


<p style="text-align: center;">Non-Executive Report of the: <b>AUDIT COMMITTEE</b> 20<sup>th</sup> October 2021</p>	 <p style="text-align: center;"><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Kevin Bartle, Interim Corporate Director of Resources (s151 officer)</p>	<p><b>Classification:</b> Unrestricted</p>
<p>Progress report on Tower Hamlets' response to the Independent Review of Accounts and an update on the Accounts for 2020-21 and the previous 4 years.</p>	

<b>Originating Officer(s)</b>	Marion Kelly, Programme Director, Finance Improvement (interim)
<b>Wards affected</b>	All

### Executive Summary

This report outlines progress against Tower Hamlets' Finance 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. The report also updates the Audit Committee on the status of the Accounts for 2020-21 and the previous 4 years.

### Recommendations:

The Audit Committee is recommended to:

1. Note that the Accounts for 2018-19 and 2019-20 have been restated and that, additionally, work has commenced to obtain the outstanding Audit Certificates for 2016-17 and 2017-18;
2. Note the Audit Committee's receipt of the formal notice from our external auditors, Deloitte, that their Annual Report for 2020-21 is delayed; and,
3. Note the progress against the actions set out in the Finance Improvement Plan (IP).

## 1. REASONS FOR THE DECISIONS

- 1.1 No decisions are required as a result of this report.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The preparation and audit of the Accounts is a statutory duty set out in the Accounts and Audit Regulations 2015, so the Council must take actions that lead to the completion of the Accounts and External Audit on time (usually 31<sup>st</sup> July, but for 2020-21, this deadline has been revised to 30<sup>th</sup> September due to Covid).

## **3. DETAILS OF THE REPORT**

- 3.1 The Accounts deadline was missed for 2018-19, so 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. This reports sets out the Council's progress in responding to the IP that was developed in response to the Independent Review, along with an update on the outstanding Accounts.

- 3.2 The Council has 5 years of Accounts that where external audits have yet to be finalised and specifically for 2020-21, the draft accounts are still to be completed, Further details are set out below:

### **2020- 21**

- 3.3 The Accounts for that year have yet to be drafted in full, due to the delays caused by earlier years' accounts still being audited, however the Council is on track to produce a completed draft in November.
- 3.4 Appendix A contains a formal notice from our external auditors, Deloitte, which is required to be sent to members of the Audit Committee. This states that under the 2020 Code of Audit Practice, Deloitte are required to issue an auditor's Annual Report on the results of their audit work over the year for publication no later than 30th September 2021, but that they have been unable to do that due to the delays in previous years' Audits. This notice is an official confirmation from Deloitte to state that they cannot produce their annual report and does not require any further action on the Council's part, other than to note the receipt.
- 3.5 However, Deloitte have stated that they are unable to produce an Audit Plan for 2020-21 for review and agreement until the previous years' Audits are largely complete.
- 3.6 At best, the 2020-21 Audit will conflict with preparation for the 2021-22 Accounts and may potentially be received after the start of the financial year 2022-23 when the Accounts for 2021-22 will be being produced, which is very challenging. Resourcing the Audit for 2020-21 whilst the 2021-22 preparation work is taking place will require some additional capacity, which is being considered by the Interim Corporate Director of Resources

### **2018-19 and 2019-20 (Deloitte)**

- 3.7 The Accounts for both of these years have just been restated and passed to Deloitte. The Accounts are available on the Council's web page and will be reported to the Audit Committee for approval at its 1<sup>st</sup> December meeting, with a report on the amendments to those Accounts. Deloitte are nearing the completion of their audit and also plan to bring a draft audit opinion to that meeting. There are a small number of queries that remain to be answered in full, but officers do not believe that any of these queries will lead to further Accounts' amendments. The last stage for the Audit is that Deloitte issue Audit Certificates for 2018-9 and 2019-20. This cannot take place until the Audit Certificates for 2016-17 and 2017-18 have been obtained.

