

Non-Executive Report of the: AUDIT COMMITTEE] 29 th July 2021	 TOWER HAMLETS
Report of: Will Tuckley, Chief Executive and Kevin Bartle, Interim Corporate Director of Resources (s151 officer)	Classification: Unrestricted
Tower Hamlets' response to the Independent Review of Accounts	

Originating Officer(s)	Marion Kelly – Programme Director Finance Improvement Team
Wards affected	[All wards or state wards]

Executive Summary

This report outlines progress against Tower Hamlets' Improvement Plan (IP) which was drawn up in response to the Independent Review of the 2018/19 year-end closure of accounts. The Independent Review was carried out by Worth Technical Accounting Solutions Ltd and reported to the Audit Committee in January 2021.

Recommendations:

The Audit Committee is recommended to:

1. Note the progress with the 2018/19 and 2019/20 Accounts' Audit
2. Review the actions set out in the detailed IP for Phase 1 of the IP;and,
3. Note the content and timelines of Phase 2;

1. BACKGROUND

- 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. Since that target deadline was missed for 2018/19, the former Corporate Director of Resources commissioned an Independent Review into the reasons for that and to review why the quality of the draft accounts did not meet the required standards and to recommend actions that would ensure that the Accounts are delivered on time and of the right quality in future. Former Audit Committee reports set out the context and background in more detail.

2. DETAILS OF THE REPORT

2.1 The Independent Review was reported to the January Audit Committee. 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:

- A) Recommendations for sustainable Improvement (please see section 2.4 onwards); and
- 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.

2018/19 and 2019/20 Accounts

2.2 The Council continues to work through the queries raised by the External Audits for the 2018/19 and 2019/20 Accounts and the Council's actions which were set out in previous Audit Committee reports can be summarised by stating that Deloitte and the Council have worked together to produce an agreed plan to restate the Accounts and for Deloitte to be able to deliver an opinion for each year. It was agreed that each area of the accounts such as creditors, debtors, payroll and assets should be addressed in turn and both years' queries reviewed at the same time with a concentrated effort on each account area in turn, known as a "sprint". After the last report to 7th April Audit Committee, 7 "sprints" remained, with a small number of lesser "sprints". Since that date, 3 of these "sprints" have been completed, 2 are almost complete and the final 2 are underway. Work is just about to commence on some lesser "sprints" that contain a smaller number of minor queries; that will complete the Council's work in response to queries before Deloitte follows its internal processes to deliver an audit opinion for each year.

2.3 The Interim Corporate Director of Resources will give a verbal update as to the latest position and the degree of confidence that the Accounts will be restated for the September Audit Committee Meeting. In addition, there will be a verbal update regarding the issues relating to the 2016/17 and 2017/18 Accounts which were audited by KPMG and for which certificates remain outstanding. Please note that Deloitte will not be in attendance at this Committee meeting.

Improvement Plan

- 2.4 The IP which meets the other Independent Review recommendations is set out in Appendix A. It lists each of the recommendations set out in the Independent Review and sets out the Council's response. It is split into 4 sections, which are summarised below.
- 2.5 The Council has split the IP into Phases, with Phase 1 ending in May 2021 and Phase 2 ending in November 2021. All the actions for Phase 1 excluding Pensions which is considered in 2.13 – 2.17 have been met or are ongoing apart from:
- 5 recommendations where the actions have not been completed in Phase 1 and are red 'ragged' and 2 amber actions. These 7 actions are set out below and they are being taken into Phase 2;
 - 1 recommendation where a change in the action is proposed; and
 - 2 recommendations where the subject area will be carried into Phase 2 but the actions will be in addition to those in Phase 1.

