



London Borough of Tower Hamlets

Report to the Audit Committee on the audit for the year ended 31 March 2020

Issued on 2 November 2020 for the meeting on 12 November 2020

Original timeline for the audit and overview of its current status

The key messages in this report

We have pleasure in presenting this update report to the audit committee of Tower Hamlets Council (the Council) on the progress of our audits for the years ended 31 March 2019 and 31 March 2020.

Status of the accounts	<p>A revised draft of the 2018/19 statement of accounts was received by this committee at its meeting on 23 May 2020. Officers have informed us of further changes they consider are needed to this version, some of which have not been finalised.</p> <p>The draft 2019/20 accounts were authorised for issue and published on the Council’s website on 28 August 2020, in advance of the deadline for this of 31 August 2020. Officers informed us of an unresolved issue in relation to the accounting for major works within that draft which is likely to require adjustment.</p> <p>The Accounts and Audit Regulations 2015 require the Annual Governance Statement to be published alongside this version of the accounts. This was not done.</p>
Original expectations on timeline for the 2019 and 2020 audits	<p>In our audit planning report, we said that:</p> <ul style="list-style-type: none">• Our work on the 2018/19 accounts would need to be carried out in the same or similar period to our work on the 2019/20 accounts.• It was not practicable for both audits to be completed within the normal period allowed for completion of the current year statement of accounts audit.• We anticipated that a period of four months would be required to complete the audits for both years.• This timeframe was based on the assumptions that: (a) supporting workings for changes made to the original version of the statement of accounts, together with information requested during our on site visit in June to August 2019 would be submitted for audit by 29 May 2020; (b) good quality information was provided to support the audit for both years.• If activity was delayed into the autumn as a result of the pandemic, this may create scheduling problems which may result in a longer timeframe for the audit process.
Current status of the audit	<p>The quality of information received has, in general, been significantly better than last year and, in the latter part of the visit, the Council has improved its grip over the process for responding to audit requests.</p> <p>However, the delay in closing the 2019/20 accounts, and the pace at which information has subsequently been provided, mean that our audit of the statement of accounts for the year ended 31 March 2020 is ongoing and will not be completed prior to the deadline of 30 November 2020 set for the publication of the statement of accounts.</p> <p>The provision of information needed to complete our audit of the statement of accounts for the year ended 31 March 2019 has been slower and, as a result, the audit is similarly ongoing.</p> <p>Because of the volume and significance of work which remains outstanding at this stage, we are not yet in a position to report the findings from these audits. We have kept officers informed of potential misstatements in the 2020 accounts as issues have been identified.</p> <p>The issues encountered on both audits, and in particular the time it is taking to close-out the 2019 audit, are indicative of significant deficiencies in the Council’s financial reporting arrangements and the breadth and scale of the task which the Council has faced. We are aware that the Council has commissioned an investigation into the 2019 accounts closure process and the lessons learned. We did not have access to the investigator’s report in preparing this report but will carefully consider its conclusions and the Council’s response and the impact on our future reporting. They have also meant that we have needed to carry out additional procedures; and that we have not been able to work efficiently. Additional hours spent will be charged at using the rate card published by Public Sector Audit Appointments Limited.</p> <p>We have so far been able to arrange additional resource to continue our work, but will not be able to commit significant junior resource beyond November and through to April.</p>

Observations on audit progress

Timeline to date for the 2019 audit

Actual timeline for the 2018/19 audit, to date

In relation to the revised 2018/19 accounts audit:

- The draft accounts have been revised to restate comparative information for several items, including balance sheet information at 1 April 2017, as well as adjustments to the current year primary statements and note disclosures. The work we need to carry out on these revised accounts includes: (a) carrying out originally planned procedures which we were not able to complete in 2019 as we did not receive all of the information requested; (b) testing changes made between original and revised drafts; (c) re-assessing the scope of our original audit (including in relation to opening balances at 1 April 2018) in the light of findings from our originally planned procedures and officers' subsequent investigations and carrying out any necessary additional procedures in response.
 - We re-commenced our work on 1 June 2020. At that time, the audit trail between the original and revised accounts was incomplete; and supporting information on adjustments and information requested during our previous visit had not been collated.
 - As a result of officers' focus on closing the 2019/20 accounts, as well as additional workload due to the pandemic, only limited further information was provided during June to August 2020 in relation to the 2018/19 accounts. Because of this, we were not able to make significant progress on the 2018/19 audit prior to starting the 2019/20 audit.
 - As more information has subsequently been provided to support the 2019/20 audit than the 2018/19 audit, the vast majority of our time has been spent on carrying out the 2019/20 audit.
 - Outstanding information includes both various sample items as well as some individually significant areas including officers' evaluation of the impact of implementing IFRS 15 Revenue from contracts with customers from 1 April 2019; demonstrating the work done to identify and evaluate interests within the group boundary to support the officers' conclusion that group accounts are not required; support for assumed collection rates used in general bad debt provisions; information to commence our work on pay costs and income from fees and charges.
 - As we have not been able to make significant progress on the 2018/19 audit, we have not yet been able to form a view on the appropriateness of restatements made in the 2018/19 draft statement of accounts. Under accounting rules, prior periods are retrospectively restated to correct for material prior period errors. Determining whether or not an item is a prior period error and forming a judgement as to whether it is material is the responsibility of officers preparing the financial statements. Officers should prepare appropriate documentation setting out their position, including the quantitative and qualitative factors they have considered in arriving at a conclusion as to whether they regard the items as material. We then undertake a review of officers' position and determine whether we agree or disagree with it. We request that this documentation is prepared.
 - We draw to your attention that audit certificates have not yet been issued by your previous external auditor for years ended 31 March 2018 and 31 March 2017. We will not be able to issue an audit certificate for a later year until the certificates for these earlier years have been issued.
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Observations on audit progress

