


<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>27 January, 2022</p>	
<p><b>Report of:</b> Kevin Bartle, Interim Corporate Director - Resources (Section 151 Officer)</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Statements of Accounts for 2018-19, 2019-20 and 2020-21</b></p>	

<b>Originating Officer(s)</b>	Tim Harlock, Interim Head of Strategic Finance – Chief Accountant
<b>Wards affected</b>	All wards

### Executive Summary

This report provides an update on the audit of the 2018-19 and 2019-20 accounts and provides a response to the findings of the external auditor, Deloitte, as presented elsewhere on this agenda.

There is also a brief update regarding the 2020-21 accounts.

### Recommendations:

The Audit Committee is recommended to:

1. In conjunction with reviewing the findings of the external auditor, Deloitte, presented separately on the agenda, to note the Council's response.
2. Specifically, to note that the Council will be updating the Statements of Accounts for 2018-19 and 2019-20 as detailed within this report.
3. To delegate authority to the Chair of Audit Committee and the s151 Officer to sign off the final versions of the Statements of Accounts upon completion of agreed amendments (with the only exception being if, subsequent to this meeting, significant and material matters arise).

## **1. REASONS FOR THE DECISIONS**

- 1.1 Statutory requirement

## **2. ALTERNATIVE OPTIONS**

- 2.1 To defer approval if there should be significant reason, but, ultimately, approval of the Accounts is a statutory requirement.

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

### Update on the audit of the 2018-19 and 2019-20 accounts

- 3.1 The external auditor, Deloitte, have performed extensive audit testing of both 2018-19 and 2019-20 Statements of Accounts and present their findings to Members separately on the agenda of this meeting. The audits for both years are nearing their conclusions, and, barring unforeseen significant matters arising, these two reports should be the final reports presented to this committee. Thereafter, the expectation is that there is a little more work to finally complete the audits, which will then allow officers to finalise adjustments to apply to the Statements of Accounts as presented in Appendices A and B.
- 3.2 The purpose of this officer report is to provide an overview of findings, and to inform Members of the continuing improvements underway in order to address the wider implications of audit findings. Members should appreciate that officers have taken a risk-based approach to addressing the problems laid out in those reports, and that in some areas further improvement is still necessary and ongoing.
- 3.3 In the Key Messages section of their reports, Deloitte advise where they will issue qualified opinions. At this stage, the Council is accepting these qualifications for 2018-19 and 2019-20, noting that the Council has addressed these issues in the financial year 2020-21.
- 3.4 In particular:
- The Council will consolidate the accounts of King George V Fields Trust and Tower Hamlets Homes Limited into group accounts (although this will be performed during the audit period, and will not be available for the first draft of the 2020-21 accounts).
  - The gross pension asset and liability attributable to Tower Hamlets Homes Limited will be removed from the Council's accounts in its entirety as a result of a revised Management Agreement coming into force in the year 2020-21.

- The officers' remuneration note showing where employees receive more than £50,000 has undergone further review of source documentation in expectation of improving the evidential supporting file.
- In 2018-19 there was a fourth item mentioned, Note 8, which had already been addressed satisfactorily in the 2019-20 accounts.
- There is a possibility that a further qualification may arise in 2018-19, contingent on the progress made and resulting consideration of Deloitte, regarding the valuation movements on council dwellings from 31 March 2018 to 1 April 2018.

3.5 In the Significant Audit Risks sections, Deloitte advise of areas which have been highlighted for particular attention. The Council's comments and response are as follows:

- Valuation of Properties: officers have worked extensively to improve processes jointly with the Place Directorate, and this has been captured through the Finance Improvement Plan (FIP) under the oversight of the Finance Improvement Board (FIB) and the Corporate Leadership Team (CLT).
- Management Override of Controls: this is an ongoing area of work, since it includes the way that processes have been configured on the Agresso system. In particular, journal processes and policies have been reviewed through the oversight of the FIB, but it is unlikely that there will be significant implementation of improvements until 2022-23. Officers note the need to, and will continue to, improve the quality of working papers.
- Capitalisation of Expenditure: officers have improved the validation processes applied to expenditure captured under capital for 2020-21, and subsequently constituted an organisation-wide capitalisation guidance note to ensure the consistent and accurate treatment of qualifying expenditure; this has been discussed and the implications agreed at CLT
- Recognition of Grant Income and Expenditure: officers have made mistakes in this area as a result of (poor/inadequate) custom and practice of recent years, and also because Tower Hamlets actually has exceptional sums and complexity in some areas compared to other councils. Improvements implemented in 2020-21 include preparation of a comprehensive grants register, and embedding the learning obtained from the last two years with respect to developers' monies received (in the guise of both s106 contributions and Community Infrastructure Levy), and leaseholders' contributions to major works. There has been extensive engagement between the central finance team and the operational teams for administering developers' contributions so as to improve understanding of accounting requirements.

