

<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>28<sup>th</sup> January 2021</p>	
<p><b>Report of</b> Kevin Bartle, Interim Corporate Director of Resources (Section 151 Officer)</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Audit of the Council's Accounts 2018/19 &amp; 2019/20 – progress update</b></p>	

## Executive Summary

This report contains an update on the progress with completing the 2018/19 and 2019/20 Statement of Accounts. In addition, the report contains the Independent Review of the 2018/19 year end close carried out by Worth Technical Accounting Solutions Ltd.

## Recommendations:

The Audit Committee is recommended to:

1. Note the progress on completing the 2018/19 & 2019/20 Accounts; and,
2. Note the contents of, and the initial response to, the Independent Review and the intention to bring a detailed Improvement Plan to the Audit Committee at its 7<sup>th</sup> April 2021 meeting.

## 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 (this was changed to the 30<sup>th</sup> November 2020 for 2019/20 only, due to Covid 19). This report contains an update on the progress of the accounts for 2018/19 and 2019/20, both of which have not been approved within those timescales.

## 2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options – the Council is required to produce its Statement of Accounts in line with the relevant guidance and legislation.

## 3. STATEMENTS OF ACCOUNT

- 3.1 The Council produced a draft Statement of Accounts for 2018/19 by the statutory deadline of May 31<sup>st</sup>, 2019. The Audit Committee received a report from Deloitte in July 2019 that detailed a number of serious issues that had

been identified during the audit, that led to the Council re-presenting the 2018/19 accounts at the Audit Committee of the 31<sup>st</sup> May 2020.

- 3.2 The draft Statement of Accounts for 2019/20 was produced by the statutory deadline of 31<sup>st</sup> August 2019. It was not possible for Deloitte to produce an opinion on the Accounts in November 2020 as planned.
- 3.3 A “glidepath” had been developed before November to identify the key problem areas that need to be resolved before restatements of the accounts could take place. Plans were put in place to address each area, including commissioning additional resources and specialist expertise where required, such as external resource commissioned to support the Collection Fund issues. An experienced interim was appointed (whose last role was as an interim Chief Accountant at a major County Council) to lead the 2018/19 accounts process, whilst the previous interim Chief Accountant led the 2019/20 process. These interims will remain in place until the Accounts have been published, whilst the new permanent Chief Accountant leads the 2020/21 Accounts production process. Please note that a 2020/21 timetable has already been produced.
- 3.4 The latest versions of both years of Statements of Accounts will be sent to the Audit Committee after the publication of this covering report for noting; it is not possible to ask for approval at this stage, as the Accounts still need to be amended for a revaluation of a significant asset, which will not be received until February, along with any issues that arise during the rest of the Audit.
- 3.5 The Accounts have been restated to amend for a number of significant issues:
  - The previous version of 2018/19 contained a further error in schools accounting leading to a write off of £11.7m in July 2020 and recognised in budget monitoring and outturn reports to Cabinet;
  - Some schools’ property valuations have been further amended in 2016/17 and 2017/18 balance sheets;
  - Community Infrastructure Levy had not been accrued for in all cases across several years, leading to recognition of an additional c £30m;
  - Schools’ balances have been overstated in 2019/20 by £1.2m, as well as cash being overstated;
  - The cashflow has been overstated in 2019/20 (erroneously “grossed up” but with a net nil impact);
  - A new provision in the HRA has been established for water charges, of £9m, backdated to 2018/19 (and thus releasing the reserve set up in 2019/20);
  - Leaseholders accruals and bad debt provisions have been restated for 2016/17, 2017/18, 2018/19 and 2019/20; the total impact on the most recent balance sheet being recognition of an additional resource of £4.1m;
  - There were 2 errors in the Collection Fund for 2019/20, offsetting to some extent;
  - There has been a write off for energy costs of £1.1m, backdated to 2018/19;

- There is a new General Fund potential litigation provision of £0.8m, backdated to 2018/19; and,
- Some S106 monies had been incorrectly classified and have now been reclassified in 2019/20.

- 3.6 Dialogue between the Council and Deloitte has resulted in the establishment of a joint and considered realistic, achievable timeline for the remaining audit work. This plan has been discussed at the Council's Statutory Officers' Meeting, led by the Chief Executive. The issues regarding the Statement of Accounts have been reported to the Corporate Leadership Team (CLT) and more frequently to the Statutory Officers Meeting (SOM), and have been recognised as a Council wide priority by CLT.
- 3.7 The Audit of the Accounts will now recommence in line with the agreed plan and it is intended, therefore, to bring final versions of the Accounts to the April 2021 Committee for approval along with an opinion from Deloitte to be received at the July 2021 Committee meeting.