Timeline to date for the 2020 audit

Actual timeline for the 2019/20 audit, to date

In relation to the 2019/20 accounts audit:

- We have re-assessed the increased level of risk related to the audit in light of our ongoing 2018/19 audit and designed procedures to respond to that risk.
 - We did not receive a trial balance until 14 August 2020 and as a result were not able to start our work until that date.
 - Only a small number of the requested working papers were available at that date or into September.
 - Throughout the audit we have provided both an open audit request list and a list of proposed and potential audit adjustments, maintained in real time and accessible to both us and the Council and held weekly progress calls with the finance team to discuss issues arising in the previous week and priorities for the next week.
 - The quality of working papers submitted for audit has been significantly better than in 2019 and, from the latter part of September, officers have significantly improved their control over the process of responding to audit requests.
 - Nevertheless, the time needed for officers to provide quality assurance over work papers before submission for audit; the backlog in providing requested information created by the initial lack of preparedness for audit; as well as competing demands on the finance team, including supporting the development of savings programmes, means that the provision of many key schedules for audit has been very slow. As a result, it has not been possible for us to work efficiently and at the pace we would expect.
 - We have shared with officers a tracker on key blocks on progressing parts of the 2020 audit. At the time of writing this included provision of information needed to commence our work on pay costs; income from fees and charges; school bank accounts; capital grants in advance (including accounting for leaseholder contributions to major works); and various local taxation related balances in the Council's balance sheet and Comprehensive Income and Expenditure Statement, including provision for the cost of business rates appeals.
 - We have so far been able to arrange additional resource to continue our work, but will not be able to commit significant junior resource beyond November and through to April.
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Observations on audit progress (continued)

Key points reported to officers to date

**Key points
identified to date**

Because of the volume and significance of work which remains outstanding at this stage, we are not yet in a position to report the findings from these audits – but we have kept officers informed of potential misstatements in the 2019/20 accounts as these have been identified.

In turn, officers have informed us of potential misstatements identified from their own, ongoing processes.

Potential adjustments to closing usable resources so far communicated to officers are below £1m.

However, we have communicated several presentational and disclosure points which will need to be investigated and addressed, such as: the classification of cash flows within the cash flow statement, including the inappropriate gross up of cash flows from operating and investing cash flows by £1.4bn; and the classification of financial instruments between cash equivalents and investments and between current and non-current.

We regard some of the matters communicated as material to our opinion on the financial statements, such as the adjustment required to the cash flow statement described above.

Pension scheme audits

The key messages on progress and status

Status of the 2018/19 audit

Similar to the position on the Council audit, a number of requests were held over from our original fieldwork during 2019.

Much of this information was not received until late September and early October 2020 and, again, a number of key pieces of information still remain outstanding.

Due to this delay we have been unable to progress the 2018/19 audit in the way that had been anticipated in our 2020 pension scheme planning report.

Status of the 2019/20 audit

The 2019/20 draft pension scheme accounts and supporting working papers and documents were made available to us at the agreed time.

The quality of information received has, in general, been significantly better than last year and the speed and completeness of responses to audit queries has also markedly improved.

As information was available to support the 2020 pension scheme accounts, we have progressed this audit during October 2020. However, the ongoing delays in receiving the information requested to complete the 2018/19 accounts has ongoing impacts on our audit of the 2019/20 accounts and ultimately we are not able to conclude our audit on the 2019/20 accounts until we have issued our opinion on the 2018/19 audit. In particular, we cannot:

- Finalise of our risk assessment for 2020;
- Complete our audit of the opening balances at 1 April 2019; or
- Evaluate any relevant issues from the 2018/19 audit for their impact on the 2020 accounts.

On the assumption that information in relation to the 2019/20 audit continues to be provided at a similar pace, we anticipate that it will be possible to largely complete our fieldwork for the 2019/20 audit during November 2020. However, it will not be possible to carry out the delayed work on the 2019 audit (were information to be provided) at the same time. We will not therefore be in a position to issue our report on the pension scheme accounts by 30 November 2020 or our report within the separate pension scheme annual report by 1 December 2020.

Our resource position beyond the end of November is similar to that described above for the Council.

To date we have not identified any potential misstatements in the 2020 accounts.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes observations on the progress of the audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



Jonathan Gooding

for and on behalf of Deloitte LLP
St Albans

2 November 2020



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