

Non-Executive Report of the: Audit Committee 28 th June 2022	
Report of: Kevin Bartle, Interim Corporate Director, Resources	Classification: Unrestricted
Final Report on the Finance Improvement Plan	

Originating Officer(s)	Marion Kelly, Programme Director, Finance Improvement
Wards affected	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.

Please note that there will be a verbal update on the progress towards obtaining the Audit Certificates from KPMG for the Accounts for 2016/17 and 2017/18 and the completion of the Audits by Deloitte of the Accounts for 2018/19 and 2019/20 (along with obtaining Audit Certificates for those latter 2 years after the KPMG Audit Certificates have been obtained).

Recommendations:

The Audit Committee is recommended to:

1. Note the progress against the actions set out in the Finance Improvement Plan (FIP)
2. Note that only the outstanding 9 actions and their completion will be reported to future Audit Committees

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). 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.
- 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); there are only 9 actions still outstanding, compared to the previously reported 19 actions. Significant progress has been made in carrying out the actions to meet the recommendations of the Independent Review, but as 9 actions are still outstanding, the reasons for those being incomplete and plans for their completion are set out in the following paragraphs
- 3.3 Please note that section E on Appendix A contains actions that relate to Pensions. This service was not in scope for the Independent Review, but the Corporate Director wished to include it on the FIP as it is so important.
- Capital Financing Module (Appendix A reference A5av)**
- 3.4 The data required for Council to finance its assets is currently held on a spreadsheet. This poses significant risk of error and is time consuming, so the FIP contains a target to move this data onto an IT system. It was established that there are only a small number of IT packages that can carry out these calculations (such as RAM, and the Chartered Institute of Public Finance and Accountancy, CIPFA) and it was agreed that it was appropriate to use the Asset Register already in use using Tech Forge (TF) run by the Place Directorate.
- 3.5 Deloitte also noted that the fixed asset register does not contain information on original cost for assets held at depreciated historic cost and therefore cannot be readily reconciled to cost and accumulated depreciation information and does not include date of acquisition which would enable this information to be re-constructed.

3.6 A project group was set up with officers from Finance and Place and a detailed project plan was drawn up. Actions up to and including the purchase of the module and pre systems testing have taken successfully place with the support of the system's supplier, TF. However, the project is on hold whilst the focus of the Finance service has been to finish all of the remaining audit queries for 2018/19 and 2019/20 and to carry out a final restatement of the Accounts for these years.

3.7 A full systems test plan has been drawn up in detail and it is estimated that 5 days are required to fully test the system, then load the data, but the capacity of the small number of officers (2) in the Chief Accountant's team (CAT) who will carry out the systems testing and data loading are also working on previous years' Accounts. In addition, the time required to make the adjustments required for the reconciliation issue in 3.5 has taken a considerable amount of specialist staff time over the last 2 to 3 months. The timescale for completion of this work is currently being discussed and agreed.

New revenue reports (Appendix A reference B1aii)

3.8 Changes are being made to introduce standardised, structured, hierarchy-based revenue budget management reports to not only Budget Holders but also to Heads of Service, Divisional Directors and Corporate Directors across the Council. These new reports are due to be launched on 1st July 2022 and they will bring significant benefits to the Council by improving budget monitoring.

3.9 All Budget Holders have already received a half a day's training in their budget responsibilities, along with refresher training on how to make budget forecasts on Agresso and the monthly monitoring process has been drafted and is available on the Council's intranet. A Budget Holder handbook setting out detail on what needs to be done each month by Budget Holders is also available.

3.10 All of the Council's budgets have been reviewed in granular detail over the past year, as a number of budgets had become misaligned with the way in which the Council was delivering the service. The addition of new revenue reports should lead to a step change in the accuracy of monthly budget forecasts.

Corporate Systems Review (Appendix A reference B1aiii)

3.11 In the light of the recommendations previously reported at the 7th April 2021 Audit Committee on systems, 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 is a better solution rather than current "best of breed" (BoB) systems is needed.

3.12 Currently, the Council uses a BoB approach, so for example there is one IT system, Agresso, that the Council uses as its accounting ledger whilst HR use another system, Resource Link for information on staff. If it is decided to continue to use the BoB approach, there will still need to be extensive IT

system changes that will allow better outcomes to be obtained for the Council. Either course of action will require a very significant level of investment and will require a business case.

