

Audit Committee



Thursday, 28 January 2021 at 5.30 p.m.

Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

Supplemental Agenda 1

This meeting is open to the public to attend.

Further Information

For further information including Membership of this body and public information see the main agenda.

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Audit Committee


Thursday, 28 January 2021

5.30 p.m.

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Attached herewith is the progress report relating to the accounts. The accounts for 2018/19 and 2019/20 are to follow.	
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Next Meeting of the Committee:

Wednesday, 7 April 2021 at 5.30 p.m. to be held in the Online 'Virtual' Meeting -
<https://towerhamlets.public-i.tv/core/portal/home>

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>28th January 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of Kevin Bartle, Interim Corporate Director of Resources (Section 151 Officer)</p>	<p>Classification: Unrestricted</p>
<p>Audit of the Council's Accounts 2018/19 & 2019/20 – progress update</p>	

Executive Summary

This report contains an update on the progress with completing the 2018/19 and 2019/20 Statement of Accounts. In addition, the report contains the Independent Review of the 2018/19 year end close carried out by Worth Technical Accounting Solutions Ltd.

Recommendations:

The Audit Committee is recommended to:

1. Note the progress on completing the 2018/19 & 2019/20 Accounts; and,
2. Note the contents of, and the initial response to, the Independent Review and the intention to bring a detailed Improvement Plan to the Audit Committee at its 7th April 2021 meeting.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial statements by the statutory deadline of 31st July each year (this was changed to the 30th November 2020 for 2019/20 only, due to Covid 19). This report contains an update on the progress of the accounts for 2018/19 and 2019/20, both of which have not been approved within those timescales.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options – the Council is required to produce its Statement of Accounts in line with the relevant guidance and legislation.

3. STATEMENTS OF ACCOUNT

- 3.1 The Council produced a draft Statement of Accounts for 2018/19 by the statutory deadline of May 31st, 2019. The Audit Committee received a report from Deloitte in July 2019 that detailed a number of serious issues that had

been identified during the audit, that led to the Council re-presenting the 2018/19 accounts at the Audit Committee of the 31st May 2020.

- 3.2 The draft Statement of Accounts for 2019/20 was produced by the statutory deadline of 31st August 2019. It was not possible for Deloitte to produce an opinion on the Accounts in November 2020 as planned.
- 3.3 A “glidepath” had been developed before November to identify the key problem areas that need to be resolved before restatements of the accounts could take place. Plans were put in place to address each area, including commissioning additional resources and specialist expertise where required, such as external resource commissioned to support the Collection Fund issues. An experienced interim was appointed (whose last role was as an interim Chief Accountant at a major County Council) to lead the 2018/19 accounts process, whilst the previous interim Chief Accountant led the 2019/20 process. These interims will remain in place until the Accounts have been published, whilst the new permanent Chief Accountant leads the 2020/21 Accounts production process. Please note that a 2020/21 timetable has already been produced.
- 3.4 The latest versions of both years of Statements of Accounts will be sent to the Audit Committee after the publication of this covering report for noting; it is not possible to ask for approval at this stage, as the Accounts still need to be amended for a revaluation of a significant asset, which will not be received until February, along with any issues that arise during the rest of the Audit.
- 3.5 The Accounts have been restated to amend for a number of significant issues:
- The previous version of 2018/19 contained a further error in schools accounting leading to a write off of £11.7m in July 2020 and recognised in budget monitoring and outturn reports to Cabinet;
 - Some schools’ property valuations have been further amended in 2016/17 and 2017/18 balance sheets;
 - Community Infrastructure Levy had not been accrued for in all cases across several years, leading to recognition of an additional c £30m;
 - Schools’ balances have been overstated in 2019/20 by £1.2m, as well as cash being overstated;
 - The cashflow has been overstated in 2019/20 (erroneously “grossed up” but with a net nil impact);
 - A new provision in the HRA has been established for water charges, of £9m, backdated to 2018/19 (and thus releasing the reserve set up in 2019/20);
 - Leaseholders accruals and bad debt provisions have been restated for 2016/17, 2017/18, 2018/19 and 2019/20; the total impact on the most recent balance sheet being recognition of an additional resource of £4.1m;
 - There were 2 errors in the Collection Fund for 2019/20, offsetting to some extent;
 - There has been a write off for energy costs of £1.1m, backdated to 2018/19;

- There is a new General Fund potential litigation provision of £0.8m, backdated to 2018/19; and,
- Some S106 monies had been incorrectly classified and have now been reclassified in 2019/20.

- 3.6 Dialogue between the Council and Deloitte has resulted in the establishment of a joint and considered realistic, achievable timeline for the remaining audit work. This plan has been discussed at the Council's Statutory Officers' Meeting, led by the Chief Executive. The issues regarding the Statement of Accounts have been reported to the Corporate Leadership Team (CLT) and more frequently to the Statutory Officers Meeting (SOM), and have been recognised as a Council wide priority by CLT.
- 3.7 The Audit of the Accounts will now recommence in line with the agreed plan and it is intended, therefore, to bring final versions of the Accounts to the April 2021 Committee for approval along with an opinion from Deloitte to be received at the July 2021 Committee meeting.

INDEPENDENT REVIEW

- 3.8 The issues around the timing and the quality of the Statement of Accounts for 2018/19 led the former Corporate Director of Resources to commission an Independent Review, the Terms of Reference for which are attached as Appendix A.
- 3.9 Worth Technical Accounting Solutions Ltd were appointed to carry out the Independent Review in August 2020 and their report is attached as Appendix B.
- 3.10 The Council would like to thank Worth Technical Accounting Solutions Ltd for their report and the Council welcomes the detailed recommendations contained within it. The recommendations cover a wide range of subject areas, from culture, to processes and systems and they highlight the key attributes of authorities who are successful in producing accounts to deadlines and of an appropriate quality.
- 3.11 The Council has already learned lessons from the 2018/19 accounts production and has implemented, and has in train, a number of improvements despite the impact of the pandemic which began in March 2020 and was at that time, of course, the Council's highest priority:

Table 1 – Improvements already in place or being developed as at November 20:

Improvement	In place or in progress	Expected benefit
The Finance Department is in dialogue with the IT Department to develop a programme of enhancements that will lead to the required systems improvements in Agresso.	In progress	Reduces delays on the production of the Accounts and will deliver wider business benefits. Please note that this programme has subsequently been developed and is being costed and reviewed by CLT.
A new, detailed timetable was established for 19/20 Accounts	In place	Wider allocation of tasks to reduce bottlenecks with identified task owners and reviewers with a RAG rating for monitoring in order to reduce bottlenecks.
Higher standards for working papers have been established, with a standard set of working papers for each note based on best practice.	In place for 19/20, further review planned for 20/21	Finance staff able to produce higher standard of working papers to better meet required standards.
Finance held briefing/training sessions for all accountants playing a role in the accounts process and training sessions for Budget Holders.	In place	Improves communications to allow staff to understand their role in the production of the Accounts and reduce errors and delays.
A daily update is sent to everyone in the Finance community that details all queries and information requests from Deloitte and identifies individuals and deadlines for responses.	In place	The Audit is now being managed at both an operational and a strategic level.
Permanent staff have been appointed into the Chief Accountant's team including the new Chief Accountant (started 23 rd November 2020)	In place	Allows the learning to be retained within Tower Hamlets and an important step towards sustainable improvement.
Additional resources secured so that 18/19 and 19/20 have a full-time experienced lead	In place	Allows the restatement of 2 sets of Accounts to take place.
There are weekly meetings with Deloitte with agendas and minutes	In place	The Audit is now being managed at both an operational and a strategic level.
An overarching process document detailing the way in	In progress	The Council will understand its banking framework and

which the Council's bank accounts operate is being developed; this will include process notes, reviewers and a dashboard for management;		produce monthly robust reconciliations.
An improvement plan for schools accounting is being developed	In progress	This will reduce errors and delays.

3.12 Whilst these added up to a significant step forward, it is recognised that there is nevertheless a considerable way to go to reach a sustainable level of improvement such that the accounts can be reliably produced annually that contain quality data.

3.13 The summary of the review contains 2 sets of key recommendations, one for sustainable improvement, the other specifically relating to the 2018/19 accounts. These are set out below with the Council's response for each set of recommendations:

A) Recommendations for sustainable Improvement

To address these issues, the Council should:

- establish a project plan, as a priority, to address shortcomings highlighted by CIPFA in 2017;
- simplify the current coding structure so that it reflects the required layout and format of the Statement of Accounts;
- establish ongoing financial systems that support all key items and disclosures; and,
- ensure that these systems are reconciled to relevant ledger codes on a regular basis throughout the year.

The Council has made a series of improvements, but fully recognises that a root and branch resourced plan is needed to make sustainable improvements. The Council is developing an Improvement Plan as recommended to address its shortcomings, further aided by lessons learned sessions with the Finance teams. The Improvement Plan is being reviewed by CLT and will be brought to the April 2021 Audit Committee.

B) Recommendations for the 2018/19 Statement of Accounts

The Council should now treat completing the 2018/19 audit as a corporate priority, by:

- identifying the key barriers to audit sign-off;
- implementing clear project plans to address each outstanding issue effectively;
- securing Deloitte's commitment to completing the audit by an agreed date which is both realistic and achievable; and,
- providing additional staff resources if necessary.

These recommendations have been met as set out in this report.

- 3.14 In conclusion, the Council fully recognises the findings of the Independent Review and its recommendations. The interim Corporate Director of Resources will ensure that the Improvement Plan that is being developed will be discussed with the Chair of the Audit Committee and the Independent Member, as well as being taken to CLT, as the production of the accounts is a key corporate priority. The plan will be clear, specific, with deadlines for each action and will be resourced so that it is achievable. A presentation on the draft Improvement Plan will be made to the Audit Committee.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implications within this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 None.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The restated Statements of Account will be available to Members before the Audit Committee meeting of 28th January 2021. The Independent Review is welcome, and the recommendations will form the basis of a plan to be reported to the April 2021 Audit Committee.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Accounts and Audit Regulations 2015 ('the Regulations') require a local authority to approve and publish their statement of accounts, among other documents, by 31 July in the financial year immediately following the financial year to which the statement relates. For the financial year beginning in 2019 the time for publication is extended to 30th November 2020.
- 7.2 The Regulations state that where the auditor's final findings are not available by the required date, the local authority must publish as soon as reasonably practicable on or after the required date a notice stating that it has not been able to publish the statement of accounts and its reasons, and must publish the statement of accounts and other documents as soon as reasonably practicable.
- 7.3 It is noted that a plan is in place and the proposals in this report comply with the above legislation.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix A – Terms of Reference for Independent Review
- Appendix B – Independent Review

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:

- N/A

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10 August 2020

LBTH 10 08 2020

Mr K Bartle
Divisional Director of Finance, Procurement and Audit
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London E14 2BG

Dear Kevin,

Review of 2018/19 year end close

Following on from your email of 7 August and our recent telephone conversations, I am pleased to set out my proposal for your consideration.

Your needs

At the Audit Committee meeting on 13 May 2020 it was decided that an independent review would be commissioned to investigate issues arising in connection with the Council's 2018/19 year-end close. Proposed terms of reference are set out in Appendix 1.

My response

Having been at various times a consultant, practitioner and external auditor, I have extensive experience of all aspects of local authority year-end close. Appendix 2 provides a short CV for information.

My aim would be to provide practical suggestions that improve financial reporting by following the 3- stage approach set out below:

Phase 1 would compare arrangements in place at Tower Hamlets against good practice summarised in CIPFA's 2019 publication "*Streamlining the Accounts*". This phase of my review would focus on the following areas:

- Project planning and management
- Resourcing and prioritisation
- Staff training
- Use of working paper templates and guidance notes
- Quality of audit trail and working papers
- Pre-audit assurance and review
- Understanding external audit expectations
- Managing the audit process.

Phase 2 would consider the role played by feeder systems, year-end reconciliations and other accounting processes in confirming the accuracy of ledger information and supporting effective year end close. As part of this phase of the project I would also consider:

- Processes for obtaining Code compliant asset valuation reports
- The Council's approach to identifying and resolving complex accounting issues
- How Code changes and new accounting requirements are identified and implemented
- Processes for determining and evidencing key management judgements and accounting estimates, eg Business Rates appeals and bad debt provisions.

Phase 3 would consider specific issues identified by external audit, namely:

- The accuracy of property terrier and fixed asset register records
- Processes for identifying major works and capital transactions
- Capital financing and lease arrangements (including processes for recharging and invoicing lessees and leaseholders and collecting the associated income)
- Recognition and accounting for government grant income
- Accounting for s106 and CIL contributions
- Accounting for school expenditure and income including Dedicated Schools Grant.
- Internal recharging processes
- Accuracy of year-end capital and revenue accruals

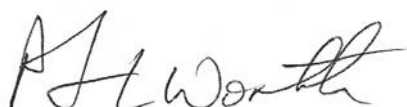
A suggested action plan would be provided as part of my report.

Fee rates and timings

I would be able to complete the work described above by 30 October at a fee of £15,000 plus VAT. This represents approximately 20 days' work, commencing August 2020. Given current restrictions in response to Covid-19, all work will be carried out remotely.

My usual terms and conditions of business are set out in Appendix 3, and I look forward to hearing from you.

Kind regards



Peter Worth, Director

Appendix 1 - Terms of Reference

Provided by London Borough of Tower Hamlets on 7 August 2020

Background

At the meeting of the audit committee held on 13 May 2020 it was proposed and agreed that an independent analysis of the issues which have arisen in the preparation of the 2018/19 Statement of Accounts would be provided for the committee; the indicative timeframe was for that to be presented in October/ November 2020 alongside the anticipated external audit reporting for 2019/20.