### **2016-17 and 2017-18 (KPMG)**

- 3.8 The Audit Certificates for these 2 years are outstanding, as although KPMG had completed their Audit on time and issued unqualified opinions, there were 2 objections to the Accounts. Certificates cannot be issued whilst there is an outstanding objection, in case the objection is upheld by the Auditors and the Council needs to amend its Accounts. As those objections were still being investigated when it became clear that there would be amendments to those earlier years of Accounts, the Audit Certificates could not be issued (NB these objections have now been cleared).
- 3.9 This is 'unchartered territory' for both KPMG and the Council so the KPMG Audit will need to be closely managed. There were two options to obtain certificates; one was to not amend the 2016-17 and 2017-18 Accounts and treat the changes as Prior Year Adjustments (PYA), the other was to fully restate all of the primary statements and the notes i.e. the Accounts would need to be restated in full. On balance, it was decided to take the PYA route; whilst this does mean that the certificate opinions for those years will probably be qualified, this route is a practical and feasible option, as it involves substantially less work and reduces the risk that obtaining the KPMG Audit Certificates continues into next year. Members should note that the amendments to the primary statements (the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and the Cash Flow Statement) for both years will be available to Accounts readers, but that the notes will not be restated.
- 3.10 As it is not technically possible for the Auditors to reissue their opinion once it has been issued, the process is that the adjustments are reviewed by KPMG and the Audit Certificate details the adjustments that have been identified post the Audit opinion. The Council and KPMG have agreed a plan as set out below for the Council to obtain those certificates; the full list of amendments that impact upon those two KPMG audits needed to be finalised before this work could be undertaken. The plan is as follows;
- The Council sends the revised primary statements for 2016-17 and 2017-18 with a reconciliation of the impact of each of the adjustments/movements with a line by line analysis/explanation to KPMG by the end September 2021;

- KPMG will look to complete its audit procedures, testing and internal KPMG reviews and approvals by the end October 2021;
  - KPMG will look to then report its audit findings and conclusions on its work to the Council by the end November 2021; and, KPMG will then be in a position to issue the two audit certificates for 2016-17 and 2017-18 by the end of December 2021
- 3.11 Council officers have had several positive meetings with KPMG to ensure that they understand the work that needs to be carried out. All the data that KPMG required bar three of the primary statements for 2016-17 was delivered to KPMG by the end of September and the Council has informed KPMG that those will be sent to them by the end of October. KPMG have agreed to commence their Audit, notwithstanding the fact that they do not have all the data they need, under best endeavours. The Council is on track to deliver the remaining statements to KPMG for the revised deadline. There is a risk that the December deadline may not be met, but KPMG are working with the Council to try to minimise that risk.

#### **Finance Improvement Plan (IP)**

- 3.12 The IP can be seen in Appendix B. There are 60 actions within the IP, 41 of which are now complete shown as blue, 12 are on track shown as green, 6 actions have an amber flag and 1 action is not currently being progressed within the timescales of the IP, shown as purple.
- 3.13 A number of actions have been completed, mainly in areas that related to the 2020-21 Accounts, such as the actions relating to the Accounts entries on Pensions Liabilities. 12 actions are now on track, including the new revenue reports (B1a ii), the Journal Review (B1e) and the documentation of the Collection Fund process (B2a iii). Actions that are now on track for delivery that are worthy of specific note are on Learning and Development and the IT system for producing capital financing entries.

#### **Agresso Training Offer**

- 3.14 The Council stopped running formal class based training sessions some considerable time ago. Monthly ongoing training, bookable on the Council's Learning Hub, will be offered from late October for approvers of purchase orders and from January for new Budget Holders (BHs), who are expected to forecast their expected outturn against budget for capital and revenue each month, so they need to be able to run standard reports to review the detailed accounts entries where required, as well as approve purchase orders. Training content is being developed including short videos and worked examples, which will be available on the updated Finance intranet page. Future plans include the use of "quick cards" which is a short reference card that can be embedded into Agresso (not part of Phase 2 of the IP). Regular "drop in" monthly sessions for all Budget Holders have been made available on the Learning Hub from October so that colleagues can have 121s where they are experiencing difficulties specifically on budget forecasting. Refresher sessions will be available for existing BHs from November to January.

### **Budget Holder (BH) Training**

- 3.15 BH training is required to ensure that all BHs (circa 250) have been trained to an acceptable standard. CIPFA (Chartered Institute of Finance and Accountancy) have been engaged to design and deliver a bespoke training offer, as their standard BH training can be designed to suit Tower Hamlets' specific needs and the Tower Hamlets environment. These half day training sessions will be held between November and January; the core objective is to ensure that BHs recognise what good financial management means and for them to model this, including practical worked exercises on budget monitoring and accruals. To ensure sustainability, when a new BH is appointed in the future from January 2022, an experienced Finance Business Partner will train them on a 121 basis and the Tower Hamlets specific materials can be updated as necessary.