- 3.13 The current plan is that a report will be commissioned in the Autumn from a specialist company to support that decision making process. The company will need to demonstrate that they have carried out similar reviews that have been successfully received and added value for other councils.
- 3.14 The reason that this has been scheduled to the Autumn is that the Finance service needed to focus on completing previous years' Audits and will not have the capacity at a senior level to devote to this crucial work until that time.

Journals (Appendix A reference B1e)

- 3.15 The Council generated over 100,000 lines of revenue journals in previous years and there have been significant mis-postings and coding adjustments in the past, which is why the Independent Review highlighted this is a key issue. To reduce errors, the reasons behind the level of journals needed to be fully understood and then the reasons why journals need to be made needs to be corrected at source; a journal is only required when income or expenditure has been posted or allocated to a code that is not where it should have been posted to, which implies that other system or process changes will remove that need for journals.
- 3.16 Significant work has been made in reducing the numbers of journal lines and journals and the full year impact of that work will be felt in the current and next years. This work has involved assessing why some expenditure such as for mobile phones and a number of IT costs was being allocated to directorates based on usage which was time consuming and added no value to the Council (although this had previously been considered to be in line with CIPFA guidance by Finance).
- 3.17 The drive to reduce journals will continue and will form a part of the Finance Service plan for 2022/23 (see 3.27). Another key aspect of reducing errors is that currently some journals produced by Finance staff who support services are uploaded to the system by a central team in Finance. This leads to extra time being spent by staff in handing journals and also means that those uploading the journals may not realise all of the errors. This is being reviewed as part of the Finance restructure (see 3.27)
- 3.18 In addition, Deloitte recommended that the Council should re-visit which journal types and amounts can be posted without approval and implement controls which prevent or detect the posting of journals which have not been approved in accordance with those agreed arrangements. These journals are those with over 20 lines called bulk journals.
- 3.19 The outstanding issue to ensure that all journals are approved by a senior officer in addition to the officer who posts the journals is for IT to identify how best to make that change on Agresso which will be discussed with an external consultant at the end of June/July.

Monthly dashboard (Appendix A reference B2ai, B2aii, B2b, C1c, C2b)

- 3.20 The Council needs to ensure that it understands and checks that all reconciliations that should take place monthly are indeed happening and that all of the credits and debits on the Council's balance sheet are fully understood. There are 5 recommendations in the Independent Review that relate to this key work. The FIP contained a plan to cover all of these reconciliations through a monthly dashboard, beginning with a number of those considered the most important, such as bank reconciliations and payroll. This formed part of the Phase 1 FIP plan. The dashboard is contained in an Excel spreadsheet that sets out each reconciliation and its current status.
- 3.21 It had been planned to extend the dashboard in Phase 2 of the FIP, 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. Significant work has taken place to assign an owner and reviewer to each balance sheet code (the Council's assets and liabilities), but the final step of contacting the owners and reviewers to ensure that they fully understand their responsibilities and update the dashboard has still to be completed.
- 3.22 Nonetheless, the dashboard based on the items agreed as part of FIP Phase 1 is managed by the Chief Accountant and reported to the monthly team meeting of the Finance Service, chaired by the Director of Finance, Procurement and Audit.
- 3.23 The timescales for completing this work are dependent on completion of the work required for the 2018/19 and 2019/20 Accounts and the date for the dashboard will be agreed when the Accounts work has been finished.
- 3.24 Please note that it had 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 brought the reconciliation up to date, trained staff and drafted a new payroll process.

Programme approach

- 3.25 As previously reported to the Audit Committee, a programme approach has been taken to manage the FIP. In addition to the actions to meet the recommendations of the Independent Review, the FIP therefore contains a number of other actions that are not directly related to the Independent Review.
- 3.26 There are handful of those other actions that are outstanding that are therefore not being directly monitored by the Audit Committee, such as a new systems of managing the Client Affairs Service, who manage the property and financial affairs for individuals who lack the capacity to do so themselves and do not have anyone else to support them. These few remaining actions will

continue to be monitored as part of the Finance service plan for 2022/23 (see 3.27).