This paper sets out the terms of reference for that review and analysis; setting out the broad areas to be considered, the composition of the review team and the reporting arrangements including provision for the audit committee to have sight of and provide input into these terms of reference.

Context

Over the past 12 months the Audit committee has received update reports from both council officers and the council's external auditors (Deloitte) highlighting a number of issues that have prevented the finalisation of the 2018/19 statement of accounts. Whilst a revised set of accounts has now been prepared for the statutory external audit review process this has required extensive remedial action and additional resources both from the Council but also from the external audit perspective of making the most effective use of their time.

The extent of the issues identified was surprising for the following reasons:

- Previous audit examinations undertaken by KPMG had not raised any similar issues although it is apparent, with the benefit of hindsight, that some of the difficulties reflected poor practice over a number of years; and,
- A financial health check report - Undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) had specifically highlighted the production and subsequent audit of financial information as a strength of the finance function.

Although the appointment of a different audit firm for the audit of the 2018/19 Statement of Accounts is a significant component in the identification of issues, the impact of the finance team restructure which concluded in 2019 is also relevant.

The purpose of the review now being initiated is to ensure that the lessons learned from the weaknesses which are now apparent, can be formally noted and resolved through action planning. This process can also be reported to the audit committee on a regular basis to give them appropriate strategic oversight.

Approach

It was originally the intention to Commission an external firm to carry out this piece of work, however, following subsequent discussions with the Lead Member for Resources, other options were explored both to minimise the additional costs involved in the light of the council's overall financial position but also to reflect the fact that the audit examination process itself was independent.

On balance I concluded that value for money was best achieved by not replicating the audit process but by employing an independent consultant with the relevant expertise and experience who has not previously been involved with Tower Hamlets Council.

This minor change in approach from that outlined to the committee previously has been raised with the chair of the audit committee who has indicated that she concurs with the approach set out by the Director of Resources and the Lead Member for Resources. In order to strengthen the independent nature of the review oversight on behalf of the committee is now proposed to be undertaken by the Independent Person recently appointed to the committee.

Proposed Team

It is proposed that the review will be led by Peter Worth who is an experienced former external auditor. Peter will draw on the work carried out by Deloitte and supplemented by the further work to produce the revised 2018/19 accounts led by the interim chief accountant. The interim divisional director for finance procurement and audit (Kevin Bartle) will also contribute to this piece of work so that changes to existing practices and structures can be implemented quickly.

Service specialists will be drawn from the relevant finance teams where currently the strategic head of finance roles for children's social care, schools and adult social care are all covered by experienced interim resources. Following the finance restructure there are currently no substantive members of staff at the Strategic Head of Finance level that were previously involved in the 2018/19 statement of accounts production processes.

Oversight of progress, reporting and any scope changes is proposed to be carried out by Charlotte Webster through a process of regular meetings and updates.

Scope

At this point in time the proposed scope of the review will cover in the main the following areas highlighted as requiring significant work in the report to the Audit Committee in May 2020:

- The process for defining and requesting (through a tender process) valuation information consistent with the Code of Practice and its subsequent review by property professionals to confirm its validity.

- The process for identifying changes to the Council's asset register for subsequent balance sheet recognition. Including specifically work in relation to Academy conversions.
- The process for billing leaseholders by THH for major works contributions establishing charges over properties or other methods to minimise bad debt. [Taking into account the findings from recent internal audit activity in this area]
- The process for determining grant conditions and appropriate accounting treatment.
- The process for applying grants in accordance with accounting provisions appropriately.
- The process for taking into account school expenditure and income transactions and agreeing the accumulated balance position with the balance sheet.
- Ensuring that expenditure and income for intra council recharges are not overstated within the overall SoA.
- The process for raising and collecting S106 and CIL contributions in a timely fashion consistent with the underlying agreements. [Noting that there is planned internal audit activity in this area that can be relied on if scoped appropriately]
- The process for raising accruals both of a capital and revenue nature, the supporting evidence and the use of appropriate de minimis levels.
- The process for determining the level of both general and bad debt provisions.
- The training materials/process notes/closure of accounts timetable in place to guide and manage Council staff in contributing effectively to this important work.
- Other issues that come to light following the completion of the 2018/19 and 2019/20 Statement of Accounts Audits.

Outcomes

The review will commence in August 2020 and will produce a report for the Audit Committee and the Corporate Director of Resources by the end of October 2020. The report will highlight the work undertaken, the findings and an agreed improvement action plan signed off by the CD Resources. There will be a significant emphasis on lessons learnt and, therefore, the resultant improvement action plan, once implemented, will be designed to ensure there are no recurrences of the significant difficulties currently being experienced in the production of the council's statement of accounts.

Regular review points will be agreed for the implementation of actions.

Oversight to ensure potential scope changes, as a result of additional issues found, are formally agreed, will be delegated to the Independent Person (CW) in consultation with the CD Resources.

NEVILLE MURTON

AUGUST 2020

Appendix 2 - About Peter Worth (BA Hons), CIPFA, MAAT

A nationally recognised authority on local government accounting, Peter has over 30 years' experience of providing advice on issues such as:

- IFRS and Code requirements
- Capital accounting and financing
- Treasury Management and Investing
- Pensions and LGPS
- Group Accounting
- Managing the audit process



Peter spent seven years working in local authorities before he joined the Audit Commission in 1989. As one of their senior technical managers he was instrumental in establishing their well-regarded Technical Helpdesk Service. Peter left the Audit Commission in 2012 to set up Worth Technical Accounting Solutions which now has a portfolio of local government clients including:

- Westminster City Council
- City of London Corporation
- The States of Jersey Government
- London Borough of Waltham Forest
- South Gloucestershire Council
- Transport for Greater Manchester

Peter has a proven track record in helping local authorities to:

- Resolve longstanding technical accounting issues
- Achieve faster year end close
- Improve the quality of published Statement of Accounts
- Improve the quality of audit trail and year end working papers
- Expedite the external audit process.

Combining consultancy work with his role as a CIPFA associate and LAAP member ensures that Peter remains in touch with both national developments and current issues for practitioners. He regularly delivers training and presentations to professional bodies, elected members and stakeholders on accounting and audit issues, and has worked with central government on a range of matters affecting local government finance.

Peter has co-authored various CIPFA publications including Streamlining the Accounts, Code Guidance Notes for Practitioners and the example Local Government Pension Fund accounts.

Appendix 3 – Terms and Conditions of Business

Worth Technical Accounting Solutions Limited will provide the services set out in this letter at the stated fee. If we agree to carry out any additional services, we will provide you with a new or amended agreement. Notice of variation or termination of this agreement by you must also be made in writing.

Worth Technical Accounting Solutions Limited will provide the services set out in this letter with reasonable care and skill and in accordance with the professional regulations and ethical requirements of the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales, and the Association of Accounting Technicians. As part of these requirements, our work may be reviewed by our professional and supervisory bodies (see above) or by an independent regulatory or quality control body.

We will endeavour to provide advice to you on all important matters in writing. If we do provide oral advice, for example during a meeting or telephone call, and you wish to be able to rely on that advice, you must first ask for confirmation of the advice provided in writing. To the fullest extent permitted by law, Worth Technical Accounting Solutions Limited does not accept any responsibility for loss, damage or expense caused by any persons relying on opinions expressed by us without our written permission.

Our liability to you is limited to losses, damages, costs and expenses caused by negligence or wilful default. We will not be responsible for any losses caused by your supply of incorrect, incomplete or out of date information, or your failure to act on advice provided or respond promptly to communications or requests for information. You will not hold us responsible for any loss suffered by you arising from any misrepresentation (intentional or otherwise) in connection with this engagement.

This engagement letter is governed by, and construed in accordance with, English law. Each party irrevocably waives any right it may have to object to any action being brought in those courts, to claim that the action has been brought in an inappropriate forum, or to claim that those courts do not have jurisdiction.

Our work is not to be made available to 3rd parties (other than external auditors) without written permission and we will accept no responsibility to third parties for any aspect of our work that may be made available to them. Worth Technical Accounting Solutions Limited will retain all intellectual copyright in any document prepared by us during the course of this engagement unless the law specifically provides otherwise.

You are responsible for giving us access to all explanations and documentation relevant to this engagement. All information provided and communication between us shall be regarded as confidential and shall not be disclosed to third parties unless we are required to do so by law, by regulatory bodies or insurers or as part of an external peer review. We

reserve the right, for promotional or training purposes, to mention that you are a client, but we will not disclose any information of a confidential nature.

We will always provide you with impartial advice and will immediately inform you of any conflicts of interest that arise during this assignment. Where conflicts are identified which cannot be managed in a way that protects your interests, we will withdraw from the engagement.

Worth Technical Accounting Solutions Limited complies with all relevant provisions of the Data Protection Act 1998 in relation to this assignment. If you want to know more about our data management and data protection arrangements, please contact us on 07714 333240.

Under current policies your email address may be shared with others as part of group emails or meeting requests. If you do not want your email address to be used in this way, please let us know.

All accountants must comply with the provisions of the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 (the “Anti Money Laundering Legislation”). This means that in certain circumstances, we may need to obtain evidence confirming the identities of clients and third parties, the source of any funds or other property, the purpose of instructions or any other matter. We may not, under the terms of this engagement, hold any monies on your behalf.

We assume that our clients are honest and law abiding. However, in certain circumstances we are obliged to make a report to the National Crime Agency (“NCA”) and are prohibited from undertaking any further work on your behalf without consent from NCA.

Unless you instruct otherwise, we will communicate with you and any third parties primarily via email. We use virus scanning software to reduce the risk of corruption or interception but cannot accept any liability for problems arising as a result of this means of communication. You are responsible for virus checking any emails and attachments received from us.

We usually invoice on completion of each assignment and expect to receive payment within 14 days. We reserve the right to charge interest on late payment of invoices at 3%, and to suspend our services if payment is unduly delayed.

Worth Technical Accounting Solutions is committed to providing you with a high quality, cost effective service. If there should be any cause for complaint, we would expect you to contact us in the first instance so that whatever has gone wrong can be put right. If you are still not satisfied you can refer your complaint to our professional bodies, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales, and the Association of Accounting Technicians.

30 October 2020

LBTH 30 10 2020

Mr K Bartle
 Divisional Director of Finance, Procurement and Audit
London Borough of Tower Hamlets
 5 Clove Crescent
 London E14 2BG

Dear Kevin,

Review of 2018/19 year end close

In August 2020 I was appointed to carry out an independent review of issues arising in connection with the Council’s 2018/19 year-end close. Having been at various times a consultant, practitioner and external auditor, I have extensive experience of all aspects of local authority year-end close and audit. A short CV has been provided at the end of this report.

My detailed findings are set out as follows together with some practical suggestions for improvement:

Appendix 1	Leadership, resourcing, planning and closedown delivery
Appendix 2	Systems and processes
Appendix 3	Errors identified to date
Appendix 4	Managing the audit process

My assessment in summary is provided below:

An extensive restructuring exercise during 2019 led to the departure of 15-20 Finance staff, including both the Chief Accountant and the Capital Accountant. Restructuring activities during April and May 2019 in particular were largely responsible for slippage against the 2018/19 closedown plan. Consequently, although the Council did manage to prepare a Statement of Accounts by 31 May 2019, there was insufficient time before the start of the audit to compile working papers or carry out pre-audit checks and review.

The Council’s approach to 2018/19 closedown was typical of many local authorities in that:

- most work was carried out by a small group of 4 people within the Corporate Finance team, during the 6-week period between mid-April and the end of May
- attention was focussed primarily on managing outturn against budget, rather than meeting external audit expectations or on current technical financial reporting requirements.

This approach needs to be updated in the light of current, more challenging timescales and increasingly complex financial reporting. Successful authorities recognise that an orderly year-end close is important to the whole organisation in terms of both the risk of reputational damage if the audit opinion is qualified or delayed, and the potential impact on current service budgets if the historic financial position is subsequently found to be incorrect.

Culturally therefore these more successful authorities expect all service departments, as well as Treasury and Exchequer functions, to support the Corporate Finance team by:

- making staff time available to support closedown work
- ensuring that in-year financial information is accurate and up to date
- adhering to corporate timetables and guidance on year-end close, especially in key areas such as accruals, cut-off, reconciliation work and the use of reserves
- responding promptly to audit queries and internal requests for further information

Successful authorities also provide visible engagement and leadership at s151 officer level, to:

- reinforce the importance of year-end reporting and audit as a corporate priority
- ensure that any technical accounting issues or slippage are promptly identified and resolved
- manage the relationship with external audit, and
- ensure that as much work as possible is completed in advance of 31 March each year.

When considering the quality of the financial systems and processes underpinning the production of the Council's 2018/19 accounts, CIPFA's independent review of financial management in 2017 highlighted a number of ledger issues affecting year-end close which have not yet been addressed. Journal mis-postings and coding errors, coupled with shortcomings in the Chart of Accounts, are the underlying reason for many of the errors identified by audit work to date.

It should also be recognised that:

- some financial systems, particularly in respect of grant income, schools accounting and sundry debtors' income, have deteriorated since 2017/18 and need to be improved
- there are no regular reviews in place to confirm that financial systems are reconciled to ledger balances monthly and that all suspense and holding account items are cleared

To address these issues, the Council should:

- establish a project plan, as a priority, to address shortcomings highlighted by CIPFA in 2017
- simplify the current coding structure so that it reflects the required layout and format of the Statement of Accounts
- put arrangements in place to manage the appropriate roll-forward, reversal or re-start of Agresso ledger codes each year end.
- establish ongoing financial systems that support all key items and disclosures, and
- ensure that these systems are reconciled to relevant ledger codes on a regular basis throughout the year

Other material errors identified to date have largely been due to the increased audit focus on asset valuations, and the impact of IFRS 15 on revenue streams such as leaseholder contributions and community infrastructure levies. These were new issues for 2018/19 and would not necessarily have been a focus for KPMG's audit in the previous year, but have highlighted the Council's tendency to over-rely on external information such as:

- reports prepared by actuaries and valuers, without adequate consideration of how that information can be audited
- the format and content of CIPFA's example accounts without fully considering the local impact of new reporting requirements such as IFRS15 (introduced in 2018/19) or, looking forward, the introduction of IFRS 16 with effect from 1 April 2021.

