and

(b) all plan amendments, settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Board on 26 November 2020.

Yours faithfully,

[Chair]

Appendix A to the Board Representation Letter of Tower Hamlet Homes Limited : Definitions

Financial Statements

A complete set of financial statements comprises:

- Company and balance sheets as at the end of the period;
- Company and Statement of Comprehensive Income for the period;
- Company and Statement of Changes in Reserves for the period;
- Company Cash Flow Statement for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and

- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Qualifying Entity

A member of a Company where the parent of that Company prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation by means of full consolidation

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
 - i. The entity and the reporting entity are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Company of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).

- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity, or any member of a Company of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Tower Hamlets Homes
PO Box 66355
London E14 1GU

Contact
020 7364 5015
www.towerhamletshomes.org.uk
contactus@thh.org.uk