

5 October 2022

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Mr K Bartle
Corporate Director of Resources
London Borough of Tower Hamlets
5 Clove Crescent
London E14 2BG

Dear Kevin,

Review of 2018/19 year end close – Follow up work

In 2020 I carried out an independent review of issues arising in relation to the preparation and audit of the Statement of Accounts for 2018/19. The Council responded positively to my findings and recommendations and a Finance Improvement Plan was put in place in January 2021.

In August 2022 you engaged me to carry out an independent assessment of the Council's progress. This assessment has been based on an initial document review, followed by discussions with Council officers.

My original report made recommendations in three main areas. Each has been considered in turn below:

1. Accounts preparation and year-end close

In 2020, I recommended that year-end close and financial reporting should be regarded as a priority for the Council and resourced accordingly, with:

- visible senior officer involvement and leadership
- better staff training on technical issues and financial reporting requirements, and
- improved project management.

Since 2020 the Council has made substantial improvements in this respect. Over 50 different members of staff are now involved in year-end work compared to only 25 in 2018/19. Training is provided to everyone involved in closedown issues, with detailed guidance and working paper templates to promote quality and consistency. There are improved levels of expertise in specific aspects of closedown work such as collection fund and capital accounting, which increases resilience and reduces key person risk.

More comprehensive closedown planning and project management arrangements have been put in place, with:

- clear deadlines for each separate closedown task

- named individuals responsible for preparation and review
- overdue and “at risk” tasks clearly identified
- weekly team meetings attended by the Council’s section 151 officer, to identify and resolve problems at an early stage, and
- regular progress reports to the Corporate Leadership Team.

The presentation and layout of the Council’s published financial statements has also been improved to meet Code requirements. Accounts have been published in draft up to 2020/21 and are expected to be published for 2021/22 by mid-December 2022.

Although this publication date is three months later than the target date of 31 July set out in Accounts and Audit Regulations 2015, the delay has enabled officers to deal with all outstanding audit queries from 2018/19 and 2019/20, which will:

- provide an agreed financial position at 1 April 2020, and
- enable officers to restate the Council’s 2020/21 accounts, and update comparative figures for 2021/22.

It should also be noted that at 31 July 2022, one third of all London authorities had not yet published financial statements for 2021/22.

2. Financial systems

CIPFA’s independent review of financial management in 2017 highlighted a number of issues affecting year-end close. These included:

- journal mis-postings and coding errors
- shortcomings in the Chart of Accounts and ledger coding structure, and
- inadequate processes for reconciling feeder systems back to relevant ledger codes.

By late 2020, many of these issues had not been addressed. Some specific financial systems, particularly grant income and schools accounting, also required improvement.

Since then, the Council has set up a grant claims register and has established a process for posting and reconciling schools’ transactions monthly, not just at the year-end, so that these can be regularly checked and agreed. Longstanding schools’ balances not supported by detailed information have been written off and the Council is looking to implement service level agreements with schools, to simplify recharging mechanisms in future.

Action has also been taken to minimise journal mis-postings and coding adjustments, through a combination of staff training, providing guidance notes on the coding structure, and by restricting

who can initiate and authorise journal transactions. The number of journal postings and adjustments, estimated at c10,000 in 2018/19, was below 5,000 in 2021/22 – a significant reduction.

The coding structure has been reviewed with changes made as follows:

- setting up an appropriate set of subjective codes to capture transactions at source for financial accounting purposes, rather than rely on extensive journal postings and spreadsheet re-analysis each year end
- introducing a new framework for managing and processing internal recharges; and
- setting up new ledger codes for schools' cash balances so that bank reconciliations can be completed on an individual school level.

A “dashboard” approach has also been introduced with regular reporting to the section 151 officer on reconciliations, suspense and holding accounts. The dashboard report at the end of July 2022 identified that out of 22 separate reconciliations identified, only 2 were highlighted as either incomplete or having significant reconciling items not yet adjusted for.

Issues still to be addressed include the following:

- considerable work has been undertaken to improve the accuracy of underlying asset records eg by confirming floor area and legal title, but the current Asset Register is still being maintained on a spreadsheet. This needs to be put onto an IT-based system for control purposes and to facilitate a speedier year-end close. The Council already uses the Tech-Forge system for asset management purposes and is currently testing the financial reporting module, with a view to full implementation later this year. As part of the testing and evaluation process, care should be taken to ensure that the output produced by the new system meets Code requirements.
- looking forward, an independent review has been commissioned to assess the potential costs and benefits of replacing the existing ledger system. An initial report is due to be presented to Cabinet in February 2023.

3. Managing the audit process

In 2020 I identified that the Council needed to take steps to improve its relationship with the external auditors, and to improve the arrangements for dealing with external audit queries and requests for additional information.

Action has been taken to improve working relationships. The section 151 officer now meets with the current external audit team at least once every two weeks and with the previous auditors every month. The Council's Chief Executive Officer meets with the audit engagement lead on a quarterly basis, and the Audit Committee has continued to receive regular progress reports.

Although the time taken to resolve audit queries over the past 18 months has been variable, the current version of the audit tracker confirms that all audit queries for 2018/19 and 2019/20 have now been resolved. This is a positive step forward as the Council now has a clean slate for dealing with audit queries relating to 2020/21.

Looking forward, officers have implemented a “Sprint” approach, prioritising queries which have a material impact on the financial statements.

In terms of the current position on external audit, we understand that:

- objection work carried out by the previous auditors (KPMG) in relation to 2017/18 is now complete, but KPMG now need to consider the impact that any issues raised by the current auditors (Deloitte) might have on previous years’ accounts before they can issue their completion certificate
- 2018/19 and 2019/20 audits are also nearing completion, but Deloitte have indicated that until KPMG have issued their certificate they cannot issue their own audit opinions as they have no assurance on the accuracy of Balance Sheet assets and liabilities at 1 April 2017.
- Deloitte have also advised that 2018/19 and 2019/20 accounts are likely to be qualified, on the basis that (a) the Council has not prepared Group accounts (b) pension liabilities and reserves balances are not correctly stated, and (c) insufficient information has been provided to support some specific disclosure notes, mostly where data has been provided by schools.
- action is being taken to address these qualification issues for future years.
- the number and value of errors identified by the local audit team has also reduced significantly, from over £400m in 2018/19 to under £80m in 2019/20, and most of the errors identified to date have not had a significant impact on overall levels of reserves.
- 2020/21 audit work is underway, albeit in its early stages.

To put this position into context, although most other London authorities have now received audit opinions for 2018/19 and earlier years, most are also experiencing delays in audit completion and sign off for subsequent accounting periods. If the Council can achieve its current plan of preparing its 2021/22 accounts and progressing the 2020/21 audit by 31 December 2022, it should then be in a similar position to many of its neighbouring authorities.

The over-arching recommendation in my original report was that the Council should treat year-end close as a priority and resource this work accordingly. I am pleased to report that this is now being done and the Finance team should be commended for all their hard work. I have been particularly impressed with the quality of technical training and written guidance provided to service-based staff, and with the level of commitment and leadership shown by yourself as Section 151 officer.

I hope you find this short report useful.

Kind regards



Peter Worth, Director