

10 August 2020

LBTH 10 08 2020

Mr K Bartle
Divisional Director of Finance, Procurement and Audit
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London E14 2BG

Dear Kevin,

Review of 2018/19 year end close

Following on from your email of 7 August and our recent telephone conversations, I am pleased to set out my proposal for your consideration.

Your needs

At the Audit Committee meeting on 13 May 2020 it was decided that an independent review would be commissioned to investigate issues arising in connection with the Council's 2018/19 year-end close. Proposed terms of reference are set out in Appendix 1.

My response

Having been at various times a consultant, practitioner and external auditor, I have extensive experience of all aspects of local authority year-end close. Appendix 2 provides a short CV for information.

My aim would be to provide practical suggestions that improve financial reporting by following the 3- stage approach set out below:

Phase 1 would compare arrangements in place at Tower Hamlets against good practice summarised in CIPFA's 2019 publication "*Streamlining the Accounts*". This phase of my review would focus on the following areas:

- Project planning and management
- Resourcing and prioritisation
- Staff training
- Use of working paper templates and guidance notes
- Quality of audit trail and working papers
- Pre-audit assurance and review
- Understanding external audit expectations
- Managing the audit process.

Phase 2 would consider the role played by feeder systems, year-end reconciliations and other accounting processes in confirming the accuracy of ledger information and supporting effective year end close. As part of this phase of the project I would also consider:

- Processes for obtaining Code compliant asset valuation reports
- The Council's approach to identifying and resolving complex accounting issues
- How Code changes and new accounting requirements are identified and implemented
- Processes for determining and evidencing key management judgements and accounting estimates, eg Business Rates appeals and bad debt provisions.

Phase 3 would consider specific issues identified by external audit, namely:

- The accuracy of property terrier and fixed asset register records
- Processes for identifying major works and capital transactions
- Capital financing and lease arrangements (including processes for recharging and invoicing lessees and leaseholders and collecting the associated income)
- Recognition and accounting for government grant income
- Accounting for s106 and CIL contributions
- Accounting for school expenditure and income including Dedicated Schools Grant.
- Internal recharging processes
- Accuracy of year-end capital and revenue accruals

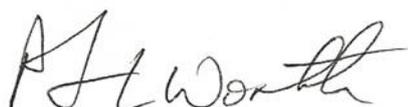
A suggested action plan would be provided as part of my report.

Fee rates and timings

I would be able to complete the work described above by 30 October at a fee of £15,000 plus VAT. This represents approximately 20 days' work, commencing August 2020. Given current restrictions in response to Covid-19, all work will be carried out remotely.

My usual terms and conditions of business are set out in Appendix 3, and I look forward to hearing from you.

Kind regards



Peter Worth, Director

Appendix 1 - Terms of Reference

Provided by London Borough of Tower Hamlets on 7 August 2020

Background

At the meeting of the audit committee held on 13 May 2020 it was proposed and agreed that an independent analysis of the issues which have arisen in the preparation of the 2018/19 Statement of Accounts would be provided for the committee; the indicative timeframe was for that to be presented in October/ November 2020 alongside the anticipated external audit reporting for 2019/20.

This paper sets out the terms of reference for that review and analysis; setting out the broad areas to be considered, the composition of the review team and the reporting arrangements including provision for the audit committee to have sight of and provide input into these terms of reference.

Context

Over the past 12 months the Audit committee has received update reports from both council officers and the council's external auditors (Deloitte) highlighting a number of issues that have prevented the finalisation of the 2018/19 statement of accounts. Whilst a revised set of accounts has now been prepared for the statutory external audit review process this has required extensive remedial action and additional resources both from the Council but also from the external audit perspective of making the most effective use of their time.

The extent of the issues identified was surprising for the following reasons:

- Previous audit examinations undertaken by KPMG had not raised any similar issues although it is apparent, with the benefit of hindsight, that some of the difficulties reflected poor practice over a number of years; and,
- A financial health check report - Undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) had specifically highlighted the production and subsequent audit of financial information as a strength of the finance function.

Although the appointment of a different audit firm for the audit of the 2018/19 Statement of Accounts is a significant component in the identification of issues, the impact of the finance team restructure which concluded in 2019 is also relevant.

The purpose of the review now being initiated is to ensure that the lessons learned from the weaknesses which are now apparent, can be formally noted and resolved through action planning. This process can also be reported to the audit committee on a regular basis to give them appropriate strategic oversight.

Approach

It was originally the intention to Commission an external firm to carry out this piece of work, however, following subsequent discussions with the Lead Member for Resources, other options were explored both to minimise the additional costs involved in the light of the council's overall financial position but also to reflect the fact that the audit examination process itself was independent.

On balance I concluded that value for money was best achieved by not replicating the audit process but by employing an independent consultant with the relevant expertise and experience who has not previously been involved with Tower Hamlets Council.