Section A – Independent Review Leadership, resourcing, planning and closedown delivery

- 2.6 Actions to meet the recommendations in this section have largely been delivered or the actions identified are ongoing throughout the accounts production process. This has been reported to the April Audit Committee. Key achievements include: -
- Internal Governance has been significantly improved with weekly meetings taking place with Deloitte and the Chief Accountant, fortnightly meetings with the Interim Corporate Director of Resources and the Deloitte partner and quarterly meetings with the Statutory Officers Group which includes the Chief Executive. There is a weekly meeting led by the Interim Corporate Director of Resources with the Finance team to review progress;
 - A corporate approach has been established to producing the Accounts with clear Chief Executive leadership, including CLT verbal reports and regular Council wide communications;
 - DLT ownership of producing the accounts has been improved, with DLT reports;
 - The Plans for producing the 2020/21 Accounts were reconfigured; and,
 - Detailed guidance was produced and training/briefing sessions were held for Finance staff and key targeted directorate staff.
- 2.7 There are 3 recommendations where the work required by Tower Hamlets has not yet been completed and will be taken into Phase 2 of the IP
- *A2iv - A standard objective for PDRs relating to the responsibility that service staff carry, whether a budget holder or a budget administrator has been made available, but this should be tailored to each staff member's responsibilities.*
The standard objective will be developed for the next round of My Annual Reviews (MAR).

- *A3ii - A wider training needs analysis (TNA) will be carried out for Finance staff as well as budget holders and administrators to identify gaps and develop a suite of training sessions and online content. This work is now in hand and will be carried into Phase 2. The TNA will be carried out in the late summer/early autumn, with training sessions to be held across the Council.*
- *A4iii - MARs to be clear about individual training needs so staff have the opportunities to be upskilled where individual needs are identified. This will be developed for the next round of MARs.*

Section B – Systems and Processes

- 2.8 The actions required in this section have largely been completed or are in hand. Significant achievements include:
- Capital Budgets loaded on to Agresso, capital training delivered to circa 100 staff, new capital reports designed and forecasts have been made online and this will be done monthly;
 - System improvements made such as “rollovers” (which simplify the reporting and analysis of the Trial Balance to the specific years’ activity) for Tower Hamlets (these changes will be made for Client Affairs, Pensions and Tower Hamlet Homes in Phase 2) and the introduction of additional accounting periods at the end of the financial year which will assist in the transparency of the final accounts process and a technical Agresso upgrade has taken place;
 - Monthly dashboard reporting of key areas such as Bank Accounts’ Reconciliations and key processes have been documented and are with Internal Audit for Review; and,
 - Key causes of major errors in previous years such as the process for valuing assets have been reviewed, action plans drawn up and implemented and the draft process document is now with Internal Audit for review.
- 2.9 There are 3 exceptions:
- *B1a ii - Planned improvements delivered to Agresso and other systems.*
There some uncompleted improvements and these are being carried into Phase 2 such as new standard revenue reports and easier forecasting. There were some unexpected technical issues which have required more work to be carried out than originally planned.
 - *B2a iii - The accounting processes for the Collection Fund will be reviewed and documented by an external resource; LGF and training delivered for relevant staff.*
This will be carried forward into Phase 2 due to capacity issues and the need to complete the 2020/21 accounting entries.
 - *B4b - 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.*
These reports have only just been received as there were unexpected difficulties in producing the employee data required for the reports and this action will be taken into Phase 2.

In addition, 1 change has been made to the actions set out to meet a recommendation and there is 1 critical area where upon further work, the classification of the subject area needs to be amended:

- *B1a iii - A strategic review of corporate systems to be carried out to decide what financial system should be used. An external analysis of opportunities will be commissioned externally as part of the Review*
It has been recognised that Tower Hamlets does need to review what corporate systems it requires, so a review of whether an Enterprise Resources Planning system is a better solution rather than current best of breed systems is needed. It has been decided that in the Council does not have the capacity to carry out that review in Phase 2, but that an independent review (a “Health check”) of Agresso only will be carried out in preparation for the wider review.
- *B2a – Regular reconciliations*
Payroll reconciliations formed part of Phase 1 as these had caused delays in producing the 2019/20 accounts. It was previously reported that the reconciliations were not up to date and that the procedure note had not yet been developed due to resource constraints. Subsequent work has shown that there are significant issues with payroll reconciliations that date back to 2012 and that there are a number of reports that need to be made to provide the correct data and that the process itself will need to be reconfigured. A write off of £0.811m needs to be made that dates back to 2012 (a correction of income coded and recognised incorrectly to a revenue cost centre in previous years that should have been applied to the balance sheet). The payroll reconciliations are now a very high priority and form part of Phase 2.