3.6 With regard to the Other Areas of Judgment section, this report will concentrate on 2019-20 issues, being the most relevant for current and future circumstances. The Council's comments are as follows:

- Indemnity given to Tower Hamlets Homes Limited in respect of future pension costs: the treatment adopted in the 2019-20 accounts has arisen as a legacy of previous custom and practice and is not technically correct from an accounting perspective. In the opinion of senior finance officers, this error does not represent a financial risk to the Council, and, for 2020-21 has been remedied at the root cause by amending the terms of the management agreement between the Council and THHL.
- Consolidation of Schools' Balances: it has been reported separately to the Audit Committee that this area has been incorrectly accounted for in previous years at the detailed level, and officers have put great effort into ensuring that significant balances are correct. In the opinion of senior finance officers, errors such as they are in the Accounts do not represent a significant financial risk to the Council. Going forwards, as part of the FIP, the process for paying schools has undergone fundamental review and revision but that change came into effect from April 2021, so will not impact until the 2021-22 Accounts. In addition, there has been a wider Schools Finance Improvement Plan, which has been implemented in almost all instances or is on track to be implemented soon.
- Preparation of Group Accounts: from a detailed technical analysis of requirements, group accounts are required, and officers will prepare these for the 2020-21 accounts. In the meantime, for previous years, the opinion of officers is that not having presented group accounts does not constitute any financial risk to the Council and, therefore, are not planning to revise the accounts for previous years.
- NNDR Appeals Provision: officers made judgements based on the information available at the time, and in the light of resource constraints. For 2020-21 accounts a fresh approach has been adopted that takes account of the new circumstances in which business premises have found themselves in the light of Covid restrictions. Furthermore, closer working with Revenues and Benefits with the support of an external 'expert' organisation, should significantly reduce the possibility of future errors, but more work needs to be undertaken to draw up processes and procedures, which is restarting as the work for the 2020-21 Accounts has now finished for this part of the Accounts.

3.7 At the same time as auditing our financial statements, the external auditor is required to present opinion on the Council's arrangements to secure economy, efficiency and effectiveness from its use of resources. For 2018-19 Deloitte are expecting to qualify this opinion in respect of three matters, falling

to two matters for the following year. The Council's comments regarding these two outstanding matters are as follows:

- Financial reporting arrangements have clearly been strained over the past two years. Although senior finance officers believe that significant improvements have been taking place, to the extent that no qualifications on the financial statements for 2020-21 is a realistic objective, it is difficult to envisage that the timing aspect has been improved sufficiently to avoid a qualification under this section.
- Risk management and internal controls have been within the work programme of the Finance Improvement Board, and significant progress has been made; however, it should be appreciated that some of the workstreams are still ongoing.

3.8 Deloitte have made observations on controls in section 6 of their reports. This section includes recommendations, and the Council's response to the outstanding items outlined in the 2019-20 report is as follows:

- Preparation of Accounting Papers: officers agree that further improvement is required in preparing papers, and will seek to embed a more comprehensive process that addresses this shortfall; however, officers do not accept that presenting detailed accounting papers to the audit committee is either necessary or helpful.
- Accounts closure resourcing and quality assurance processes: the experience of the last two years has led to many lessons learnt, and has had the engagement of CLT, and the wider organisation. The FIB was set up in order to address many of the underlying issues, though officers advise that we are still in a transitional phase of improvement.
- Reconciliation of general ledger accounts and segregation of duties: as mentioned previously, the FIB was set up to address underlying issues, and this is an area where some significant progress has been made.
- Completeness of disclosures: this is an area of ongoing improvement. Officers are responding to the findings set out in the Deloitte reports, and will continue to be alert to changing requirements in the future. Officers hope that once we achieve a wholesale re-set of the disclosures, this will then entail only keeping abreast of changing regulatory requirements (which happen each and every year "incrementally" usually), and where material changes in circumstances require further consideration and explanation within the accounts, for example when there is a pandemic.
- Valuation of properties: this is an area where the Council has made much progress already, within the work programme of the FIB. Officers will review the specific recommendations set out in the Deloitte report.

- Journals: this is within a wider piece of work being taken forward by the FIB; however it is unlikely to come to fruition before 2022-23.
  - Recognition of grants and contributions: processes have already improved here to a large extent as a result of lessons learnt. Officers will review the specific recommendations set out in the Deloitte report.
  - Classification of expenditure as capital: this has already been fully addressed, as set out in paragraph 3.4 (3rd bullet point).
  - Other matters: these will be given due consideration by officers.
- 3.9 In the Deloitte reports the appendices set out lists of adjustments proposed. Officers have reviewed those proposals and have agreed with Deloitte to amend the final accounts for 2018-19 and 2019-20, with judgement of which adjustments to apply driven by the criterion of how quickly they can be applied. The objective of this approach is to find the optimum balance of maximum impact in a reasonably short turnaround (ie days, not weeks or months). However, as this report is being drafted, there are still audit queries being addressed by officers; these are not expected to give rise to significant matters, but it will be best to finalise these queries before finalising the accounts. Please refer to Appendix A of the Deloitte reports for the detailed listings.
- 3.10 To complete the consideration of the Accounts, Deloitte have also submitted their reports on the Pension Fund. Their draft reports have already been considered by the Pensions Committee, but we expect they will provide a brief summary to the Audit Committee too.
- 3.11 Finally, it should be noted that there is a dependency on the predecessor audit firm issuing their certificates for the 2016-17 and 2017-18 years before Deloitte can completely close off 2018-19 and 2019-20.

#### Update on 2020-21 accounts

- 3.12 The 2020-21 accounts are in the process of being finalised at the time of writing this report, and the draft version (ie unaudited) of those accounts will be with Deloitte by the time of this committee meeting. Officers are endeavouring to take account of suggested amendments to disclosures; nevertheless, officers must advise that the first draft of the 2020-21, despite being a further improvement on 2019-20, will require further work during the audit. The most notable absence will be group accounts.

## **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no equalities implications arising 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 Approval of the Accounts, once Members are satisfied, is a statutory responsibility that falls to Audit Committee.

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

- 6.1 This whole report presents matters that are directly concerned with fulfilment of the role and responsibilities of the s151 officer.

## **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.
- 7.4 The Council's Constitution permits delegation of functions as proposed in this report.

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

### **Linked Report**

- Various updates provided to this committee since July 2019 from both Deloitte and officers.

## **Appendices**

- Appendix A: 2018-19 Statement of Accounts
- Appendix B: 2019-20 Statement of Accounts

### **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 if none.

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

N/A