### **Tech Forge (TF)**

- 3.16 The data required for the Council to calculate the entries on the Agresso ledger that are required to finance its assets for the Accounts is currently held on a spreadsheet. This poses significant risk of error and is time consuming, so the Finance Improvement Plan contains a target to move this data onto the Council's existing Asset Register, held on Tech Forge (TF). It was established earlier in the year that there are only a small number of packages that can carry out these calculations (such as RAM and CIPFA) and it was agreed that it was appropriate to use the Asset Register already in use. A demonstration was held by TF that all parties agreed showed that the module has the capability to meet the required professional standards. A Project Team and a high level project plan have been established to ensure that all of the calculations required for the Annual Statement of Accounts are carried out accurately and meet required professional standards using the TF module. The Plan is that the new TF module will go live before the end of the financial year, so it can be used for the 2021-22 Accounts.

- 3.17 There are 6 actions that are amber rated, set out below

#### *Amber Action 1 in italics*

- 3.18 *Action; An initial review of Corporate recharges was completed and budgets centralised. A review of accounting for and the management of overheads, governance and corporate service costs to be commissioned, with the objective of making these fit for purpose whilst being as simple to execute as possible. The Accounts impact will be year 2021- 22. (B1d)*
- 3.19 This action is amber rated. A key Phase 2 workstream is a programme to ensure that as a joint exercise, the Council's budgets are realigned and that the methodology to allocate central service costs is redesigned (the recharges model).
- 3.20 The programme to carry out the in-depth realignment of budgets (income and expenditure) to ensure that there is a sound basis for managers and members to take forward improved Value for Money and produce robust and accurate

management information is underway and is being carried out by additional resources which have been approved by CLT, as the capacity to carry out this work alongside the continuing Accounts Audit was insufficient. The additional resources consist of 4 interims, 1 for each service directorate and 1 for the Resources and Governance directorates and an interim Head of Strategic Finance for those 2 directorates. This requires significant leadership and commitment from BHs and DLTs in order to carry out this work to the depth that is required.

- 3.21 Alongside the budget realignment, the interims are also leading a review of corporate recharges and interdepartmental charges, reviewing each service area in turn. The system of recharging requires in-depth remodelling from first principles as the models are overly complex and have not been reviewed for a number of years; this requires a significant level of work, both to set out the “to be” and to map from the “as is” systems and data cleansed.
- 3.22 The programme is amber, partly due to the difficulty in recruiting and retaining the high quality capacity required and the complexity of the current accounting arrangements. The programme is overseen by DLTs who receive monthly reports with the Interim Director of Finance and Interim Corporate Director of Resources meeting with the finance team every two weeks to monitor progress.

*Amber actions 2 and 3 in italics*

- 3.23 *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. All other codes and disclosure notes; arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed (B2a i and ii).*
- 3.24 These actions are amber rated. It was reported at the last Committee that investigations had shown that there were significant issues with the Council’s Payroll reconciliations dating back to 2012 and that there are a number of reports will need to be made to provide the correct data and that the process itself will need to be reconfigured. The capacity issues within Finance mean that an interim needed to be recruited for a 6 month period to address these issues and leave a sustainable position. There has been difficulty in recruiting to this role, as there are a limited number of experienced interims on the market but additional plans are in place to appoint a suitable interim.
- 3.25 In addition, it was planned to add more areas of work that had been identified as part of Phase 1 in Phase 2, but the delays to the Accounts have meant that there is not the capacity to do this and the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates.

*Amber Action 4 in italics*

3.26 *Action; 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. All other income sources (other than those in Phase 1) to be documented and reconciliation processes reviewed and documented on a prioritised basis (C2b)*

3.27 This action is amber rated. It had been planned to add more areas of work that had been identified as part of Phase 1 in Phase 2, but as for the previous ledger codes item, the delays to the Accounts have meant that there is not the capacity to do this and the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates.

*Amber Action 5 in italics*

3.28 *Action; Ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail (C1C)*

3.29 This action is amber rated. A documented line by line review of the Balance Sheet has taken place and any uncertainties addressed with an action plan. This action has been taken into Phase 2 as this review was high level and needs to be taken to a granular level. This work has still to be completed though is ongoing and will now become the responsibility of the permanent Director of Finance who has just commenced work in that role.