Sustainability

3.27 The FIP has been extensive and covered a wide number of activities over the past year. There are some key areas where sustainability considerations will be key and these will need to be closely managed, especially as the Finance Improvement Team (3 interims) will no longer be in place after July, although there is an interim in place to support the restructure and the development of the service plan. All remaining actions and sustainability will need to be managed by the Director for Finance, Procurement and Audit as part of Business as usual, unless they assess that more interim support is needed:

- A restructure is essential to ensure that the right resources are well managed and focussed to achieve the outcomes required to operate a successful Finance service. Work to carry out the restructure commenced in the Spring and staff are already involved; all staff that will be impacted will have had an opportunity to contribute in advance of the formal consultation which is planned to take place in September;
- The Finance service is developing a new service plan in line with corporate timescales. This needs to contain all of the FIP actions that have not yet been delivered. In addition, all staff are currently being consulted about indicators that they would like to see used to track the performance of the service, to ensure that there is visibility and transparency of how the service is being delivered at a granular level to ensure that any warning signs of service deterioration are picked up as soon as they happen and that corrective action can be taken;
- Learning and Development will need to be a key part of the service plan and staff management will need to be a high priority for Finance's DLT;
- There are a number of process changes that have taken place as part of the FIP within Finance. An Internal Audit review is planned for later in the year, to check that these new processes are being operated as envisaged;
- The year long Budget and Recharges review/realignment has come to an end, with a small but important number of actions that need to be completed which are being governed by Directorate Leadership Teams. This will be checked by Finance on a quarterly basis as part of budget monitoring; and
- The process for ensuring that new Tower Hamlets staff, existing Tower Hamlets staff who move into a different role and staff who leave is aligned between Finance and HR systems needs to be further reviewed to ensure that budgets remain aligned; HR are reviewing with Finance's support what needs to be done to make this process work better, as this is not a seamless easy process for services. This work is a high priority for the Resources directorate and a new work programme will need to be developed

Pensions Update

2018-19 and 2019-20 Pension Fund Accounts

- 3.28 2018/19 and 2019/20 pension fund accounts audit have been completed. There are no outstanding audit queries. Both ISA260 reports issued by Deloitte have been presented at Pensions Committee and Board in December 21 and March 2022 meetings. Final actions for Deloitte are understood to involve internal consistency checks between Pension Fund accounts and Council accounts as appropriate.

2020/21 and 2021/22 Pension Fund Accounts

- 3.29 2020/21 pension fund accounts audit commenced but have since been temporarily suspended by Deloitte due to the auditors internal resources. It is expected that the audit will recommence in July 2022. The production of the 2021/22 pension fund accounts is underway. It is officers' understanding that the audit of the 2021/22 pension fund accounts will commence in the autumn.

Pension Fund Finance

- 3.30 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 have been completed or nearing completion for reasons mentioned in the February and May reports, 6 were 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.
- 3.31 The new pension fund chart of accounts is complete, new codes have been set up, while the Agresso Systems team are in the process of setting up reports for use in the production of the pension fund accounts and notes. The draft chart of accounts was shared with the Deloitte pension fund audit manager. The 2021/22 pension fund accounts are being produced using the new chart of accounts.

Pensions Administration

- 3.32 3 improvements put forward for pensions administration were moved to phase 2 of the IP. Two relate to employer data referred to above which have yet to be completed. The other relating to historic HMRC returns from 2014 to date has now been completed and confirmation has been received from HMRC that all monies paid by the Fund have been allocated.
- 3.33 Other Pensions administration improvements were identified in the pensions administration remediation plan presented to Pensions Board and Pensions Committee in March 2020 and July 2020. However their completion are dependent on the Council providing the Fund with monthly employee payroll data via iconnect and historic data issues resolved.

Conclusion

- 3.34 The majority of the actions that were identified in the FIP to meet the recommendations of the Independent Review have been delivered, but the

small number of outstanding actions will need to be managed closely so that they are delivered as quickly as is practical. These actions are being reported to the Councils' Performance Improvement Board chaired by the Chief Executive until they have all been completed.

- 3.35 However, it should be noted that 2022/23 will be another difficult year for the Finance service, as the Deloitte audit for the Accounts for the year 2020/21 has yet to commence. The plan is for that audit to be completed before the Audit for the 2021/22 Accounts takes place, so in effect 2 external audits will need to be managed in the current year for the Finance service to achieve a normal cycle of accounts. This means that the statutory deadlines for the 2020/21 Accounts have already been missed and that it is inevitable that the statutory deadlines for the year 2021/22 will also be missed.
- 3.36 The actions that need to be taken to ensure sustainable change will need to be a top priority for the Corporate Director Resources over the coming 18 months to two years.

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.

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