Section C – Errors identified - all income to the Council is accurately and promptly invoiced, collected and recorded.

- 2.10 The actions required in this section have largely been completed or are in hand. Significant achievements include: -
- Key causes of major errors in previous years such as accounting for the Community Infrastructure Levy and accounting for leaseholders have been reviewed, action plans drawn up and implemented and processed document, now with Internal Audit for Review;
 - Schools payments and accounting process have been reviewed and significant changes made to prevent errors, including school payments now being made through the Council’s standard processes, not individually on the day (CHAPS);
 - Areas of delays were identified such as accounting for S106 and actions plans developed, delivered and processes documented (now with Internal Audit for validation); and,
 - A grants register was established, to facilitate easier reconciliations, reduce delays and reduce the risk of errors.
- 2.11 There is 1 recommendation that is amber and one area where different actions will take place in Phase 2:

- *C6b - 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.*
This action is amber as the accruals are being checked but the substantive recommended action will be carried forward to Phase 2
- *C1c - Documented line by line review of the Balance Sheet has taken place and any uncertainties addressed with an action plan.*
This will be taken into Phase 2 as the action plan still needs to be developed given that the actions need to be undertaken at a granular level.

Section D - External Audit

- 2.12 These recommendations are completed or ongoing do not require additional resource but are now being absorbed as business as usual. The restated accounts for 2018/19 and 2019/20 are elsewhere on this agenda.

Section E – Pensions

- 2.13 The Pensions workstream did not form part of the scope of the Independent Review, but the issues are of such importance that it was decided that they should form part of the IP.
- 2.14 Whilst the Pensions work stream did not form part of the Independent Review, the areas of improvement are of fundamental importance to meeting Local Government Pensions Scheme (LGPS) legislative requirements, the Pensions Regulator (tPR) requirements, the Fund’s ability to provide scheme members with statutory documents like Annual Benefit Statements and Pensions Savings Statements and preparation of accounts for Deloitte to be able to deliver an opinion for each year.
- 2.15 Improvements were split into two sections:
- Pensions Finance
 - Pensions Administration
- 2.16 7 areas of improvements were identified under pensions finance covering:
- LGPS and tPR Regulatory requirements for all employers to provide monthly employee and employer contributions as well as payroll data on a monthly basis to the pension fund.
Over the years, the pensions administration team had taken on the employer function of uploading monthly payroll and contribution data for scheme members contrary to LGPS 2013 Regulation 69 which clearly states this an employer function.

The team extracted payroll data from the payroll/HR system Resource Link in addition to undertaking data uploading function. Over the years, records with problems, errors or warnings are excluded each month from upload, in some cases auto enrolment difficulties have meant that some records

are incorrect. In other instances, basic structure changes within council establishments have resulted in duplicate records.

At the time of writing this report 29 employers in the pension fund now upload monthly payroll data to the pension portal 'iconnect'. The following employers; Tower Hamlets Council, Tower Hamlets Homes, Mulberry Academy, East End Homes, St Pauls Way School Trust have yet to onboard (these organisations also use Tower Hamlets as a payroll provider).

- Review and implementation of a new pension fund chart of accounts. Currently the pension fund accounts have been produced using a less than adequate chart of accounts with payments of expenditure being made from the council's own bank account and income received in the pension fund accounts resulting in comingling of funds contrary to LGPS Regulations 2016 (6) (3) which requires Funds not to off-set with other accounts of the authority. In January 2020 as part of ongoing improvement, all payments of the pension fund are no longer paid out of the council's bank account.

