


Non-Executive Report of the:  <b>Audit Committee</b>  31 <sup>st</sup> January 2016	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>Monitor of Progress of Actions Arising from KPMG's 2015-16          ISA260 Report To Those Charged With Governance (Council and          Pension Fund)</b>	

<b>Originating Officer(s)</b>	Kevin Miles – Chief Accountant
<b>Wards affected</b>	All Wards

### Summary

This report is intended to update the Audit Committee on progress made to date on the issues raised by KPMG in the draft ISA260 (Report to those charged with Governance) tabled at this committee on 29<sup>th</sup> September 2016.

The report gives details of 2 main areas

- Significant audit items – items identified in the External Audit Plan 2015-16 that pose a significant risk in the Financial Statements
- Prior year recommendations – these items were included in the ISA 260 for 2014-15 but have not yet been fully implemented.

### Recommendations:

The Audit Committee is recommended to:

- 1) Note the progress of the items detailed in the ISA 260

## 1. REASONS FOR THE DECISIONS

- 1.1 To provide an update on progress on implementing the recommendations arising from the ISA 260 are addressed and implemented.

## 2. ALTERNATIVE OPTIONS

- 2.1 The Council could opt not follow up these recommendations but then would be in contravention of its statutory duty.

## 3. DETAILS OF REPORT

- 3.1 In September 2016, officers presented the draft Statement of Accounts for 2015-16 to Audit Committee (including the pension fund accounts). These accounts are compliant with the requirements of International Financial Reporting Standards (IFRS). The auditors had substantially completed their review, and subject to a few areas requiring further consideration, KPMG were in a position to issue a draft ISA260 detailing their findings.

- 3.2 Contained within the report are a number of areas identified within the Audit Plan that carry a significant risk to the authority. These areas are:

- Property Plant and Equipment
- Grant Payments
- Declarations of Interests
- Fraud risk of Revenue Recognition
- Management Override of Controls
- Pensions Assets - Liabilities
- Payroll
- Income from Property Leases
- Youth Services

- 3.3 Most of these items have been reviewed to the auditors' satisfaction as part of the 2015-16 audit. The areas where audit review work is continuing relates to:

- Grant Payments
- Declarations of Interests
- Income from Property Leases

Officer Comments on the progress on these items can be found in Appendix 1

- 3.4 **Grant Payments** – officers have put arrangements in place to ensure all grants receive proper approval.

3.5 **Declarations of Interest** – all officers and members are required to complete a declaration of interest. The audit review work is to ensure all declarations are completed.

3.6 **Income from property leases** – audit review work is continuing in reviewing property leases where grant receiving organisations use Council property in providing services.

#### 4. **COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 The Chief Finance Officer has been consulted in the preparation of this report and has no additional comments to make.

#### 5. **LEGAL COMMENTS**

5.1 The Council is required to prepare a statement of accounts in accordance with section 3(3) of the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Accounts and Audit Regulations 2015 ('the 2015 Regulations').

5.2 Section 4 of the 2014 Act requires that the Council's accounts for a financial year must be audited by a local auditor appointed for that purpose and which is KPMG.

5.3 The International Standard on Auditing (UK And Ireland) 260 deals with the auditor's responsibility to communicate with those charged with governance (i.e. the Council) in an audit of financial statements. The ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. This includes communicating to the Council areas that have been identified where there are significant risks affecting the Council's financial statement.

5.4 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. In that regard, the 2014 Act requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

5.5 It is therefore consistent with the Council's Best Value Duty to action the issues raised by KPMG in the draft ISA260 tabled at the Audit Committee on 29<sup>th</sup> September 2016.

5.6 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 Implementing recommendations arising from the ISA260 contributes to the delivery of 'One Tower Hamlets' objectives.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG. KPMG have reported on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no 'Sustainable Actions for a Greener Environment' implications contained in this report.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 There are no specific risk management implications.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no crime and disorder reduction implications.

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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- ISA260 - Report to those Charged with Governance 2015/16

### **Appendices**

- Progress on ISA260 Recommendations

### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of "Background Papers" used in the preparation of this report**

- None

### **Officer contact details for documents:**

- Brian Snary – Financial Accountant ext. 5323