*Amber Action 6 in italics*

3.30 *Action; 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 (B5b)*

3.31 This action is amber rated. The implementation of IFRS 16 which relates to the way in which leases are accounted for was delayed nationally by a year. However, the Council will need to disclose the potential impacts on its opening balances for 2022-23 in its 2021-22 accounts, so this work does need to commence as soon as is practical. The resourcing of this work has been a key issue, as Finance capacity has been focussed on prior years. It is intended that this work commences in November.

3.32 There is 1 action (shown as purple in the Appendix) that is not planned to take place within the timeframe of Phase 2. *Action in italics; A strategic review of corporate systems was 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. This has been deferred to a later Phase of the IP, due to capacity. (B1a iii)*

3.33 This action is rated purple, not due to be delivered in the Phase 2 timescales. 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 (ERP) system, which would be led by an external consultancy, is a better solution rather than current best of breed systems is

needed. The timing of this workstream is currently being reviewed and agreed by CLT at the end of October. The Council is also considering how an independent review (a “Health Check”) of Agresso would add value.

### **Pensions update**

- 3.34 2020-21 pension fund accounts have been drafted, due to delays caused by earlier years’ accounts still being audited, completion has temporarily been suspended to allow for focus on newly received 2018-19 and 2019-20 audit queries. The Pension Fund is on track to produce a completed draft in November.

### **2018-19 and 2019-20 Pension Fund Accounts**

- 3.35 The pension fund audit for both years are in progress. There are a small number of recently received queries outstanding that remain to be answered for 2019-20.
- 3.36 The Pension Fund has split the IP into parts – pension finance and pensions administration. Of the 7 areas of improvements were identified under pensions finance although most are nearing completion for reasons mentioned in the July report, 6 have been moved to phase 2 for completion most of which relate to the ongoing payroll Zellis issues. It is not expected that these will be resolved by the end of Phase 2. Work on the new pension fund chart of accounts is nearing completion and it is expected to complete by end of Phase 2.
- 3.37 Of the improvements put forward for pensions administration 3 have been moved to Phase 2. Two relate to employer data referred to above and the other relating to historic HMRC returns which are now nearing completion.

### **Programme Approach**

- 3.38 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 such as the budget realignment workstream and other work deemed essential 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 (deferred and now being reassessed)
- 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 (not part of the Independent Review, currently on track)
  - Payroll review
  - Review of frequency of schools' accounts (currently quarterly)
  - Systems enhancements (a limited number of enhancements that do not directly arise from the Independent Review are currently being assessed to develop a pipeline of enhancements as part of Phase 2 and 2022- 23)

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 2016-17

F Legacy Phase 1 – other unmet Phase 1 recommendations

3.39 The IP is governed by the Finance Improvement Board, which continues to report monthly to the CLT Transformation Board and a progress report will continue to be made to each Audit Committee.

### **Conclusions**

3.40 The IP represents a major step towards the objective of the Council's Accounts being sustainably produced with the required quality and on time in the future. Substantial progress has been made, but there is still work to do to complete Phase 2 of the IP. There are a number of high impact workstreams that have yet to be delivered, such as the redesign of recharges and the Council's budget realignment, which are complex and intensive.

3.41 The next steps towards continuing financial improvement will need to be assessed once the 2021-22 Accounts have been audited, along with the completion of the Audits through to receiving Audit Certificates for the 4 previous years.

3.42 Significant progress has been made since the last Committee on the drafting, Audit and working towards Audit Certificates for all of the 5 years that are outstanding. There is still risk associated with the various actions that need to be completed to obtain Audit Certificates for all 5 years and there is potential for the 2020-21 Audit opinion to be delivered in the new financial year, which could lead to the 2020-21 Audit being finalised whilst the work to produce 2021-22 Accounts is being undertaken.

#### **4. EQUALITIES IMPLICATIONS**

4.1 There are no specific implications arising from this report.

#### **5. OTHER STATUTORY IMPLICATIONS**

5.1 Apart from the Accounts and Audit Regulations 2015 set out in 2.1, the only other consideration is the impact of the delays on the Council's Value for Money (VFM) assessment carried out annually by Deloitte.

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

6.1 There are no new considerations arising from this report; however, the funding for the continued work that will require interim support is being considered and a report will be taken to CLT.

#### **7. COMMENTS OF LEGAL SERVICES**

- 7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been kept, as noted in the report.
- 7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective.
- 7.3 Save as mentioned above, the matters set out in this report comply with the above legislation.

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### **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**

- Appendix A Delay in issue of the auditor's annual report
  - Appendix B Independent Review Recommendations - Improvement Plan
- 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