### **INDEPENDENT REVIEW**

- 3.8 The issues around the timing and the quality of the Statement of Accounts for 2018/19 led the former Corporate Director of Resources to commission an Independent Review, the Terms of Reference for which are attached as Appendix A.
- 3.9 Worth Technical Accounting Solutions Ltd were appointed to carry out the Independent Review in August 2020 and their report is attached as Appendix B.
- 3.10 The Council would like to thank Worth Technical Accounting Solutions Ltd for their report and the Council welcomes the detailed recommendations contained within it. The recommendations cover a wide range of subject areas, from culture, to processes and systems and they highlight the key attributes of authorities who are successful in producing accounts to deadlines and of an appropriate quality.
- 3.11 The Council has already learned lessons from the 2018/19 accounts production and has implemented, and has in train, a number of improvements despite the impact of the pandemic which began in March 2020 and was at that time, of course, the Council's highest priority:

**Table 1 – Improvements already in place or being developed as at November 20:**

<b>Improvement</b>	<b>In place or in progress</b>	<b>Expected benefit</b>
The Finance Department is in dialogue with the IT Department to develop a programme of enhancements that will lead to the required systems improvements in Agresso.	In progress	Reduces delays on the production of the Accounts and will deliver wider business benefits. Please note that this programme has subsequently been developed and is being costed and reviewed by CLT.
A new, detailed timetable was established for 19/20 Accounts	In place	Wider allocation of tasks to reduce bottlenecks with identified task owners and reviewers with a RAG rating for monitoring in order to reduce bottlenecks.
Higher standards for working papers have been established, with a standard set of working papers for each note based on best practice.	In place for 19/20, further review planned for 20/21	Finance staff able to produce higher standard of working papers to better meet required standards.
Finance held briefing/training sessions for all accountants playing a role in the accounts process and training sessions for Budget Holders.	In place	Improves communications to allow staff to understand their role in the production of the Accounts and reduce errors and delays.
A daily update is sent to everyone in the Finance community that details all queries and information requests from Deloitte and identifies individuals and deadlines for responses.	In place	The Audit is now being managed at both an operational and a strategic level.
Permanent staff have been appointed into the Chief Accountant's team including the new Chief Accountant (started 23 <sup>rd</sup> November 2020)	In place	Allows the learning to be retained within Tower Hamlets and an important step towards sustainable improvement.
Additional resources secured so that 18/19 and 19/20 have a full-time experienced lead	In place	Allows the restatement of 2 sets of Accounts to take place.
There are weekly meetings with Deloitte with agendas and minutes	In place	The Audit is now being managed at both an operational and a strategic level.
An overarching process document detailing the way in	In progress	The Council will understand its banking framework and

which the Council's bank accounts operate is being developed; this will include process notes, reviewers and a dashboard for management;		produce monthly robust reconciliations.
An improvement plan for schools accounting is being developed	In progress	This will reduce errors and delays.

3.12 Whilst these added up to a significant step forward, it is recognised that there is nevertheless a considerable way to go to reach a sustainable level of improvement such that the accounts can be reliably produced annually that contain quality data.

3.13 The summary of the review contains 2 sets of key recommendations, one for sustainable improvement, the other specifically relating to the 2018/19 accounts. These are set out below with the Council's response for each set of recommendations:

A) Recommendations for sustainable Improvement

To address these issues, the Council should:

- establish a project plan, as a priority, to address shortcomings highlighted by CIPFA in 2017;
- simplify the current coding structure so that it reflects the required layout and format of the Statement of Accounts;
- establish ongoing financial systems that support all key items and disclosures; and,
- ensure that these systems are reconciled to relevant ledger codes on a regular basis throughout the year.

The Council has made a series of improvements, but fully recognises that a root and branch resourced plan is needed to make sustainable improvements. The Council is developing an Improvement Plan as recommended to address its shortcomings, further aided by lessons learned sessions with the Finance teams. The Improvement Plan is being reviewed by CLT and will be brought to the April 2021 Audit Committee.

B) Recommendations for the 2018/19 Statement of Accounts

The Council should now treat completing the 2018/19 audit as a corporate priority, by:

- identifying the key barriers to audit sign-off;
- implementing clear project plans to address each outstanding issue effectively;
- securing Deloitte's commitment to completing the audit by an agreed date which is both realistic and achievable; and,
- providing additional staff resources if necessary.

These recommendations have been met as set out in this report.

- 3.14 In conclusion, the Council fully recognises the findings of the Independent Review and its recommendations. The interim Corporate Director of Resources will ensure that the Improvement Plan that is being developed will be discussed with the Chair of the Audit Committee and the Independent Member, as well as being taken to CLT, as the production of the accounts is a key corporate priority. The plan will be clear, specific, with deadlines for each action and will be resourced so that it is achievable. A presentation on the draft Improvement Plan will be made to the Audit Committee.

#### **4. EQUALITIES IMPLICATIONS**

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

#### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 None.

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

- 6.1 The restated Statements of Account will be available to Members before the Audit Committee meeting of 28<sup>th</sup> January 2021. The Independent Review is welcome, and the recommendations will form the basis of a plan to be reported to the April 2021 Audit Committee.

#### **7. COMMENTS OF LEGAL SERVICES**

- 7.1 The Accounts and Audit Regulations 2015 ('the Regulations') require a local authority to approve and publish their statement of accounts, among other documents, by 31 July in the financial year immediately following the financial year to which the statement relates. For the financial year beginning in 2019 the time for publication is extended to 30<sup>th</sup> November 2020.
- 7.2 The Regulations state that where the auditor's final findings are not available by the required date, the local authority must publish as soon as reasonably practicable on or after the required date a notice stating that it has not been able to publish the statement of accounts and its reasons, and must publish the statement of accounts and other documents as soon as reasonably practicable.
- 7.3 It is noted that a plan is in place and the proposals in this report comply with the above legislation.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- None

**Appendices**

- Appendix A – Terms of Reference for Independent Review
- Appendix B – Independent Review

**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