Given the unprecedented combination of less fee cover, heightened quality expectations from the Financial Reporting Council, and an unfamiliar client, it is not surprising that Deloitte needed to undertake more extensive audit testing than their predecessors and required much more comprehensive working papers. It would have been helpful however for the local audit team to set out their expectations more clearly, and to prioritise requests for information.

40% of all local authority audit opinions were unsigned at 31 July 2019 so at this point the Council was not in a unique or even unusual position, but more decisive action could have been taken subsequently to manage the audit process and focus on resolving key issues. It is encouraging to see that since September 2020 better project management arrangements have been put in place, and a significant number of outstanding audit queries have been responded to. As new processes however these need to be maintained and developed and it is too early as yet for me to form a view about their overall effectiveness.

Going forward, discussions with Deloitte should clarify how best to prioritise outstanding queries and aim to complete the audit of the revised Statement of Accounts by an agreed date which is both realistic and achievable. The s151 officer has a key role to play in this regard by attending progress meetings, providing visible encouragement and leadership and closely monitoring progress against plan.

I hope you find my report useful and I look forward to discussing it with you in due course.

Kind regards



Peter Worth, Director

Appendix 1 – Leadership, resourcing, planning and closedown delivery

Leadership and management

1. Five meetings of the Closure of Accounts Group (CAG) were held between October 2018 and May 2019 to monitor progress, attended by 5-8 people. These meetings were chaired by the Chief Accountant but out of the other staff most heavily involved in producing the accounts only one of these was regularly in attendance.
2. The meetings which did take place appear to have been largely focussed on managing reported outturn against budget and on the more operational aspects of year-end close. Looking forward, officers have recognised that for 2020/21 year-end close the Council needs to place an increased emphasis on:
 - technical financial reporting and Code requirements
 - corporate expectations regarding the quality of audit trail and working papers
 - managing the audit process.
3. The Council's s151 officer did not attend CAG meetings or early meetings with external audit, although he did receive regular briefings from the then Chief Accountant and appears to have accepted their assurances that 2018/19 closedown work was on track. This was perhaps understandable in the circumstances - the s151 officer was new in post, responsible for a major restructuring exercise, and expected the audit process to be "low risk" given the Council's experience in previous years.
4. However, responsibility for producing the accounts is a key part of the s151 role, and local authorities with the best track record in managing and delivering year end close tend to provide very visible engagement and leadership at senior management level, both internally and in terms of managing the relationship with external audit. This helps to reinforce the importance of financial reporting as a corporate priority and to ensure that:
 - management judgement is exercised and evidenced on a timely basis, with meeting notes used to provide a record of the discussions and decisions arrived at
 - speedy and informed decisions are taken to address any problems identified e.g. by approving access to additional resources if required
 - service departments follow corporate guidance in relation to year-end close

Regular and visible input from the Council's s151 officer is necessary to reinforce the fact that closedown is a corporate priority, enable key judgements to be documented and ensure any problems or slippage are promptly identified and resolved.

Resourcing

5. Year-end closedown work has traditionally been led, and largely delivered, by the Council's Corporate Finance team with relatively little input from service-based finance staff or from Treasury and Exchequer functions. In 2018/19 over 50% of closedown work was completed by just 4 individuals.

6. This approach is common amongst smaller local authorities (particularly district councils) and works reasonably well when longer timescales are available for year-end close and audit. However, over-reliance on a small group of people creates:
- key-person risk i.e. there is no resilience within the Finance team if a key person leaves
 - bottlenecks when working to tight deadlines is required, which tends to result in short-cuts taking place or tasks such as quality assurance not being undertaken.
7. Local authorities which have been most successful in achieving and maintaining earlier year-end close have, in my experience, moved towards a resourcing model where work is shared across the whole Finance team and all of the service-based accountants with typically 15-20 individuals involved in preparing core statements and disclosure notes. This creates resilience as more staff become familiar with material accounting entries, year-end reporting and external audit requirements, thus reducing key-person risk as discussed above.
8. Successful authorities also recognise that year-end close is important to the whole organisation in terms of both the risk of reputational damage if the audit opinion is qualified or delayed, and the potential impact on current service budgets if the historic financial position is subsequently found to be incorrect. Culturally therefore these authorities expect all service departments, as well as Treasury and Exchequer functions, to support the Corporate Finance team by:
- ensuring that in-year financial information is accurate and up to date
 - adhering to corporate timetables and guidance on year-end close, for example on accruals, cut-off, reconciliation work and the use of reserves
 - responding promptly to audit queries and internal requests for further information.
9. For 2020/21 year-end close the s151 officer has advised the Corporate Leadership Team that all Finance staff, including those in service-based, Treasury and Exchequer functions, will be expected to contribute to production of the Statement of Accounts. This development is to be welcomed but does represent a cultural change for the Council and, if implementation is to be successful all Corporate Directors will need to support the s151 officer in this initiative.

Culturally the Council should recognise that year-end close and audit is a corporate priority, and all Corporate Directors should support the Corporate Finance team by:

- making staff time available as necessary to assist with closedown work
- ensuring that in-year financial information is accurate and up to date
- adhering to corporate timetables and guidance on year-end close, especially in key areas such as accruals, cut-off, reconciliation work and the use of reserves
- responding promptly to audit queries and internal requests for further information

Training and skills

10. Staff in the Corporate Finance team attended training events on Code changes for 2018/19 and guidance was issued in early January 2019 to staff in the wider Finance team and to spending departments. However, there is no record of any specific training on the expected

quality of audit trail and working papers, or potential issues arising from the change in audit provider and new PSAA contracts (see Appendix 4).

11. Staff we contacted as part of this review have also commented on the need for further training and have emphasized that local authority financial reporting is a highly specialized area even for qualified accountants so there is a general need for upskilling in this area.

All Finance staff should expect to be involved in year-end work and should be provided with adequate and up-to-date training in this regard. Local authorities who do this most successfully have a programme of short, but regular, training events throughout the year.

Closedown plans

12. The Council's detailed closedown plan for 2018/19 identified 415 tasks to be completed between mid-August 2018 and 31 May 2019. This plan covered all of the main areas but in my experience, closedown plans for London and metropolitan authorities are usually more detailed, typically listing 500-600 (and in some cases up to 1,000) separate tasks. For example, no separate work was identified to ensure that:
 - internal recharges were correctly reversed out of the financial statements
 - schools' transactions and balances were correctly accounted for
 - the DSG disclosure note was accurately prepared.
13. Errors in respect of all these issues were subsequently identified during the audit.
14. Although the plan sets out expected completion dates and, in most cases, identifies a preparer and reviewer for each task, there were no separate dates for preparation and review. Also, over 90 tasks were allocated generically to spending departments or finance teams, rather than to named individuals, and 7 tasks were not allocated to any named department or individual, these included pooled budget disclosures, ledger postings to the Lease Equalisation Provision and Revaluation Reserve, and transfers to/from Earmarked Reserves for revenue grant funding.

Closedown planning should clarify accountability for all tasks identified and ensure that detailed working papers are prepared to support all core statement and disclosure notes.

Project delivery

15. Although the closedown plan was reasonably comprehensive, the scheduling of individual tasks within the plan was unsophisticated, with:
 - large numbers of different tasks due to be completed on the same date
 - core statements and disclosure notes being prepared at the same time by different people.
16. This increases the likelihood of bottlenecks and creates the risk of inconsistencies and discrepancies arising in the draft Statement of Accounts through late adjustments being incorrectly or incompletely processed.

17. In terms of the detailed monitoring of deliverables, although the closedown plan includes columns for actual completion dates and a “traffic light” risk assessment system, this does not appear to have been used to its full potential in terms of monitoring progress and highlighting problems or delays. No effective action was taken to address slippage against plan during the critical period between 1 April and 31 May 2019.

Closedown work should be scheduled to avoid bottlenecks and to ensure that all disclosure notes are completed and reviewed before core statements are prepared.

The closedown plan includes columns for actual completion dates and a “traffic light” risk assessment system, which should be used to monitor progress and highlight delays.

18. Completing early work wherever possible helps to spread the workload and maximises the time available at the end of the process for pre-audit checks and review. Ideally, a template Statement of Accounts (including updated accounting policies, critical judgements and key accounting estimate disclosures) should be in place by early January and over one-third of all disclosure notes can be prepared to an acceptable level of accuracy by using budget and Quarter 3 forecast outturn.
19. In 2018/19 some early work was undertaken, with accounting policies updated in February and a template Statement of Accounts prepared in March 2019. However, this approach was limited with over 300 tasks (almost 70% of the total) planned to take place (largely by just 4 people) in the 5 weeks between 1 April and 23 May.

The Council should aim to complete as much closedown work as possible prior to 1 April each year, using budget and Quarter 3 information where possible to draft disclosure notes.

Audit trail and working papers

20. The external audit team provided a list of working paper requirements (the “Prepared by Client” list or PBC) at the planning stage but this seems to have been used more as a reference document than as a key driver for closedown work and planning. Deloitte’s report to the Audit Committee in July 2019 provides a clear summary of their perceived deficiencies in the working papers provided for audit, namely that:
- a complete set of working papers was not available at the start of the audit
 - some working papers were not available until well into week 2 of the site visit
 - most working papers were not sufficiently detailed
 - some working papers were not consistent with the draft Statement of Accounts
 - further information was not being provided within the timescales agreed.
21. The use of checklists, templates and proformas is one of the principal ways of ensuring that working papers are prepared to a consistent standard and meet external audit needs. In 2018/19 proformas were used by spending departments to provide information in a standard format to the Corporate Finance team, but working paper templates were not used on a consistent basis to:
- standardise the layout of working papers

- assist the auditors with signposting and navigation
- ensure that working papers provided a clear and consistent audit trail
- confirm that Code accounting and disclosure requirements had been met
- evidence pre-audit checks and review.

22. I understand however that a more consistent approach to working papers is being implemented for 2019/20 and 2020/21.

The PBC is one of the key drivers for the audit and the contents of this list should be discussed and agreed well in advance with a view to ensuring that all working papers requested are available at the start of the audit.

Checklists, templates and proformas should also be introduced to ensure that working papers are prepared to a consistent standard which meets external audit needs.

Pre-audit assurance and review

23. The 2018/19 closedown plan was based on the premise that 15 working days would be available, between 13 and 31 May 2019, to complete pre-audit reviews and consistency checks prior to the start of the audit. In the event, delays in finalising the draft financial statement meant that little, if any, time was available for this review.

24. 3 specific components of pre-audit review were included in the closedown plan and would have provided good assurance to both the s151 officer and the audit team, but were not available at the start of the audit:

- analytical review on core statements and key disclosure notes, to explain the reasons for material changes compared to the previous year
- the PBC list, annotated to confirm that all information requested is available
- completed Code disclosure checklist.

25. In addition, the CIPFA 2018 publication “Streamlining the Accounts” contains a useful consistency check which should be completed at the pre-audit stage.

26. A pre-audit review of the draft financial statements and supporting working papers should have been carried out by someone with appropriate levels of expertise. In 2018/19, however, over 40% of tasks in the closedown plan received no independent check, partly because senior staff were involved in restructuring and recruitment activities.

Closedown work should include detailed checks on the draft financial statements, and a full review of year-end working papers, at the pre-audit stage.

Appendix 2 –Systems and processes

1. The Statement of Accounts is compiled from four key information sources, namely:
 - ledger reports from Agresso
 - outputs from other financial systems and accounting records
 - valuations by external experts in respect of property assets and pension liabilities
 - judgments and accounting estimates made by management
2. Each of these areas is considered in turn below.

Ledger reports

3. The Statement of Accounts is compiled in the first instance from the Agresso ledger system. To produce fit-for-purpose financial statements the ledger needs to provide information which:
 - is accurate and up to date
 - records transactions based on total gross income and expenditure, not just the net position for separate project codes
 - minimises the need for extensive spreadsheet re-analysis which creates scope for error and complicates the audit trail.
4. CIPFA's 2017 review of financial management commented that:
 - *Agresso was designed around an organisation structure that has never been implemented [this means that] extensive re-analysis of information using spreadsheets needs to be carried out.*
 - *although Agresso can allocate a code based on a description...staff will often over-ride the suggested code.....over 1,000 people have access to the coding structure in Agresso which can cause major problems*
 - *there is a high error rate on journalsand a huge volume of miscoding errors by administrative staff. Finance staff spend large amounts of time on correcting these errors.*
5. It is disappointing to note that these issues have still not been addressed, although it is now 3 years since CIPFA issued their report. The reason given for this is that the Council has prioritised improvements to IT systems with a more direct impact on services affecting local people, such as the Mosaic system for managing social care.
6. As a consequence, however, journal mispostings and coding errors, caused partly by systems weaknesses and partly by widespread personnel changes during 2018/19, are the underlying reason for many of the errors identified to date.
7. Officers I spoke to during this review have also commented that:
 - there are significant shortcomings in the current Chart of Accounts, which reflects neither the Council's organisational structure nor the requisite layout of year-end financial statements
 - the Agresso system has never been formally "closed" so still includes balances rolled forward since the initial implementation of the system in 2013

8. Both factors create the need for extensive re-analysis and year-end journal adjustments which create extra work, complicate the audit trail and increase error risk.
9. Agresso ledger systems can work very effectively but time and attention must be given to:
 - setting up an appropriate coding structure and accurate interrogation reports
 - restricting who can set up new ledger codes and process journal adjustments
 - putting appropriate controls in place to authorise and review material adjustments.
10. With regard to coding structures, the CIPFA Code of Practice previously required all service income and revenue costs to be allocated over a standard 12-line analysis (SeRCoP) with overheads and central recharges allocated to each line separately. This is no longer required, and Code guidance suggests that items with net expenditure below 15% of the Net Cost of Services total are amalgamated in the Comprehensive Income and Expenditure Statement and related disclosure notes. Therefore, the simplest accounting treatment is to:
 - manage all overheads, governance and corporate service costs centrally for budget purposes, rather than reallocate them to service departments
 - report all these costs together as a single item in the Statement of Accounts
 - combine other service areas where possible to reduce the level of detail reported in the Comprehensive Income and Expenditure Statement (CIES) and disclosure notes
11. Currently the Council's CIES has three separate lines for governance and central support costs, going forward I suggest these are amalgamated into a single line in the financial statements.