Since then it has become necessary for the pension fund to operate within the confines of its own ledger. A draft chart of accounts has been prepared which, at this time, requires a little more work. The completion of this improvement will take place as part of phase 2 improvements referred to in this report.

- Work on automation of daily pension fund bank account files and direct posting to the ledger is also ongoing.
- Setting up of pension fund budgets has been moved to phase 2 due to resource constraints.
- The improvement around having in place standard financial system reports for use in producing the pension fund accounts will take place in phase 2, priority has been given to completing the actual chart of accounts.
- Review of coding of payroll elements for pensioners payroll to align with new chart of accounts is also rescheduled.

Although most are nearing completion for reasons mentioned within paragraphs 2.14 to 2.16 of this report, all 7 have been moved to phase 2 for completion.

2.17 The 9 improvements below were put forward under pensions administration:

- Implementation of a service provider to process monthly pension payments to overseas pensioners. There are over 250 overseas pensioners who reside in various countries around the world. Equiniti, the

Fund's previous provider was unable to make payments to pensioners who resided in countries like Thailand, this meant such pensioners had to be paid by cheque each month. In addition, confirmation of payments was not immediate and the council's plan to stop the use of cheques in 2019 meant an alternative means of payment was necessary. A new provider Western Union has now been sourced and all overseas pensioners are paid by the same provider.

- Establishing dialogue with scheme employers by way of an employer forum. The Fund's first employer forum has taken place with the expectation that this will continue annually and provide the opportunity to discuss current issues and improvements with employers in the scheme.
- Review of HMRC returns. This review brought to light a host of outstanding statutory returns (annual and quarterly) dating back to 2014/15 which had yet to be completed.

To date all quarterly returns 2014/15 to June 2021 in respect of tax on refund of employee contributions made by the Fund have been completed and payments of outstanding tax paid to HMRC. A process is now in place to ensure this takes place on a quarterly basis.

The processing of ill health annual returns 2014/15 to 2020/21 has been completed and returns submitted to HMRC.

Work is ongoing in respect of annual returns for scheme members tax charges on Annual Allowances; for 2014/15 to 2017/18 returns have been completed while completion of returns for 2018/19, 2019/20 and 2020 is due by the end of phase 2.

- Review of the Pension Fund Risk Register was completed. On the recommendation of the Pensions Board, review of updates and amendments to the Risk Register is now a standing agenda item in every Pensions Board meeting.
- Also completed is the incorporation of the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended KPI's in performance reporting. The new reports will form part of September updates to the Pensions Committee and Pensions Board.
- The roll out of iconnect (pensions portal) to all scheme employers to facilitate the uploading of payroll data is expected to complete once the council and other employers mentioned above have commenced with monthly data upload. The target completion of this improvement has therefore been moved to phase 2.
- With the successful completion of producing 2018/19 and 2019/20 Annual Allowance and Life Time Allowance pension statements to affected scheme members, work has commenced on producing 2020/21 although

statutory deadlines may be affected by data issues highlighted in this report. This is expected to complete in Phase 2.

Programme Approach.

2.18 As previously reported to the Audit Committee, a programme approach has been taken to manage the IP, which has now been developed to encompass the wider recommendations made as part of the CIPFA review and other work deemed essential. All unmet actions from Phase 1 are being carried into Phase 2, which has been agreed by CLT as follows:

- A Budget Management
 - In depth realignment of all Council wide budgets (income and expenditure) to enable more robust monitoring
 - Review of the way in which Tower Hamlets accounts for recharges
 - Agresso Health Check
 - A Council Wide Learning and Development Training offer for Budget Holders and Finance staff and MAR Finance objectives
 - A new intranet page designed as a 'one stop shop' for Budget Holder information and guidance.
- B Pensions Administration and Finance
- C Corporate and wider Finance Workstream
 - Enhancements to the Tech Forge system (Finance Asset Register)
 - Core Process Reviews
 - Review of journals
 - Further review of control accounts and reconciliations
 - VAT review
 - Payroll review
 - Review of frequency of schools' accounts (currently quarterly)
 - Systems enhancements
- D Legacy Phase 1 - Agresso
- E Legacy Phase 1 – closure of 3 years accounts (2018/19, 2019/20 & 2020/21), the Audit opinion and the KPMG certificate for years 2017/18 (and 16/17?)
- F Legacy Phase 1 – other unmet Phase 1 recommendations

