


Non-Executive Report of the: Audit Committee Thursday, 12 November 2020	 TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources (s151 officer)	Classification: Unrestricted
Progress Update on 2018/19 and 2019/20 Accounts and Audit	

Originating Officer(s)	Interim Chief Accountant, Tim Harlock
Wards affected	

Executive Summary

This report summarises the progress that has been made on both the 2018/19 and 2019/20 audit of the accounts and identifies the current position.

This report should be read in conjunction with the progress report from Deloitte, the appointed external auditor.

Recommendations:

The Audit Committee is recommended to:

1. Note the continuing progress on, and plans for completion of, the audits for both the 2018/19 and the 2019/20 Statements of Accounts.

1. REASONS FOR THE DECISIONS

- 1.1 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. The Regulations were amended for the year 2019/20 and the statutory deadline for that year is 30th November 2020. Since that target deadline has been missed for 2018/19 and will be missed for 2019/20, it is incumbent upon the Council to have its financial statements signed off as soon as possible thereafter.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the relevant guidance and legislation.
- 2.2 This report has been produced to ensure the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered appropriate.

3. DETAILS OF THE REPORT

- 3.1 A revised set of 2018/19 accounts were presented to the Audit Committee at its meeting on 13th May 2020 and subsequently the 2019/20 accounts have been published in draft on 31st August 2020. The 2019/20 accounts are attached as Appendix 1. The Audit Committee were informed that both sets of audits were expected to be completed over the latter part of the year and the outcomes of those audits were to be reported to 12th November 2020 meeting.
- 3.2 Regrettably, it has not proved possible to complete both sets of audits, which are currently ongoing.
- 3.3 There are a number of information requests and queries outstanding on the 2018/19 accounts audit. Two issues have already been identified that require amendments to be made to the accounts; schools and pensions (and these amendments have been incorporated in the 2019/20 accounts in the comparative figures for the previous year).
- 3.4 For schools, in 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 stems from the 2017/18 financial year, when it appears that the schools' bank reconciliations were not performed to a satisfactory standard.
- 3.5 In summary, over the two years 2017/18 and 2018/19, the level of error was identified as £11.6m falling to the General Fund. Unfortunately, this is a real loss of resource that has had to be recognised by the Council. This adjustment has already been incorporated within reserves planning and projections as presented to Cabinet in budget monitoring reports.
- 3.6 The net pension liability has also been adjusted following a revision to the actuary's IAS19 reports. This resulted in the net pension liability reducing by £11.4m, with the offsetting adjustment in the pensions' reserve. Although not an immediate increase in resource available to the authority, this is a favourable movement over the lifetime of the liability.
- 3.7 It should be noted that there will almost certainly be further amendments required to the 2018/19 accounts, including possible prior year amendments. There are still a number of queries and information requests outstanding,

despite the accounts being a significant focus of work for the finance function and the wider Council.

- 3.8 At the time of compiling the revised 2018/19 accounts for Committee in May, the focus had been on addressing the problems that had arisen at that time. This leaves the possibility that further issues are yet to arise; indeed the 2019/20 audit, by means of presenting and scrutinising a further year, is starting to show where further work might be required on 2018/19 notes, mainly of a presentational nature.
- 3.9 An additional resource, in the form of an interim accountant with significant closure of accounts experience, has been secured to concentrate solely on the 2018/19 accounts and audit. This officer will be leading the work to respond to the outstanding queries and then restate the accounts.
- 3.10 The 2019/20 accounts audit is still ongoing and there are a number of outstanding information requests and queries with more expected to come. There is a possibility that there will be a further significant amendment to be made that relates to the schools accounting issues identified in paragraph 3.4: officers are working to obtain a clearer view (but if further amendment is required it will be a much smaller figure than the previous £11.6m actioned through the accounts).
- 3.11 There is some uncertainty as to whether the associated entries of the Collection Fund have all been completed correctly. External expertise has been appointed to arrive at a definitive view. The external resource is currently working on the Collection Fund, with a target date of a definitive view by mid-November.
- 3.12 Additionally, the provision put aside for business rates appeals is undergoing detailed scrutiny and is the subject of discussion with Deloitte.
- 3.13 There is also an error relating to recognition of leaseholders' contributions that has been identified in the 2019/20 accounts, although in substance it most likely stems from adjustments made to the 2018/19 accounts and previous years. In summary, it appears that too much income has been recognised in previous years, leading to not enough income being recognised in 2019/20. It is not thought at this stage that this will lead to overall loss of resource for the Council, merely a reallocation of that income over the last 3-4 years.
- 3.14 There are a number of less significant issues where potentially there could be some amendments required. As yet, these appear to be mostly of a presentational nature. However, these could lead to re-presentation of the core statements too, which therefore becomes a not insignificant task.
- 3.15 For the 2018/19 Pension Fund Accounts, officers have submitted responses to all Deloitte queries but two and are awaiting Deloitte's responses. There may be further queries that arise during the rest of the audit; Deloitte's current audit focus appears to be 19/20.

- 3.16 For 2019/20 Accounts, all but four queries have been answered and officers are awaiting Deloitte's response to the majority of these queries, while Deloitte are still working through them. Officers plan to respond to the remaining four queries over the next week.
- 3.17 In conclusion on the main accounts, although the quality has improved since the previous year, a realistic appraisal is that there is still much work to do in order to improve the underlying processes that support closedown, and thus attain greater assurance, better quality working papers and fewer errors.
- 3.18 It is a matter of regret that the audit process has taken longer than planned. However, the Committee can be assured that this matter has been reported to the Corporate Leadership Team (CLT) and more frequently to the Statutory Officers Meeting (SOM), and has been recognised as a Council wide priority. The lessons learned from 2018/19 are being recognised, and the process of improvement is ongoing.
- 3.19 There are a number of reasons why the Council is in the position that it is regarding its accounts and an independent review has consequently been commissioned and has now reported on its findings. This review report is also on the agenda of this meeting and it is therefore appropriate for members of the committee to refer to that report for the explanations of the shortcomings but also to the improvements to resources and processes that have been made thus far.
- 3.20 It is difficult to be categorical as to when the audits for both years will be complete, but the plan is for the Council to produce new drafts of the accounts in time for the January 2021 meeting of this committee.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implications within this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 VALUE FOR MONEY CONCLUSION

Deloitte will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of its audit report on the Statement of Accounts.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 As this report is written by the Chief Finance Officer, his comments are included throughout the report.

6.2 The Statement of Accounts 2018/19 is being restated so as to take account of the significant errors found to date.

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 or will not be 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

- NONE

Appendices

- NONE

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