The Council should, as a priority, address the shortcomings in the current ledger system highlighted by CIPFA in 2017. A project plan should be established to deliver the required improvements within achievable timescales, and subject to regular monitoring by the Audit Committee.

The Council should simplify the current coding structure so that it reflects, with minimal re-analysis, the required layout and format of the Statement of Accounts.

Arrangements should also be put in place to manage the appropriate roll-forward, reversal or re-start of specified ledger codes each year end.

The Council should also simplify the presentation of the CIES and underlying processes for the accounting and management of overheads, governance and corporate service costs.

Action should be taken to minimise journal mispostings and coding adjustments, through a combination of staff training and by restricting who can initiate and authorise such transactions.

Other financial information

12. Although year-end financial statements are prepared primarily from ledger reports, this evidence alone is unlikely to provide an adequate audit trail or sufficient information for every detailed disclosure note. A key component of closedown work involves ensuring that:
 - every ledger balance and disclosure note can be supported by accurate information, derived either from year-end working papers or from other financial systems and processes
 - all feeder systems have been reconciled to relevant ledger codes
 - all working papers are available for audit.
13. The Council's closedown plan for 2018/19 did identify most feeder system reconciliations, but the following were not referred to specifically and subsequently audit adjustments were required:
 - income and debtor reconciliations for leaseholder contributions and community infrastructure levy amounts
 - income and debtor/creditor reconciliations for revenue grant claims.
14. Also, whilst the closedown plan correctly identified the overall requirement to prepare the Collection Fund and HRA accounting statements, it did not "unpack" separate reconciliation tasks in terms of, for example, income and debtor reconciliations for Council Tax and Business Rates systems, reconciliations back to NDR 1 and 3 returns, or the identification and reconciliation of payments made in advance.
15. Currently, there are no regular reviews in place to confirm that financial systems are reconciled to ledger balances monthly and that all suspense and holding account items are cleared. Relying on year-end processes to identify and resolve reconciliation issues creates additional demands on the closedown team at what is already a very busy time of year. It also increases the risk that in-year financial reporting will be based on incomplete or incorrect information, and therefore may be inconsistent with the Council's end of year accounts.
16. The most successful closedown plans include early work to:
 - map each core statement and disclosure note, against the relevant information source(s)
 - identify a named "lead officer" for each key area of closedown work
 - confirm, for each item identified, external audit working paper requirements
 - where possible, establish ongoing financial systems to collect the necessary information rather than rely on one-off exercises at the year-end
 - reconcile each information source to relevant ledger codes on at least a monthly basis
 - ensure that reconciliations are kept up to date throughout the year
 - confirm arrangements for compiling working papers and audit evidence at the year end.

The Council should confirm that all Agresso ledger codes and disclosure notes are supported by ongoing financial systems and/or year-end work. Arrangements should be put in place to carry out and evidence regular reconciliation work which confirms the accuracy of these balances on a monthly basis rather than relying on year-end work.

Good practice is to operate a “dashboard” approach with regular (i.e. monthly) reports to the s.151 officer to provide assurance to him/her that all reconciliations are occurring on time and to identify where they are not so that corrective action can be undertaken in a timely manner.

Asset Valuations

17. Land, buildings and social housing stock comprise 80% of the total asset value in the Balance Sheet and represent a major focus for external audit work. Whilst the CIPFA Code of Practice on Local Authority Accounting does not require all land and buildings to be revalued on an annual basis, it does expect that:
 - revaluations of operational assets will be carried out at least once every five years, and whenever a material change in value takes place
 - non-operational assets e.g. surplus assets and assets held for sale will be carried at open market value – in practical terms this usually involves annual revaluation
 - a desktop impairment review covering all assets will be carried out each financial year.
18. The Council appointed Wilks Head and Eve LLP as external valuers and in 2018/19 their work consisted of:
 - a desktop valuation of schools at 31 March 2019
 - a full valuation of Council dwellings at 1 April 2018, plus a report on market changes during 2018/19 which officers used to produce an adjusted valuation at 31 March 2019
 - a full valuation of other properties in line with the Council’s 5 year rolling programme. The effective date of this valuation was 1 April 2018, not 31 March 2019.
19. This approach did not meet either Code requirements or the RICS valuation guidance which states (in VPGA 1) that *“Valuations for inclusion in financial statements must comply strictly with the applicable financial reporting standards adopted by the entity”* and that *“where the entity has adopted IFRS the basis of value will be fair value and the requirements of IFRS 13 Fair Value Measurement will apply”*.
20. Other deficiencies were identified by Deloitte as follows:
 - The valuation process was highly dependent on information provided by finance officers regarding, for example the location, condition and function of properties, the number and build type of council dwellings and the floor space of schools.
 - A paper was not prepared to evidence the information provided to the valuer or the controls put in place to ensure the completeness and accuracy of this information.
 - Neither was any evidence available to support the Council’s review of the reasonableness of valuation reports received

- Valuation reports obtained from Wilks Head and Eve LLP did not provide sufficient detail to enable the information to be audited without extensive further work.

Given the significance of asset valuations to the audit process, tenders and contracts for external valuers should emphasise that all work is carried out to a standard that meets Code and RICS Red Book requirements in full. Contracts should only be awarded to valuers who can demonstrate a proven track record in meeting external audit requirements.

Valuation processes, including all key estimates and assumptions, should be fully documented with officers undertaking, and evidencing, adequate review and challenge of all valuation reports received.

Pension liabilities and IAS 19

21. Pension liabilities are another key audit area as they represent the single largest liability on the Balance Sheet. Audit work in 2018/19 identified that:
 - unfunded pension liabilities for Teachers' Pensions had not been included in the Statement of Accounts
 - following the decision to pay 3 years' deficit funding as a single lump sum instead of in annual instalments, the Council did not obtain a revised Rating and Adjustments certificate from the actuary to support IAS19 entries in the accounts.
22. Deloitte also queried information provided by the actuaries in respect of:
 - recent legal cases, such as McCloud
 - assumptions on future salary increases
 - the estimation basis for membership numbers.
23. The auditors clearly felt that officers had over-relied on reports provided by the pension fund actuaries, and that the need to provide additional information over and above the IAS19 valuation itself had not been considered. No evidence was available to confirm that officers had carried out any meaningful review of the IAS 19 reports or had challenged any of the assumptions or estimates involved.

The Council should liaise with its actuaries each year end to ensure that officers understand and agree with all key assumptions underpinning IAS 19 valuations and reports, and that evidence can be provided, if necessary, to support the judgements, estimates and assumptions arrived at.

Actuaries' reports and correspondence should confirm how they have taken account of recent legal cases and other current developments when assessing year end pension liabilities.

Working papers provided for audit should demonstrate how the accounting implications of any prepayments or deficit funding arrangements have been considered and applied.

Key accounting estimates and judgements

24. Deloitte's report to the Council in July 2019 commented that *"Accounting papers were not prepared to explain and support key judgements and estimates.... It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of all key matters in the application of accounting standards, calculation of material estimates and management's exercise of judgment within Code requirements, and for these papers to be presented to the audit committee prior to approval of the statement of accounts."*
25. The auditors also commented that the Council had tended to over-rely on CIPFA's example Statement of Accounts (which are intended for general guidance only), with the result that in some cases unnecessary or inaccurate disclosures were provided, and in other cases material disclosures had been left out. For example:
- calculation of the NNDR appeals provision was based on unreliable information and the original estimate of £1.3m was subsequently increased to over £14m
 - having decided to prepay 3 years' pension deficit funding as a single lump sum, the Council did not set out the rationale for this arrangement, or the accounting treatment that it intended to adopt
 - the Statement of Accounts did not explain the rationale behind depreciation policies for infrastructure assets
26. Perhaps most importantly, the Council had not adequately addressed new Code requirements in respect of IFRS 15 which, although minimal for many local authorities, had a significant impact for London authorities such as Tower Hamlets with material levels of leaseholder contributions to capital improvement works and Community Infrastructure Levy (CIL) income.
27. Looking forward, the introduction of IFRS 16 with effect from 1 April 2021 will require a thorough review of all lease and lease-type financial arrangements and will involve all spending departments across the Council.
28. I suggest the following processes are put in place:

Discussions should be held with the external audit team early in the New Year to identify and agree the basis for:

- exercising and disclosing key management judgements and material estimation techniques
- implementing new Code requirements and other significant changes to the Statement of Accounts
- dealing with any other complex or contentious accounting issues.

Particular attention should be given to the implementation of IFRS 16 for 2020/21, and project plans for successful implementation put in place as soon as possible.

Arrangements should then be made to obtain any additional information from external experts, (e.g. valuation reports, legal advice or formal accounting views) and for officers to prepare briefing papers or Council reports on material items as required.

The template Statement of Accounts should be re-drafted to include updated disclosure notes and revised accounting policies by 31 January, then be presented to auditors and Those Charged with Governance in advance of 31 March each year.

29. Adopting this approach would enable the general principles underpinning the Statement of Accounts to be finalised at an early stage so that the period between 1 April and 31 May can focus on the accuracy of detailed balances and transactions.

Appendix 3 – Errors identified to date

1. Officers have reported audit adjustments made to date to the Audit Committee as follows:

	Reported in original draft accounts	Reported in revised draft accounts	Change
	£m	£m	£m
General Fund	26.8	27.3	0.5
HRA	53.7	53.8	0.1
Other revenue reserves	156.1	152.6	(3.5)
Capital reserves	285.1	333.0	47.9
Total impact on useable reserves	521.7	566.7	45.0

Source: Statement of Accounts 2018/19 Progress Update, Audit Committee 13 May 2020

2. However, audit work on the revised Statement of Accounts is still at a relatively early stage so further adjustments may be required.
3. Several of the errors identified to date above affected the opening Balance Sheet as at 1 April 2018, however in terms of value the most significant adjustments relate to either:
- PPE revaluation issues, reflecting the fact that the increasing focus of the Financial Report Council on this issue has tended to drive an increasing level of audit work in this area, and has increased the requirement for auditors to challenge the content of valuation reports and the accuracy of source data, estimation techniques and assumptions that underpin them
 - Third party contributions to capital expenditure in terms of either the Community Infrastructure Levy (CIL) or leaseholder contributions to major capital works. Prior to 2018/19 the Council had accounted for these items on a cash basis as and when monies were received however the introduction of IFRS 15 created the requirement to account for such transactions on an accruals basis as soon as the “obligating event” occurred. Since this was a new Code requirement for 2018/19 it would have been a specific focus of attention for Deloitte in 2018/19 but not for KPMG in the previous year.
4. It is worth also noting that, out of the 15 separate issues identified to date:
- 5 were above materiality when considered on an individual basis
 - a further 4 items, though not individually material, were material when considered in aggregate alongside the other audit errors identified
 - the other 6 items were not material on either an individual or aggregate basis, so the option was available for the Council and the auditors not to adjust the financial statements.
5. Some authorities adopt a policy of adjusting for material items only and this tends to facilitate a speedier completion of the audit although it can also lead to errors being perpetuated in the accounts and ongoing systems weaknesses not being addressed. The approach adopted by Tower Hamlets has been to investigate in detail every issue raised by the auditors and to

adjust the accounts even where the error found is not material. This process has been time consuming but has served to provide a thorough understanding of the issues being raised, as well as significantly increasing the overall level of useable capital reserves by including 3rd party contributions expected but not yet received.

6. Going forward, it is usually helpful for both auditors and auditees to agree a “protocol” before the start of the audit setting out how errors identified are to be reported and addressed in the context of materiality.
7. Most of the errors identified to date have been due to either weaknesses in underlying financial systems, or a failure to ensure that closedown planning meets in detail all Code and audit requirements. Therefore, the Council should:

- update its approach to revenue recognition in the light of IFRS 15
- improve processes for controlling year end cut-off
- ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail
- ensure that land and buildings valuations meet Code and RICS requirements
- improve liaison with spending departments to ensure that the Fixed Asst Register is accurate and up to date.

8. Audit work also identified weaknesses in a number of specific but important financial processes which are considered below.

Fixed asset register records

9. An accurate and up to date Fixed Asset Register is key to accurate capital accounting and underpins many of the most significant items in the Balance Sheet. External audit work identified that:
 - Schools converting to academy status were not removed from the Fixed Asset Register on a timely basis, consequently school building valuations were overstated on the Council’s year-end Balance Sheet.
 - New temporary accommodation for homeless households had not been correctly classified in the Fixed Asset Register and was also therefore incorrectly valued.
10. Improved liaison with service departments, on a more regular basis throughout the year, should help to eliminate this type of issue. In other respects, however, the Fixed Asset Register appears to have been accurately maintained and was reconciled to ledger records at the year end. It is also encouraging to note that external audit work did not appear to highlight any significant issues regarding:
 - duplicate asset records
 - inconsistencies between the Fixed Asset Register and Land Registry records
 - inconsistencies between the Fixed Asset Register and the Council’s other financial systems e.g. tenant rent rolls and leaseholder sundry debtor systems
 - incorrect posting of revaluation adjustments.

