

Non-Executive Report of the:  <b>Audit Committee</b>  27 <sup>th</sup> January 2022	
<b>Report of:</b> Kevin Bartle, Interim Corporate Director, Resources	<b>Classification:</b> Unrestricted
Progress Report on the Finance Improvement Plan	

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

### Executive Summary

This report outlines progress against Tower Hamlets' Finance Improvement Plan (FIP) 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 against the actions set out in the Finance Improvement Plan (FIP).

### 1. REASONS FOR THE DECISIONS

- 1.1 No decisions are required.

### 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 31st July, but for 2020-21, this deadline was revised to 30th September due to Covid). The improvements set out in the FIP need to be made to ensure that the Accounts production process becomes more efficient going forward and that errors are reduced.

### 3. DETAILS OF THE REPORT

- 3.1 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. The Council responded by developing the FIP which was approved by the Audit Committee in January 2021. Please note that there is a report elsewhere on the agenda on the Accounts themselves.
- 3.2 This report updates the Audit Committee on progress to date on the FIP. Appendix A lists the recommendations with a RAG status. There are 60 actions within the FIP (A-D on the Appendix), 41 of which are now complete shown as blue, 12 are on track shown as green, 4 actions have an amber flag and 3 actions have a red flag.
- 3.3 Almost 90% of the recommendations have either been implemented (two thirds of the recommendations) or are on track.
- 3.4 A report to CLT on the Accounts timetable for 2021-22 will be discussed on 1<sup>st</sup> February 2022 and preparation for the 2021-22 Accounts has already commenced and will escalate towards the end of January, which is challenging as the 2020-21 External Audit will also be in progress. CLT have approved resources to support this challenging period of dual running of 2021-22 Accounts preparation and the 2020-21 External Audit.
- 3.5 The March 2022 Audit Committee report will detail which of the improvements have been successfully sustainably embedded into day to day business and which actions will need additional support to achieve sustainability. However, by exception, the 7 recommendations where actions are not currently on track are discussed below.
- 3.6 *Amber rated; 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).*
- 3.7 As previously reported to the Audit Committee, a key Phase 2 workstream is a programme to ensure that as a joint exercise, the Council's budgets are reviewed and realigned where necessary, interdepartmental charges are reviewed and eliminated where possible and that the methodology to allocate central service costs is redesigned (the recharges model).
- 3.8 This work is ongoing and is scheduled to complete before detailed 2022-23 budgets are approved and uploaded on the ledger. Considerable progress has been made, but the work is complex and involves all budget holders

across the Council, so it is currently amber rated. Any areas that have not been covered before detailed budgets are agreed will be identified and set out in an action plan for DLTs.

- 3.9 *Amber rated; 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. Where they are key, those to form part of Phase 1 (B2a i).*
- 3.10 It has been previously reported that there were significant issues with the Council's Payroll reconciliations (improvements to which are part of Phase 1 of the FIP) dating back to 2012 and that the process will need to be reconfigured as it is not sufficiently robust. The Council has now engaged an experienced Payroll specialist who has commenced work, but the action remains amber rated due to the fact that the work is still in its early stages although the work is progressing well.
- 3.11 *Now red rated (previously amber); 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 ii).*
- 3.12 It had been planned to add more areas of work that had been identified as part of Phase 1 in Phase 2 to extend the detailed review of reconciliations, but the delays to the 2020-21 Accounts have meant that there is not the capacity to do this at present and the primary objective must be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.
- 3.13 *Now red rated (previously amber); 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).*
- 3.14 It had been planned to add more areas of work that had been identified as part of Phase 1 into Phase 2, but the delays to the 2020-21 Accounts have meant that there is not the capacity to do this and, as stated above, the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.
- 3.15 *Now red rated (previously amber); Ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail (C1c).*
- 3.16 As previously reported, a documented line by line review of the Balance Sheet has taken place and any uncertainties addressed with an action plan. This

action was taken into Phase 2 as this review was high level and needs to be taken to a granular level. The delays to the 2020-21 Accounts have meant that there is not the capacity to do this at present and the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.

- 3.17 *Amber rated; 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 (which was delayed due to the 1 year delay nationally in implementation of IFRS16) (B5b)*
- 3.18 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 had been intended that this work commenced in November but will now commence in February.
- 3.19 *New amber action; 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 (C4)*
- 3.20 The Independent Review recommended that all schools bank accounts are monitored monthly and that postings are made throughout the year to reflect the schools' financial position. It has been previously reported to the Audit Committee that during the process of correcting errors made in previous years, it eventually became apparent that the extent of accounting error was more widespread than had been initially recognised. Much of the substance of these errors arose in 2017-18, when the schools' bank reconciliations were not performed to a satisfactory standard.
- 3.21 A separate schools improvement plan was drawn up and a crucial element was that an end-to-end process review of that accounting process has taken place, including using the Accounts Payable system for disbursement to schools, not CHAPs as was the previous payment method, which generated unnecessary work, including a significant volume of journals. All payments to schools have been successfully made using BACs from April 2021, which has simplified the coding, reduced journals and replaced an overly complex and unsatisfactory process. The rest of the schools improvement plan has either been implemented (in almost all instances) or is on track.
- 3.22 It had been planned to check the schools accounts on a quarterly basis, not a monthly one as recommended by the Independent Review. However, the

quarterly reviews and reconciliations have not been carried out due to delays in the Accounts process and are now a high priority for January 2022. This is the reason why the action is now amber rated.

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

- 3.23 2020-21 pension fund accounts are now complete and ready for publication. 2018-19 and 2019-20 audit are nearing completion, ISA 260s have been issued for both years.
- 3.24 The Pension Fund has split the IP into parts – pension finance and pensions administration. 15 areas of development were identified for pensions finance and pensions administration. Although most are nearing completion for reasons mentioned in the October report, 6 have been moved to Phase 2 for completion most of which relate to the ongoing payroll Zellis (the payroll system) 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 complete and a draft pension fund chart of accounts has been produced. The Agresso Systems team are currently reviewing and new codes and reports are being set up. The draft chart of accounts has also been shared with the Deloitte pension fund audit manager. This is expected to be up and running by April 22.
- 3.25 3 of the improvements put forward for pensions administration have been moved to Phase 2. Two relate to employer data referred to above and the other to historic HMRC returns which are now nearing completion.

### **Programme Approach**

- 3.26 As previously reported to the Audit Committee, a programme approach has been taken to manage the FIP, which has now been developed to encompass the wider recommendations made as part of the CFIPFA review and other work deemed essential. All unmet actions from Phase 1 were 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 certificates for years 2017-18 and 16-17

F Legacy Phase 1 – other unmet Phase 1 recommendations

### **Conclusion**

3.27 Significant progress has been made towards implementing the FIP, but a small number of important recommendations still need to be met. The drawing to a close of the External Audit of the Accounts for 2018-19 and 2019-20 and the current engagement with KPMG on the certificates for the 2 years previous to that and the successful drafting of the 2020-21 Accounts should allow for focus to return to the outstanding FIP actions, despite the remaining challenge of preparing for the 2021-22 Accounts whilst the Audit is taking place of the Accounts for 2020-21.

## **4. EQUALITIES IMPLICATIONS**

4.1 There are no specific implications arising from this report.

## **5. OTHER STATUTORY IMPLICATIONS**

5.1 The statutory implications are set out in 2.1 (the Accounts and Audit Regulations 2015).

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

6.1 The report is financial in nature and, as such, the views of the CFO are incorporated throughout the report. No new considerations arise from this report.

## **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 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