Resource Implications

2.19 The resource plan has been reviewed and agreed by CLT. Phase 2 funding from the Transformation Reserve is estimated at £1.045m, which is funding 3 interims to support the Accounts production for 2020/21 and the Audits of previous years, along with 4 interims to carry out the Budget Realignment and Recharges Reviews and 1 interim to lead the work for Resources and

Governance and the central IP team of 3 interims. This budget does not cover the cost of a Council wide Budget Holder training programme or new training and reference materials to support Agresso users.

- 2.20 The costs referred to above are one off, but the S151 officer will have to consider, in consultation with CLT and Cabinet, ongoing resourcing following the completion of the 2020/21 accounts. The cost of the specific Agresso enhancements is expected to be minimal but yet to be confirmed.

Risks

- 2.21 A Risk Register has been drawn up and is planned to be reviewed at the FIB.

IP Governance

- 2.22 Due to the comprehensive and complex nature of the recommendations, it was decided that the IP should form part of the Corporate Leadership Team (CLT) Transformation Board suite of programmes. The IP is being governed by a Finance Improvement Board (FIB), chaired by the Interim Corporate Director of Resources and the membership of the FIB has been updated to reflect the work being carried out in Phase 2:

- Chair – S151 Officer, currently the Interim Corporate Director of Resources;
- Interim Divisional Director for Finance, Procurement and Audit
- The 5 Strategic Heads of Finance
- The Divisional Director for IT
- The Divisional Director for HR – NEW
- The Corporate Director of Place
- Interim support to the IP
- Along with the Head of Internal Audit and the Interim Head of the Portfolio Management Office as observers.

- 2.23 The Board reports monthly to the CLT Transformation Board and a progress report will continue to be made to each Audit Committee.

Conclusions

- 2.24 The IP represents a major step towards the objective of the Accounts being sustainably produced with the required quality and on time. There have been significant achievements but some element of Phase 1 still need to be completed.
- 2.25 The Plan will need to be reviewed again once the 2020/21 Accounts have been published to take account of any further improvements that have been identified during the 2020/21 process and when the external auditor has made their final assessment of the Council's accounts (ISA 260 report) after they have concluded their audit of the 2 outstanding years accounts.

3. EQUALITIES IMPLICATIONS

- 3.1 The Equality Act 2010 requires the Council in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 3.2 There are no equalities implications arising from this report.

4. OTHER STATUTORY IMPLICATIONS

- 4.1 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom. There are no other statutory implications within this report.

5 COMMENTS OF THE CHIEF FINANCE OFFICER

- 5.1 The comments of the Chief Finance Officer have been incorporated throughout this report.

6 COMMENTS OF LEGAL SERVICES

- 6.1 The Accounts and Audit Regulations 2015 ("the Regulations") require a local authority to have a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, and ensures that the financial and operational management of the authority is effective. The Regulations also require a local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Regulations set out the timescale within which the annual statement of accounts must be published. As stated in the report, this timescale has been missed and the report sets out the proposals to publish the audited accounts as soon as possible, albeit late.
- 6.2 The effective management of the Council's finances has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy efficiency and effectiveness. Therefore, the consideration of this report demonstrates the Council's compliance with its Best Value Duty.
-

Linked Reports, Appendices and Background Documents

Linked Report

Tower Hamlets' response to the Independent Review of Accounts and reports produced by the Chartered Institute of Public Finance and Accountancy and Grant Thornton

<https://democracy.towerhamlets.gov.uk/documents/s183532/Finance%20and%20Governance%20Improvement%20Plans.pdf>

Appendices

A Finance Improvement Plan