11. As described in Appendix 2, most audit issues identified to date related to the valuation process rather than the accuracy of the Fixed Asset Register itself.

Other capital transactions

12. Audit work identified that capital purchases of £3.4m had not been accrued for as at 31 March 2019. Their reports to date also comment that, although no instances were identified of revenue spend being incorrectly identified as capital (or vice versa), there did not appear to be any documented internal controls or processes that would prevent this from occurring. Deloitte have recommended that the Council implements such a control, for example by issuing guidance to service departments or through evidenced pre-audit review.
13. It is again encouraging to note that audit work to date has not highlighted any specific issues regarding capital financing transactions such as calculation of the Capital Finance Requirement, annual set aside for Minimum Revenue Provision and identification of capital transactions.

Levies and recharges

14. Audit work has identified that recharges to leaseholders for capital works in 2018/19 and 2017/18 had not been accurately identified and accounted for. Similarly, delays in collecting Community Infrastructure Levies (CIL) meant that the full amounts due had not been properly recognised in the Council's year-end Balance Sheet.
15. These transactions represent a significant source of income for the Council and need to be collected and accounted for on a timely basis. The previous approach, which only recognised these transactions following the receipt of cash, does not provide an effective control over monies due to the Council and is no longer acceptable accounting practice under IFRS 15. Internal Audit's recent review of sundry debtors' systems has also highlighted the failure to recognise all income sources (both capital and revenue) on a timely basis.

Feeder systems and regular reconciliation processes should be established to ensure that all income due to the Council is accurately and promptly invoiced, collected and recorded.

Schools transactions

16. How to account for DSG funding deficits has been a contentious area for several years now. In 2018/19 the Council initially treated the £4.7m deficit as a trade receivable, however as the Department for Education do not currently accept that there is a legal liability to repay funding deficits, that accounting treatment was challenged by external audit. Current CIPFA guidance, issued in March 2020, recommends that DSG overspends are carried forward as a negative balance within earmarked reserves.

A consistent approach to accounting for DSG funding deficits should be decided upon, taking account of current DfE and CIPFA guidance, and disclosed as a key management judgement in the Statement of Accounts.

17. A number of other audit adjustments also relate to schools' transactions as follows:
- £47.8m of internal transactions and recharges within Children's Services had not been correctly eliminated from income and expenditure lines in the Comprehensive Income and Expenditure Statement in 2018/19. A similar error also occurred in 2017/18
 - schools cash balances had not been correctly recognised in the Balance Sheet
 - cash paid by individual schools into corporate bank accounts had been included in receivables rather than cash and cash equivalents.
18. These issues seem to reflect a tendency for schools not to provide financial information in a standard format on a timely basis, and not to prioritise closedown processes such as bank reconciliations, managing cut-off and information requests.

The Council should aim to set up a monthly monitoring process whereby all schools provide copies of bank reconciliations and budget monitoring statements within 10 days of each month-end, and this information is used to confirm each schools' cash balances, reserves balances and spend to date against DSG allocation.

Journal postings can then be made on a regular basis throughout the year to eliminate internal transactions and recharges and post accurate figures for schools' cash balances and reserves to the Balance Sheet.

19. This approach reduces the need for additional work at the year-end by establishing a process that provides accurate information throughout the year. Discussions with officers have indicated that a similar system to that recommended above was in place prior to the recent restructuring but has lapsed due to a combination of staff shortages and the departure of experienced personnel.

Grant income

20. Two separate issues were identified by external audit, namely that debtors for grant claim income due but not yet received had been incorrectly recognised as at 31 March 2019, and that creditor balances had been incorrectly recognised for unused grant receipts.
21. A comprehensive grant claims register would help to resolve such issues by:
- Matching grant claim entitlement against cash receipts
 - Matching grant income against relevant service expenditure
 - Allocating grant transactions to the correct financial years
 - Calculating year end accruals and prepayments
 - Maintaining evidence to demonstrate whether grant conditions have been met
 - Providing an assessment of whether grant stipulations or conditions apply
22. Discussions with officers have indicated that a central grant claims register was in place prior to 2018/19, but this system no longer operates and recording grant income is now the responsibility of individual spending departments.

Grant income is one of the most significant items in the Statement of Accounts therefore a comprehensive grant claims register should be put in place as soon as possible, and reconciled to ledger records on a monthly basis to better inform budget management and year-end financial reporting.

Year-end accruals

23. The current ledger system permits debtor and creditor balances to be carried forward on the Balance Sheet indefinitely rather than requiring year end accruals and similar adjustments to be reversed out at the start of each financial year then re-appraised as part of year-end closedown. Consequently, £20.0m of “unexplained” Business Rate creditors were found to have been carried forward in the Balance Sheet for a number of years, these balances were transferred back to the Collection Fund in 2018/19.
24. Audit work also identified a number of year-end accruals which were not required, either because the goods or services had been supplied after the year end, or because the invoice had already been paid. Guidance notes to spending departments did cover year-end cut off, however it would appear that this guidance was not followed in full.

More detailed guidance and training on year-end cut off should be provided to spending departments.

In order to minimize the number of year-end postings the Council should implement a de-minimis policy for accruals, say £20-25,000, and suspend payroll and creditor payment runs for 7-10 days over the year end date

An “accruals team” should be established to check all accruals over an agreed threshold (say £250,000) and 10% - 15% of accruals below this threshold on a sample basis to confirm the accuracy of the entries in the Statement of Accounts. Alternatively, additional testing of year-end accruals could be provided by Internal Audit.

Appendix 4 – External audit

The new audit framework

1. New contracts for external audit suppliers were let by Public Sector Audit Appointments (PSAA) Limited for 2018/19. This represented a significant change in terms of:
 - audit suppliers – 25% of local authorities received new audit suppliers for 2018/19 as a result of the contract procurement process who, to meet International Auditing Standards, were required to carry out additional audit testing to confirm the opening Balance Sheet position at 1 April 2018.
 - fee cover – PSAA negotiated significant fee reductions and at Tower Hamlets the baseline audit fee reduced from £210,00 to £165,000 per annum
 - audit scope – previously the PSAA had determined the scope of the audit but for 2018/19 and future years each individual audit firm would be responsible for determining the nature of audit work and the method of delivery
2. Under these new arrangements, from 2018/19 the Financial Reporting Council (FRC) rather than the PSAA became responsible for the oversight of audit quality. In October 2018, the FRC had issued a report entitled “Developments in Audit”. This report explained that because of the significant deterioration in the quality of audits inspected the FRC intended to strengthen its supervisory and enforcement capacity.
3. Areas of particular concern to the FRC are listed below, which largely explains the heightened audit focus on these areas in 2018/19:
 - failure to challenge or evidence the basis for key management judgements and material accounting estimates
 - failure to challenge information provided by independent experts and advisors, and to document the key assumptions underpinning their work
 - failure to ensure that non-current assets were valued in line with RICS Red Book requirements.
4. This unprecedented combination of significantly reduced fee cover, heightened quality expectations and an unfamiliar client explain why Deloitte needed to carry out more extensive audit testing and required more detailed and comprehensive working papers. Given that the Council was accustomed to a different audit approach and a different audit team however, it might have been helpful for the auditors to set out their expectations well in advance.

Detailed meetings between the Council and their auditors at the planning stage should have covered not just the logistical arrangements for the audit but also current Code and FRC requirements, the overall approach to the audit and working paper requirements.

Managing the audit process

5. Delays in completing local government audits were widespread in 2018/19, with 40% of all opinions not signed off by 31 July. However, by 31 December 2019 more than half of these outstanding audits, including 12 out of 19 London boroughs, had been completed. Only 57

audits remained outstanding at 30 June 2020. These include 4 London boroughs, one of which is Tower Hamlets. All 4 were new audit appointments in 2018/19.

6. Deloitte's report to the Audit Committee in July 2019 provided a comprehensive summary of the issues arising to date and there have been regular meetings between officers and the audit team since this date to discuss and progress the matters identified.
7. The Audit Committee has also received regular update reports but is understandably concerned about the length of time it has taken to progress the audit and to address the matters identified. Going forward, it might be helpful if the Committee also received more detailed information about the audit process as well as high level messages about proposed changes to the Statement of Accounts.
8. My discussions with Council staff and the external audit team indicated that, until recently, most meetings between officers and audit were not minuted and there was no formal record of "next steps", or actions agreed. Also, there has been a lack of clarity (on both sides) about which audit issues have been actioned and which still need to be addressed.
9. New processes are now in place to address this, with
 - better project management (via regular "glidepath" reports)
 - action plans and trackers which allocate responsibility to specific named individuals for responding to audit queries and providing further information
 - a 2-day turnaround target for all queries and requests for information
 - regular meetings both within the Council and with external audit to track progress
 - more pro-active involvement from senior management.
10. Whilst very welcome, these are still relatively new arrangements which need to be maintained and developed. Although it is too early as yet for me to comment on their overall effectiveness, the Council can now assess with some degree of accuracy the number of audit queries being raised and responded to.
11. According to this monitoring information, as at 26 October 2020, over 40 audit queries remained outstanding (and overdue) in respect of 2018/19, and over 50 in respect of 2019/20, out of a total of over 720 queries raised in total. This represents a significant improvement on the position at the beginning of September when over 230 queries needed to be addressed.
12. Principal reasons for these delays have been identified as follows:
 - both the Chief Accountant and the Capital Accountant left the Council during 2019, delays arose due to the time required to find replacements and for new staff to get "up to speed" with audit issues and outstanding requirements
 - subsequently, further staff changes have also contributed to delays in providing information to the auditors and processing adjustments once agreed
 - some of the key issues identified, particularly on IAS19 accounting and land and buildings valuations, required input from external valuers and advisers.

13. Whatever the reasons, it seems fairly obvious that the Council's Finance team, and the current Chief Accountant in particular, have been swamped with both the level and complexity of audit queries and requests for information, and I am unclear about why the decision was not taken to concentrate on resolving 2018/19 issues before moving on to the following year.
14. It is encouraging to see that the Corporate Leadership Team now recognise that completion of the 2018/19 audit is a Council priority and have committed to providing additional staff resources if necessary. However, my discussions with the external audit team indicated that audit work on the revised Statement of Accounts is still at a relatively early stage, and a significant number of responses to audit queries have yet to be formally cleared. In September 2020, the Audit Manager and Engagement Lead anticipated that a considerable amount of detailed audit testing and in all probability further audit adjustments, would be required before an opinion could be issued.
15. The Council should therefore take further steps to expedite audit sign-off by:
 - securing Deloitte's commitment to complete the 2018/19 audit by an agreed date which is both realistic and achievable
 - ensuring that the s151 officer regularly attends progress meetings with the external audit team, provides visible encouragement and leadership and closely monitors progress against plan.

Processes recently put in place to manage the audit process and to treat completion of the 2018/19 audit as a corporate priority need to be maintained and developed.

Discussions with Deloitte should clarify how best to prioritise outstanding queries and complete the audit of the revised 2018/19 Statement of Accounts by an agreed date which is both realistic and achievable.

The s151 officer should reinforce this process by regularly attending progress meetings with the external audit team, providing visible encouragement and leadership and closely monitoring progress against plan.

Reports to Those Charged with Governance should be more detailed and cover audit processes as well as proposed changes to the Statement of Accounts.

Appendix 5 - About Peter Worth (BA Hons), CIPFA, MAAT

A nationally recognised authority on local government accounting, Peter has over 30 years' experience of providing advice on issues such as:

- IFRS and Code requirements
- Capital accounting and financing
- Treasury Management and Investing
- Pensions and LGPS
- Group Accounting
- Managing the audit process



Peter spent seven years working in local authorities before he joined the Audit Commission in 1988. As one of their senior technical managers he was instrumental in establishing their well-regarded Technical Helpdesk Service. Peter left the Audit Commission in 2012 to set up Worth Technical Accounting Solutions which now has a portfolio of local government clients including:


- Westminster City Council
- City of London Corporation
- The States of Jersey Government
- London Borough of Waltham Forest
- South Gloucestershire Council
- Transport for Greater Manchester

Peter has a proven track record in helping local authorities to:

- Resolve longstanding technical accounting issues
- Achieve faster year end close
- Improve the quality of published Statement of Accounts
- Improve the quality of audit trail and year end working papers
- Expedite the external audit process.

Combining consultancy work with his role as a CIPFA associate and longstanding member of CIPFA's Local Authority Accounting Panel ensures that Peter remains in touch with both national developments and current issues for practitioners. He regularly delivers training and presentations to professional bodies, elected members and stakeholders on accounting and audit issues, and has worked with central government on a range of matters affecting local government finance.

Peter has co-authored various CIPFA publications including Streamlining the Accounts, Code Guidance Notes for Practitioners and the example Local Government Pension Fund accounts.

Non-Executive Report of the: Audit Committee 28 January 2021	
Report of: Will Tuckley, Chief Executive	Classification: Open (Unrestricted)
Annual Governance Statement for 2019/20	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

As part of the Annual Accounts and in accordance with the principles of the CIPFA / SOLACE Delivering Good Governance in Local Government Framework. The Council is required to undertake a review of its corporate governance processes, systems and the assurances on the governance framework to support the creation of an Annual Governance Statement.

As the content of the statement was not finalised until the 22 January 2021 the report could not be published 5 clear days in advance of the Committee meeting on the 28 January. The Annual Governance Statement forms part of the Council’s statement of accounts and it needs to be approved by the Audit Committee to be included in the accounts and avoid further delays to their publication and audit.

Recommendations:

The Audit Committee is recommended to:

1. Review and agree the 2019/20 Annual Governance Statement.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that the Authority must agree an Annual Governance Statement (AGS), prepared in accordance with proper practices published by the Chartered Institute for Public Finance and Accountancy (CIPFA) for publication with its Statement of Accounts. The Audit Committee provides an important role in reviewing the effectiveness of governance arrangements within the Council and therefore the recommendation above falls within the terms of reference for the committee.

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

3.1 The review of the effectiveness of the Council's system of internal control that underpins the Annual Governance Statement must be carried out at least annually. The Council's AGS forms part of the annual accounts. Its content is prepared from various sources and assurance processes including but not only the Annual Report of the Head of Internal Audit.

3.2 Evidence sources collated for drafting the 2019/20 AGS were as follows:

- A review against the Council's own Code of Corporate Governance
- Consultation with, and assurance provided by Corporate Directors;
- Work undertaken during the year by Internal Audit and other inspection bodies; and
- A review of progress against the delivery of the 2019/19 AGS significant governance issues and action plan.

3.3 The AGS is presented to the Audit Committee for review and agreement. The AGS has been agreed by the Chief Executive and Mayor.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific equality implications resulting from this report

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakness of the control environment and to oversee the financial reporting.

5.3 This report has therefore been provided within this context to ensure the committee is able to perform its core function and to consider summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements of the Accounts and Audit Regulations 2015 there are no specific financial implications arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 Publication of the Annual Governance Statement is required under the Accounts and Audit Regulations 2015 and this report and publication of the statement demonstrate the Council's compliance with these regulations.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix 1 Annual Governance Statement 2019/20

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

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

List any background documents not already in the public domain including officer contact information.

- None

Officer contact details for documents:

Paul Rock, Head of Internal Audit, Fraud and Risk

Tel: 07562 431830 Email: paul.rock@towerhamlets.gov.uk

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Annual Governance Statement

2019/2020

Our Annual Governance Statement

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

We recognise the importance of having good governance, which includes effective leadership and management, policies and procedures, to ensure we have a well run Council that delivers high quality, value for money services to the local community. The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government*.

We recognise our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded. We have reviewed our governance processes and how they have operated over the course of the last year. This report summarises our review and conclusions.

In summary, the Council has strengthened its governance arrangements in many areas which has included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers handbook and providing more briefings for budget managers. Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administering the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so. We have put action plans in place to address these issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

Signed on behalf of the London Borough of Tower Hamlets

Will Tuckley, Chief Executive

John Biggs, Executive Mayor

Introduction

All local authorities are required to report publicly about how they have complied with their governance arrangements and do so through an Annual Governance Statement (AGS). Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance. The Code is based on the principles of good governance recommended by Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE in a joint document entitled 'Delivering Good Governance in Local Government'.

The Code of Corporate Governance sets out the commitment of the London Borough of Tower Hamlets to continue to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for.

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and alternative delivery models, we have reviewed our performance against each of the seven principles of good governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance we have taken into consideration reviews and inspections of the Council by others, such as Ofsted, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2018/19 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed.

We have used these returns to further enhance our review of the Council's governance framework.

Since the publication of this statement has been delayed, we have included some references to improvement in our governance arrangements that occurred after the 31 March 2020. These additions provide the reader with some detail of the progress we have made, further details will be provided in the 2020/21 Annual Governance Statement.

To conclude the assessment, we have provided an overall opinion on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

Our Assessment

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as Ofsted, as well as the work of internal and external audit.

Principal	Governance Arrangements
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<p>The Council’s constitution records the rules and laws under which the Council operates, including the Financial Regulations. The constitution is published on the Council’s website. The constitution was reviewed and updated and agreed at full Council in July 2019. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. We have noted that some of the Council’s policies and procedures are overdue for a review. Given the global pandemic, all overdue policies and procedures will be reviewed as soon as practicable.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Corporate Director, Governance) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues.</p> <p>The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints against Members, the Register of Interest/Gifts and Hospitality, Member Development and reports from the work of the Committee on Standards in Public Life amongst other matters. All members</p>

	<p>positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and a revised code will be published shortly.</p> <p>The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In July 2020 the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee.</p> <p>Committee reports and key decisions have been published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have. However, officer decisions are not routinely published. A recent audit identified that there have been only three officer decisions published on the Council's website since May 2017. The Corporate Leadership Team and their Divisional Directors have been reminded of the requirements for publication and supported to ensure decisions are published when appropriate.</p> <p>The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. We recognise that the number of officers declaring interests via self-service has declined. We will be requiring officers to update their declarations throughout 2020/21. A revised guide to declaring interests at meetings has been attached to all meeting agendas since May 2020. Now that the Council is operating on-line meetings (via Teams) attendants of the meeting that declare an interest are required to leave the virtual meeting room.</p>
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	<p>The Council has also maintained a Gifts and Hospitalities register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and hospitality policy needs to be reviewed, it was last reviewed in 2011. We also recognise there has been a reduction in gifts and hospitality being declared by officers, whilst this may be because less gifts and hospitality have been offered or accepted, to ensure all gifts and hospitality are recorded we will be promoting the requirements for officers throughout 2020/21.</p> <p>The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes as appropriate.</p> <p>The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and Monitoring Officer. In 2019 the Audit Committee adopted the terms of reference recommended by the Chartered Institute of Public Finance and Accountancy and in accordance with best practice has appointed an Independent Person to support the Committee. In July 2020 the Committee agreed its first annual report to be presented to full Council.</p> <p>The Council routinely provides training for its Member on ethics during their induction. Further member training on ethics and probity was planned for January 2020, but this was re-scheduled to April 2020, and then rescheduled again due to Covid-19. The training has now been provided.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This technology has proven particularly effective during the Covid-19 pandemic and enabled critical Committees to continue and be available to the public.</p>

	<p>An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council’s website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.</p> <p>The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users. The Council recognises that its consultations could be improved and during 2019/20 launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council’s website along with information on how the public/stakeholders can put forward their views.</p> <p>The Council’s Overview and Scrutiny Committee has engaged with stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented.</p> <p>Social media channels have been used extensively to support the Council’s engagement with stakeholders. The Council has adopted a Social Media Policy to provide advice and guidance on the use of social media.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and</p>	<p>The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the</p>

<p>environmental benefits</p>	<p>outcomes. The Council has a structured set of plans which turn the vision into actions, through directorate, key council strategies and service plans. The plan has been published on the Council's website.</p> <p>The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Committees, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.</p> <p>As a result of the Covid-19 pandemic the priorities and outcomes of the Council have been reviewed and presented to the Mayoral Advisory Board. The Corporate Leadership Team has agreed a recovery and reconstitution plan. Themed boards, such as 'Workforce and Wellbeing' and 'Back to Business' have been created and are led by Corporate Directors. The Council is focussed on managing and recovering from the impact of the pandemic and achieving the best outcomes for residents whilst maximising the opportunities presented through new ways of working.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p>The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.</p> <p>All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have been cleared by finance and legal officers before publication.</p> <p>The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board</p>

	<p>is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly.</p> <p>The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.</p>	<p>The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed on an annual basis. A new 'My Annual review' process has been adopted to improve the process and increase staff and management engagement.</p> <p>The Council has articulated its values and behaviours in 'TOWER values' which includes a behaviours framework to support officers.</p> <p>The Council's transformation programme called SMARTER TOGETHER, which is led by CLT, is focussed on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources.</p> <p>All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal to give them access to many useful documents and materials.</p> <p>Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings.</p> <p>All staff are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data</p>

	<p>protection, anti-fraud and whistleblowing.</p> <p>Staff are provided with opportunities for further development through the new My Annual Review process.</p> <p>The Council has adopted a range of supporting plans and strategies including the People Resource Plan, Corporate Training Programme and Workforce Development Strategies.</p>
<p>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p>The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community. The five year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020. An audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team. An action plan has been put in place to address these issues but progress has been delayed by the pandemic and a lack of risk resources. The Corporate Risk Register has now been reviewed and updated by CLT and presented to the Audit Committee for review. Progress against the remaining actions in the plan will be reported to CLT and the Audit Committee.</p> <p>Risk management is part of the Council's day-to-day activities and decision-making and regular reports have been provided at corporate and directorate level. The Corporate Risk Register is independently reviewed by the Audit Committee. During the Covid-19 pandemic a bespoke risk register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was strong at all level of the business throughout the pandemic and this has continued in 2020.</p> <p>The Corporate Director, Resources is responsible for the proper administration of all aspects of</p>

	<p>the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. During 2019/20 the Council adopted a new Scheme of Financial Delegation and updated its Financial Regulations. In addition, a new Budget Management Handbook has been published to support Budget Managers. An increased level of briefings for budget managers has also been put in place.</p> <p>A Medium-Term Financial Strategy is in place. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed.</p> <p>The Council has faced significant financial challenges (increased costs, significantly reduced income and undeliverable savings) throughout 2019/20 and the position worsened as a result of the Covid-19 pandemic. During the year the Council introduced a curb on non-essential spending and an Agency Panel (to review the use of agency staff). Whilst there was a reduction in agency staff costs, the initiatives did not result in significant improvement of the Council's overall financial position. In response the Council has reviewed its Medium-Term Financial Strategy, introducing enhanced budget management meetings and implemented a revised approach to capturing and approving savings and efficiency proposals to increase the level of confidence in their delivery. The Senior Leadership Team were tasked to prepare savings proposals.</p> <p>Throughout 2019/20 Finance has been focussed on rectifying significant issues with the 2018/19 statement of accounts and producing the 2019/20 statements. A revised set of draft accounts for 2018/19 was published in May 2020, however a high number of additional adjustments have been required as the audit has progressed. This has resulted in the need to produce a further version of</p>
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	<p>the 2018/19 accounts which is planned to be presented to the January 2021 Audit Committee. Deloitte continue to audit the 2018/19 accounts. Publication of the 2019/20 accounts have similarly been delayed; they should be published in January 2021. The external auditors anticipate completing their audits over the course of 2021, but further adjustments will be required as well as a qualified value for money opinion (further details are in the External Inspection section of this Statement). The Corporate Director, Resources commissioned an independent review to identify the lessons that need to be learned to avoid similar issues in the future that was presented to the Audit Committee in November 2020.</p> <p>The significant issues referred to above included serious failings in the administration and governance of pensions. As a result, the Council self-reported to The Pensions Regulator in 2019 and prepared a robust improvement plan. Issues included a failure to provide Annual Benefit Statements to 100% of members due to incomplete records, missing payroll data, back logs of work and a lack resources; outstanding scheme HMRC returns from previous years; failure to issue Annual Allowance Statements to all members and a lack of policy documents as well as data quality issues. Additional resources for the Pensions Administration team have been approved and an improvement plan established to tackle the issues highlighted. A number of these problems have now been resolved with the improvement plan subject to regular monitoring at the Pensions Board and Committee.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of ant-fraud work have been reported to, and reviewed by, the Audit Committee. The Council has successfully prosecuted numerous incidents of housing fraud and recovered over £300,000 in compensation and costs as well as 40 social housing properties which can now be used by those in genuine need.</p> <p>All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact.</p>
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	<p>The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.</p> <p>The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.</p>
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions and ways of getting involved in decision making. The constitution was last reviewed in early 2019 and agreed by Council in July 2019.</p> <p>The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</p> <p>The Council webcasts it's Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency. As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast the Licencing Sub Committee and the Audit Committee.</p> <p>The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.</p> <p>The Council's constitution sets out the terms of reference of all Committees to ensure information</p>

	<p>is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports.</p> <p>The Council updated its Code of Corporate Governance and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2020.</p> <p>There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.</p> <p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p> <p>The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management’s responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit has raised these concerns with the senior officers and the Audit Committee and has introduced new procedures to improve engagement with management.</p> <p>As senior Council decision making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.</p>
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Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2019/20 annual opinion to the Audit Committee in July 2020.

Head of Internal Audit Annual Opinion

*On the basis of the audit and anti-fraud activity undertaken during the year, in particular the audit of risk management, and taking into consideration external assurances and other relevant matters including the significant issues with the closure of the Council's 2018/19 Statement of Accounts and associated accounting procedures that have emerged throughout 2019/20, as well as the breaches of law in relation to Pensions Administration, it is my opinion that I can provide **Limited**¹ assurance that the authority has adequate systems of governance, risk management and internal control.*

Limitations of Scope

Internal Audit does not audit the Council's annual statement of accounts and this opinion does not cover the associated financial statements and disclosures. The Council's external auditors (Deloitte) are responsible for the audit of the annual statement of accounts and reporting whether, in their opinion, they present a true and fair view of the financial position of the Council. At the time of preparing this report neither the 2018/19 nor 2019/20 accounts have been audited, although as previously stated there were significant issues with the 2018/19 and 2019/20 accounts.

The internal audit plan cannot address all risks across the Council and the opinion is based on our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan.

¹ A **limited assurance** opinion means that significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives.

Paul Rock, Head of Internal Audit, Fraud and Risk.

The full report from July 2020 is available on request.

External Audit & Inspections

External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

At the time of drafting this Annual Governance Statement (January 2021) Deloitte have been unable to complete their audit of the 2018/19 or 2019/20 financial statements. There were significant issues with the Council's 2018/19 statement of accounts, and it has taken 12 months for these issues to be largely resolved, similarly there have been issues with the production of the 2019/20 statement of accounts. The Council developed an action plan that was overseen by the S.151 Officer and the Deputy Section 151 Officer, additional resources were sourced to complete the plan and produce a revised set of accounts and a dedicated finance improvement team was created for additional support. Progress has been regularly reported to the Council's Statutory Officers, Mayor, Cabinet Members and the Audit Committee. The Council published a revised draft set of accounts for 2018/19 in May 2020 however a high number of additional adjustments have been required as the audit has progressed. This has resulted in the need to produce a further version of the 2018/19 accounts which is planned to be presented to the January 2021 Audit Committee. Deloitte continue to audit the 2018/19 accounts. It is anticipated that the external audits of both sets of accounts will be completed during 2021. It is likely further adjustments will be required, a qualified value for money opinion is also expected. The Corporate Director, Resources commissioned an independent review to identify lessons learned and avoid similar issues with the accounts in the future. The outcome of this review was presented to the Audit Committee in November 2020.

The Council has in parallel been working to produce the 2019/20 accounts. As a result of the Covid-19 pandemic the timetable for publishing the accounts was extended via new regulations. The final, audited accounts for 2019/20 were due to published by 30 November 2020. Due to ongoing issues with the 2018/19 and 2019/20 accounts, the statutory deadline for publishing the 2019/20

statement of accounts has been missed however it is now planned to also present these accounts to the January 2021 Audit Committee.

Other Inspections

During 2019/20 external inspectors from Ofsted have completed an inspection of Children's Social Care Services, summary details are as follows.

Ofsted

In June 2019 Ofsted inspected Children's Social Care Services. The report was published in July 2019. Ofsted rated the performance as Good in all areas and concluded the following:

Services for children in Tower Hamlets are now good and have substantially improved since they were found to be inadequate in 2017. Since then, leaders and managers have had a relentless focus to improve practice to deliver good experiences and progress for children and their families. At all levels, there is effective management oversight and a direct understanding of the quality of significantly improved frontline practice.

Effective and well-coordinated universal and early help provision means that children and families receive good help when they need it. Children in need, including those in need of protection, benefit from good assessments that inform plans to reduce risk and improve children's circumstances. The workforce reflects the diversity of the local population and staff sensitively take account of, and respond appropriately to, the cultural and religious needs of children and families in Tower Hamlets

Children in care and care leavers receive good support from workers who know them well and are appropriately ambitious for them. They live in stable homes, which helps them to do their best in all aspects of their lives.

The full report is available on request.

Companies, Arms-Length Management Organisations and Charitable Community Benefit Societies

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and a Charitable Community Benefit Society which are detailed below. To support better governance going forward the Council will be provided with an annual report on each of the organisations to encourage openness and transparency over their activities and performance.

Tower Hamlets Homes

The Council has in place a well-established Arm's Length Management Organisation - Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company Board. Performance is monitored through a formal review process with senior council officers and elected members. The company operates its own risk management strategy and is subject to internal and external audit and inspection activities in compliance with the Companies Act.

The Council's Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2019/20 about the governance, risk management and internal control arrangements. The opinion was as follows:

*On the basis of the audit work undertaken during the 2019/20 financial year, my overall opinion on the organisation's system of governance, risk and control is that **Substantial**² assurance can be provided that the internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.*

Paul Rock, Head of Internal Audit, Fraud and Risk.

² A **substantial** assurance opinion means there was a generally sound system of governance, risk management and control in place.

PLACE Ltd (Pan-London Modular Temporary Accommodation)

This not-for-profit company limited by guarantee (CLG), set up by the Council in 2018 working collaboratively with the London Housing Directors' Group and London Councils. It is a collaborative enterprise between a group of London Boroughs (currently with five member local authorities). The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan for the programme. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company. The council is one of 4 board members and in addition there is an independent chair.

Capital Letters (London) Ltd (Pan-London Temporary Accommodation Procurement Hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 working collaboratively with the London Housing Directors' Group and London Councils. It is a collaborative enterprise between a group of London Boroughs (currently involving 17 boroughs). The company is leasing private properties for use as temporary accommodation and securing assured shorthold tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG, which will initially be administered by Tower Hamlets Council; a Chief Executive and Chief Finance Officer were appointed in 2019 and the company has adopted their own processes and procedures (approved by representatives of its member Councils through Capital Letters' formal governance arrangements) including for the payment of salaries and maintenance of accounting systems. The Council may provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of

three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats on the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two council officers and three independent members who are each shareholders. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in 2019/20. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

Significant Governance Issues

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2018/19

The 2018/19 the AGS included 9 significant governance issues which needed to be addressed during 2018/19. A summary of progress/outcomes against these actions follows:

No.	Issue	Action	Progress / Outcome
1	Outstanding Payments to care providers end of year accrual process and implementation of Electronic Home Care Monitoring. Associated adverse end of year budget position in relation to adult social care.	<p>Outstanding Payments Hub established to recover position on monies owed to providers – external input to design (Socitm) and CPMO oversight and support.</p> <p>Review of accruals process and improvements to monthly budget process particularly around home care.</p> <p>Commissioned review of Electronic Home Care Monitoring from Socitm – final report now prepared and recommendations being discussed and implemented.</p>	<p>The contract with our electronic home care monitoring system ended March 2020. All outstanding monies owed to providers has been paid in 2021.</p> <p>Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements.</p> <p>Longer term arrangements are also being explored as part of plans for homecare re-procurement.</p>
2	Adult Social Care Improvement – consistent practice and quality	<p>Improvement Board replaced by Quality Assurance Board during 2018/19.</p> <p>Independent input from LGA Care & Health Improvement Advisor. Internal audits & follow ups of relevant areas). Further actions include need for improved data to support performance & quality improvement and recruitment and retention of social</p>	<p>A restructure of adult social care has been completed and it was implemented on 1st September.</p> <p>Issues with practice and adult social care improvements are embedded in the restructure. Along with various methods introduced to improve practice across the service. (e.g. Risk panels, Care support</p>

No.	Issue	Action	Progress / Outcome
		workers.	<p>plan assurance meetings (CSPAM) etc). In addition, we have developed and implemented various practice guides and training / briefing to improve practice across the service.</p> <p>We have proactively responded to audits carried out in various teams to ensure services are practising in a safe and transparent way. (No recourse to public fund, Management of client fund CLDS)</p> <p>With the implementation of Mosaic, there is ongoing work happening to ensure we can maximise the benefits of Mosaic and improve our data input and performance reporting.</p> <p>ASC recruitment strategy aimed at filling the remaining vacant post across the service has been implemented and we are now in the process of interviewing those who were shortlisted.</p>
3	<p>There are significant issues with the 2018/19 accounts closure which continues to require extensive remedial actions. This has included:</p> <ul style="list-style-type: none"> Weaknesses in how accruals have been 	<p>An action plan has been developed and is being overseen by the S.151 Officer and the Deputy Section 151 Officer.</p> <p>Additional resources have been sourced to complete the plan and produce a revised</p>	<p>Progress against the action plan has been reported regularly to the Cabinet Member for Resources and the chair of the Audit Committee.</p> <p>The revised and updated 2018/19 Statement of Accounts were published in</p>

No.	Issue	Action	Progress / Outcome
	<p>raised.</p> <ul style="list-style-type: none"> • Pension fund deficit and accounting. • Schools accounting. • Valuation of infrastructure and temporary accommodation assets. • Accounting processes for the collection and general funds. 	<p>set of accounts.</p> <p>A dedicated finance improvement team has been created for additional support.</p>	<p>May 2020 and will be re-presented to the Audit Committee in January 2021. The accounts will be audited by Deloitte over the course of 2021.</p> <p>An independent review was commissioned by the Corporate Director of Resources to determine lessons learned and avoid similar issues with the accounts in the future. An action plan is being developed to address the issues raised.</p> <p>The audited 2019/20 accounts were not published in accordance with the revised timescales. The 2019/20 draft accounts will be published by the end of January 2021 and audited thereafter.</p>
4	<p>The Council is in an overspend position. There has been significant slippage in the achievement of savings targets c. £10 million. The position may change (for the worse) as the accounts need to be restated.</p>	<p>The Corporate Leadership Team is committed to meeting the financial challenges. All directorates will monitor and find ways to proportionally respond to the increasingly challenging financial and demand position whilst delivering statutory duties and existing savings targets. The financial position will be closely monitored and reported to CLT and MAB.</p>	<p>The pandemic placed further financial strain on the Council and more than half of the planned savings for 2019/20 were not delivered. The provisional outturn for 2019/20 was overspent by circa £10 million for the General Fund and £7m for the Dedicated Schools budget.</p> <p>Measures were introduced in 2020/21 to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a review of staffing levels, a</p>

No.	Issue	Action	Progress / Outcome
			<p>review of posts funded from reserves and a non-essential spending freeze.</p> <p>In addition, the corporate leadership team initiated a programme to identify savings proposals and ensure a balanced budget.</p>
5	Budget Management needs to be improved across the Council	<p>A new budget handbook has been produced and will be launched imminently.</p> <p>Finance will provide training and guidance to budget managers. The finance improvement team will provide additional support.</p> <p>CLT will adopt a more challenging approach to the delivery of Recovery Plans and discretionary spending decisions.</p>	<p>A new Budget Handbook was published.</p> <p>Training was provided to budget managers.</p> <p>Detailed budget challenge meetings have been introduced for high risk budgets.</p> <p>A new savings proposals process for scrutiny and approval has been adopted.</p> <p>Although it was necessary to postpone the Agresso upgrade planned for 2020, work is underway to improve the processes undertaken within Agresso and this is part of the Council's finance improvement plan currently progressing. Once completed, this should ensure improved budget reporting to support budget managers.</p>
6	There are a number of performance, administration and governance issues, some of which are breaches of law and it is necessary that the Council informs The	<p>The actuary is completing urgent reviews of annual allowances.</p> <p>Additional interim resources are being</p>	<p>The actuary produced Annual Allowance statements for 2018/19 apart from one case which was delayed due to information awaiting from the scheme employer. The</p>

No.	Issue	Action	Progress / Outcome
	<p>Pensions Regulator of these breaches and provide the Regulator with a robust improvement plan and work programme. These issued include:</p> <ul style="list-style-type: none"> • Failure to provide Annual Benefit Statements to 100% of scheme members. • Outstanding scheme tax returns from previous years. • Failure to issue Annual Allowance Statements to all scheme members who require one. • A lack of policy documents and data quality issues. 	<p>recruited to current establishment as a matter of urgency.</p> <p>The software provider has completed a review of scheme member data in line with guidance notes set down by The Pensions Regulator (TPR). Results have been quantified to provide guidance on corrective action required.</p> <p>TPR was notified of key breaches identified.</p> <p>Remediation plan to be submitted to Pensions Board in March 2020.</p>	<p>actuary has also been commissioned to complete 2019/20 statements.</p> <p>Resources issues remain critical for the team. Lack of interims in this area is a continuous problem. Although a new structure which increases capacity has been approved it takes time to attract and appoint the right level and number of staff.</p> <p>Identification of outstanding returns commenced.</p> <p>On going problem due to data received from employers and the council. Pensions staff continue to work through existing data to ensure that close to 100% of active scheme members are issued statements.</p> <p>The remediation plan was submitted to the Pensions Committee in June 2020 and the Pensions Board in June 2020.</p> <p>Work is underway on a program of drafting policy documents and procedures as required. 4 policy documents have been drafted and submitted to the Pensions Committee for approval, admin strategy, risk register and a host of Fund documents have been updated and were presented to</p>

No.	Issue	Action	Progress / Outcome
			the Pensions Board in March 2020.
7	There is an overspend on the Dedicated Schools Grant. In addition, there is demand and budget pressure on SEND and the associated transportation.	<p>The financial position will be closely monitored and reported to CLT and MAB.</p> <p>A financial recovery plan has been produced and submitted to the Department for Education.</p> <p>A wider review of SEND is being undertaken and will be focussed on demand and funding management.</p> <p>SEND Transportation has recently been reviewed by Grant Thornton and options to manage demand and costs have been presented to the Directorate for their consideration and implementation.</p>	<p>The High Needs Block (HNB) of the DSG is being monitored and the pressure reported through the Monthly Budget monitoring cycle.</p> <p>The HNB recovery Plan is being monitored as part of the monthly monitoring cycle.</p> <p>Top up funding for schools has been reduced. Demand management is being managed through the development of guidance for schools on expectations of mainstream schools regarding inclusion of children with additional needs and appropriate requests for an EHCP.</p> <p>The level of retained funding will be decreased once the restructure of the Support for Learning Service is completed and the newly formed service will be able to be deployed more flexibility to speed up the completion of EHCPs.</p> <p>A Transport Review Board has now been set up which is focusing on demand management in SEND transport across children's and adults; and the TSU also attend. The Board is chaired by the</p>

No.	Issue	Action	Progress / Outcome
			Divisional Director Youth and Commissioning. The Board oversees the 2019/20 Children's Services SEND Audit Action Plan.
8	Internal Audit has been under resourced as a result of vacancies, misaligned work force and no external delivery partner. There is a risk that the current and future annual opinions will be limited in scope and/or unsafe.	<p>All vacancies to be filled as a matter of urgency.</p> <p>Existing temporary staff, where appropriate, to be moved to permanent contracts. External delivery partner to be sourced urgently.</p>	<p>An external delivery partner was sourced (BDO) for internal audit and specialist IT audit services until 2021.</p> <p>All temporary staff vacancies across the service were advertised and recruited to permanently.</p> <p>Recruitment to internal audit posts was unsuccessful and alternative service delivery models are now being explored for 2021.</p>
9	<p>The Council's consultation and engagement activities with the community and stakeholders are currently managed by individual services and departments, with significant differences in process. Although some very good practice exists, the quality of the community involvement activities across the council is variable. Issues include:</p> <ul style="list-style-type: none"> An absence of accepted set of standards or guidance on conducting consultation and engagement activities. 	<p>In line with our Community Engagement Framework 2018-21, a Transforming Consultation and Engagement programme has been set up to deliver:</p> <ul style="list-style-type: none"> Guidance for staff on conducting consultation and engagement activities which will provide a standardised, streamlined approach to community involvement activities as well as enable compliance with standards. <p>An online hub to facilitate community involvement which will provide central</p>	<p>To improve the council's consultation and engagement approach, we launched our new platform, Let's Talk Tower Hamlets, and published our consultation and engagement handbook on the intranet for staff.</p> <p>Both key milestones were delivered in February 2020 and are already significantly helping us to ensure there's a consistent standard of consultation and that we are using new digital tools to engage our residents. The consultation handbook was quality assured and supported by the</p>

No.	Issue	Action	Progress / Outcome
	<ul style="list-style-type: none"> • Consultation responses often being held by the consulting team and thus inaccessible to colleagues – who may then go out to consult on similar issues. <p>The lack of a standard means of providing feedback to the community on the impact of their contributions.</p>	repository of all engagement and consultation activities undertaken by the Council and open a range of innovative and engaging multimedia tools and reporting.	<p>Consultation Institute, which also provided core training and advice to relevant staff across the council. Consultation activity was largely paused at the end of 2019/20 as a result of coronavirus but resumed during quarter one 2020/21.</p> <p>The communications and SPP teams together continue to focus on embedding our new way of working between our teams and across the council.</p>

Significant Governance Issues Identified in 2019/20

All five Corporate Directors submitted their returns for 2019/20 to the Chief Executive. The following table summarises the most significant issues raised and the proposed actions to address them:

No.	Issue	Action	Responsible	Timescale
	<p>The Government imposed lockdown of the Country in response to the COVID-19 pandemic is anticipated to have a material impact on the Council's income sources and expenditure requirements.</p> <p>The pandemic impacts in a number of ways including the achievement of corporate objectives, the need for additional</p>	<p>Modelling of impacts particularly in relation to the Council's tax bases for business rates and Council tax has been undertaken and MTFS modelling updated</p> <p>Review of Strategic Plan objectives and establishment and operation of GOLD and Silver management structures</p>	<p>Divisional Director, Finance, Procurement and Audit.</p> <p>Divisional Director, Strategy, Policy and Performance, CLT & Chief Executive</p>	<p>July 2020</p> <p>September 2020</p>

No.	Issue	Action	Responsible	Timescale
	<p>extraordinary government funding and has necessitated the diversion of resources into critical services.</p> <p>There is no guarantee that all additional costs will be reimbursed and indeed the government has raised the prospect of Council reserves being used to support some of the activity.</p>	<p>Production of returns to MHCLG setting out additional costs and utilization of additional monies provided.</p>	<p>Divisional Director, Finance, Procurement and Audit.</p>	<p>Monthly from April 2020 and on-going.</p>
	<p>The issues identified with the 2018/19 Statement of Accounts (SoA) and reflected in the 2018/19 AGS have been worked on during the year. A revised SoA was presented to the Audit Committee in May 2020 and are now subject to external audit review (by Deloitte). Further adjustments will be required through the audit process.</p>	<p>A commitment was made to the Audit Committee for an independent review to be undertaken to understand and ensure that the lessons to be learnt from these issues have been fully identified and steps taken to address them.</p> <p>The review was completed and presented to the Audit Committee in November 2020. An action plan is being prepared to address the issues.</p>	<p>Corporate Director, Resources</p>	<p>March 2021</p>
	<p>Budget Management remains a concern with overspending remaining a significant risk. Agreed action to mitigate budget pressures and savings slippage, such as the Agency Review Panel, the non-essential expenditure embargo and the production of Recovery Plans, have been largely unsuccessful.</p>	<p>An additional set of budget challenge sessions base on an assessment of financial risk were held with budget managers and relevant Corporate Directors.</p> <p>Immediate measures were introduced to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a</p>	<p>Corporate Director, Resources and Divisional Director, Finance, Procurement and Audit.</p>	<p>March 2021</p>

No.	Issue	Action	Responsible	Timescale
		<p>review of staffing levels and a review of posts funded from reserves.</p> <p>In addition, the senior leadership team have prepared saving proposals to ensure a balanced budget.</p>		
	<p>The reduction in General Reserves arising from the overspend has required a review of earmarked reserves in order to maintain an appropriate level of General Fund balances. This has impacted on delivery of other priorities and has led to a further reduction in the overall level of the Council's usable reserves.</p>	<p>The level of usable reserves needs to be kept under review during the year and is clearly linked to the maintenance of robust budget management processes set out above.</p>	<p>Corporate Director, Resources</p>	<p>On-going</p>
	<p>The COVID-19 pandemic has resulted in the potential failure of the Council's Leisure Services provider; with a request for financial support being made to avoid service failure once lockdown is ended.</p> <p>The refinancing of the Poplar Baths project has also been impacted by the pausing of the proposed project finance in the light of CV-19. This brings additional risk to the council from project failure in addition to provider failure on the leisure contract.</p>	<p>Detailed financial analysis of the position that the provider finds themselves in was undertaken on an open book basis to inform a decision about options for support and/ or provision of services in the future.</p> <p>Continued engagement with the project company and respective legal and financing specialists to minimize risk to the Council through the refinancing process.</p>	<p>Divisional Director, Sports, Leisure and Culture & Divisional Director, Finance, Procurement and Audit.</p> <p>Corporate Director, Resources</p>	<p>September 2020.</p> <p>September 2020</p>

No.	Issue	Action	Responsible	Timescale
	<p>The COVID-19 pandemic has resulted in requests from Social Care providers for additional payments and for payments in advance of service delivery. This must also be seen in the context of the discontinued use of the electronic home care monitoring system in Adults Services and reversion to a manual system.</p>	<p>Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements.</p> <p>Longer term arrangements are also being explored as part of plans for homecare re-procurement.</p>	<p>Head of Strategic Finance Adults</p>	<p>31 March 2021 and throughout 20/21</p>
	<p>Towards the end of 2019/20 the Council engaged an external consultant to review the extent of video surveillance system usage and compliance with the relevant Code of Practice. The consultant concluded the following:</p> <p><i>...the London Borough of Tower Hamlets can be considered not to comply with the Council's obligations to show due regard to the provisions of the Protection of Freedoms Act 2012 (PoFA), thus failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems by the Council or on behalf of the Council.</i></p> <p><i>It can also be considered that the Council</i></p>	<p>A comprehensive action plan to improve compliance and reduce the risks has been agreed and implementation has begun.</p>	<p>Senior Responsible Officer (SRO) in consultation with Council's Data Protection Officer (DPO) and Single Point of Contact (SPOC) for Video Surveillance Systems</p>	<p>31 March 2021 and ongoing 2021/22.</p>

No.	Issue	Action	Responsible	Timescale
	<i>fails to meet the requirements to comply with the Data Protection Act 2018 Legislation and GDPR regulations the use and management of video surveillance systems. Considering the current situation, the risks to the organisation are three-fold – financial, legal and reputational.</i>			
	Failure to adequately maintain Chater House resulting in inadequate insurance, increases in premiums and a breach of the lease conditions.	Programme put in place to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance. Fire Risk Assessments to be being undertaken on all commercial portfolio.	Divisional Director Projects and Major Programmes	March 2021
	Weaknesses or non-compliance regarding the system of governance, risk management and control in the Capital Programme (<i>Recommendation from Audit report on governance of capital programme</i>).	<p>Undertake a ‘fundamental review’ of the current year’s Capital Programme plus two years and report funding to Cabinet for oversight.</p> <p>Ensure the capital programme has adequate profiling of expenditure to capture any slippage / overspend over more than one year.</p> <p>Ensure Capital Growth Bids and Project approvals are completed and authorised by the originating officer prior to approval of the capital scheme.</p>	Divisional Director Projects and Major Programmes	<p>September 2020</p> <p>September 2020</p> <p>September 2020</p>

No.	Issue	Action	Responsible	Timescale
	A need to improve the financial governance of capital programmes (<i>Recommendation from Audit Report on governance of acquisition of properties for Temporary Accommodation</i>).	<p>Governance arrangements for the acquisition programme to be reviewed and aligned to the Council's Programme and Project Management Office (PPMO) requirements</p> <p>Plan to be put in place to ensure property acquisitions are financially assessed for value for money and the Officer's Authority for properties and accord to the scheme of delegation</p>	<p>Divisional Director Housing and Regeneration</p> <p>Divisional Director Housing and Regeneration & Divisional Director Projects and Major Programmes</p>	<p>October 2020</p> <p>October 2020</p>
	Outdated governance (Directors) and purpose of traded companies in particular Seahorse Limited & Mulberry Housing Society.	Undertake a review and refresh of governance and purpose of traded housing companies (Seahorse Limited & Mulberry Housing Society)	Divisional Director Housing and Regeneration	October 2020
	Stronger client monitoring of capital expenditure of LBTH over Tower Hamlets Homes to mitigate risks of breaches in procurement guidelines.	<p>THH Management Agreement to be strengthened to include an operational subgroup on procurement and management of contracts.</p> <p>Programme of training for project managers to be delivered to raise awareness and understanding of the governance arrangements.</p>	Divisional Director Housing and Regeneration	September 2020

Conclusion

The Council has strengthened its governance arrangements in many areas which has included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers handbook and providing more briefings for budget managers. Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so. We have put action plans in place to address these issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>28th January 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Kevin Bartle, Interim Corporate Director of Resources</p>	<p>Classification: Unrestricted</p>
<p>Internal Audit and Anti-Fraud Progress Report</p>	

<p>Originating Officer(s)</p>	<p>Paul Rock</p>
<p>Wards affected</p>	<p>[All wards or state wards]</p>

Executive Summary

The IR35 –Management and Control of Off Payroll Engagement limited assurance report, is outstanding from the last meeting of the Audit Committee and will be discussed at this meeting.

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Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
IR35 – Management and Control of Off Payroll Engagement	August 2020	<p>This audit sought to provide assurance on the adequacy and effectiveness of the control framework across the council with regards to compliance with IR35 requirements in terms of employment status. IR35 is tax legislation introduced to address Government concerns about tax avoidance. It challenges whether people who supply their services to the Council via their own company and therefore are 'self-employed' (and recognised by HMRC as such), often referred to as 'off payroll', or whether the work should be taxed as PAYE. Since 6 April 2017 public sector bodies have had a duty to ensure that people working for them through intermediaries are paying the right tax and complying with IR35. HMRC has an online tool - Check Employment Status for Tax (CEST) questionnaire, to assist organisations in assessing whether individuals are within or outside of the scope of IR35, and to inform the decision on whether to tax that individual via PAYE.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> • The prompt on Proactis (eRFQ) for staff to carry out a CEST test is not clear enough to engage officers. The Council's intranet page and the IR35 process contains the contact details for the former Agency Contract Manager and does not include the contact details for the Operational Accountancy Manager, who has responsibility for tax compliance and IR35 within the Council. The process does not outline how to correctly complete and upload a CEST test, and the implications of non-compliance. • Whilst guidance was provided to engagement officers between September – November 2018 through 'lunch time learning sessions' and a briefing to the Finance Management Team, these sessions were not mandatory and no subsequent learning sessions or briefings have been delivered, to ensure that all engaging officers know how to completely correct a CEST test. Our 	Extensive	Limited

		<p>survey circulated to a sample of 20 staff (of which we received 5 back) indicated that staff did not have a complete understanding of IR35.</p> <ul style="list-style-type: none"> • Our testing on a sample of 28 suppliers engaged through Proactis (eRFQ) to confirm whether an IR35 assessment had been carried out identified: <ul style="list-style-type: none"> ○ One instance where a supplier was incorrectly assessed as being within the scope of IR35 when in fact they were outside the scope of IR35, after we had re-performed the CEST test. ○ Eight instances where the engaging officer had indicated that the supplier was delivering goods, when in fact the suppliers in question were actually delivering services, where a CEST test is mandatory. ○ Eight instances where a tick box was checked indicating that a CEST test was carried out with the outcome “IR35 does not apply”, however evidence of the CEST test was not held on the Proactis system, detailing how the engaging officer came to the conclusion. ○ One instance related to a grant payment which should not have gone through the Proactis (eRFQ) system in the first place. ○ Three instances where a CEST test was required, however we were unable to obtain evidence of the completed CEST test as this was not uploaded onto Proactis. Two of the three in question were companies with single officers where the work may fall within scope as the services were in relation to the South Service Capacity Building Project. We were unable to verify details for the other company due to no records being available on Companies House. • There is no process of regular compliance checking to confirm whether agency workers outside the scope of IR35 have been categorised correctly on the Fieldglass system. • We reviewed a sample of 20 invoices paid from April 2019 to date, where no corresponding purchase order was raised (a “direct commission” order). In all 		
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		<p>20 instances tested, no evidence was held to demonstrate whether a CEST test was carried out, and whether the scope of work fell inside or outside IR35 regulations.</p> <ul style="list-style-type: none"> • Since the disbanding of the Council's compliance team, there is no proactive monitoring place of engagements and whether IR35 regulations are being correctly followed and applied. Prior to the disbanding of the Compliance team, the process was such that a nominated HR officer would produce a list of all new engagements in the previous month and send this to the Compliance team, who would confirm whether the CEST test had been performed correctly. Additionally, there is no process of reporting compliance with IR35 to any directorate. <p>Results of Follow Up</p> <ul style="list-style-type: none"> • We reviewed the implementation status of the seven high and two medium priority recommendations raised during the previous audit on IR35 Off Payroll Engagement in 2017/18. We found that three high and two medium recommendations have not been implemented, including holding documentary evidence of IR35 assessments, producing monthly reports from Proactis and checking whether suppliers have been assessed for compliance with IR35, reporting to the Corporate Director from the [former] Compliance Team in relation to IR35 compliance and the progress of measures put in place to reduce the risk of non-compliance with IR35. <p>All findings and recommendations were discussed and agreed with the Director of Finance, Procurement and Audit, Divisional Director, Human Resources, Head of Procurement, Operational Accountancy Manager, Contracts and Supplier Development Manager and Agency Contract Manager between June and August 2020, and the final report was issued in August 2020 to Corporate Director, Resources.</p>		
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