This minor change in approach from that outlined to the committee previously has been raised with the chair of the audit committee who has indicated that she concurs with the approach set out by the Director of Resources and the Lead Member for Resources. In order to strengthen the independent nature of the review oversight on behalf of the committee is now proposed to be undertaken by the Independent Person recently appointed to the committee.

Proposed Team

It is proposed that the review will be led by Peter Worth who is an experienced former external auditor. Peter will draw on the work carried out by Deloitte and supplemented by the further work to produce the revised 2018/19 accounts led by the interim chief accountant. The interim divisional director for finance procurement and audit (Kevin Bartle) will also contribute to this piece of work so that changes to existing practices and structures can be implemented quickly.

Service specialists will be drawn from the relevant finance teams where currently the strategic head of finance roles for children's social care, schools and adult social care are all covered by experienced interim resources. Following the finance restructure there are currently no substantive members of staff at the Strategic Head of Finance level that were previously involved in the 2018/19 statement of accounts production processes.

Oversight of progress, reporting and any scope changes is proposed to be carried out by Charlotte Webster through a process of regular meetings and updates.

Scope

At this point in time the proposed scope of the review will cover in the main the following areas highlighted as requiring significant work in the report to the Audit Committee in May 2020:

- The process for defining and requesting (through a tender process) valuation information consistent with the Code of Practice and its subsequent review by property professionals to confirm its validity.

- The process for identifying changes to the Council's asset register for subsequent balance sheet recognition. Including specifically work in relation to Academy conversions.
- The process for billing leaseholders by THH for major works contributions establishing charges over properties or other methods to minimise bad debt. [Taking into account the findings from recent internal audit activity in this area]
- The process for determining grant conditions and appropriate accounting treatment.
- The process for applying grants in accordance with accounting provisions appropriately.
- The process for taking into account school expenditure and income transactions and agreeing the accumulated balance position with the balance sheet.
- Ensuring that expenditure and income for intra council recharges are not overstated within the overall SoA.
- The process for raising and collecting S106 and CIL contributions in a timely fashion consistent with the underlying agreements. [Noting that there is planned internal audit activity in this area that can be relied on if scoped appropriately]
- The process for raising accruals both of a capital and revenue nature, the supporting evidence and the use of appropriate de minimis levels.
- The process for determining the level of both general and bad debt provisions.
- The training materials/process notes/closure of accounts timetable in place to guide and manage Council staff in contributing effectively to this important work.
- Other issues that come to light following the completion of the 2018/19 and 2019/20 Statement of Accounts Audits.

Outcomes

The review will commence in August 2020 and will produce a report for the Audit Committee and the Corporate Director of Resources by the end of October 2020. The report will highlight the work undertaken, the findings and an agreed improvement action plan signed off by the CD Resources. There will be a significant emphasis on lessons learnt and, therefore, the resultant improvement action plan, once implemented, will be designed to ensure there are no recurrences of the significant difficulties currently being experienced in the production of the council's statement of accounts.

Regular review points will be agreed for the implementation of actions.

Oversight to ensure potential scope changes, as a result of additional issues found, are formally agreed, will be delegated to the Independent Person (CW) in consultation with the CD Resources.

NEVILLE MURTON

AUGUST 2020

Appendix 2 - About Peter Worth (BA Hons), CIPFA, MAAT

A nationally recognised authority on local government accounting, Peter has over 30 years' experience of providing advice on issues such as:

- IFRS and Code requirements
- Capital accounting and financing
- Treasury Management and Investing
- Pensions and LGPS
- Group Accounting
- Managing the audit process



Peter spent seven years working in local authorities before he joined the Audit Commission in 1989. As one of their senior technical managers he was instrumental in establishing their well-regarded Technical Helpdesk Service. Peter left the Audit Commission in 2012 to set up Worth Technical Accounting Solutions which now has a portfolio of local government clients including:

- Westminster City Council
- City of London Corporation
- The States of Jersey Government
- London Borough of Waltham Forest
- South Gloucestershire Council
- Transport for Greater Manchester

Peter has a proven track record in helping local authorities to:

- Resolve longstanding technical accounting issues
- Achieve faster year end close
- Improve the quality of published Statement of Accounts
- Improve the quality of audit trail and year end working papers
- Expedite the external audit process.

Combining consultancy work with his role as a CIPFA associate and LAAP member ensures that Peter remains in touch with both national developments and current issues for practitioners. He regularly delivers training and presentations to professional bodies, elected members and stakeholders on accounting and audit issues, and has worked with central government on a range of matters affecting local government finance.

Peter has co-authored various CIPFA publications including Streamlining the Accounts, Code Guidance Notes for Practitioners and the example Local Government Pension Fund accounts.

Appendix 3 – Terms and Conditions of Business

Worth Technical Accounting Solutions Limited will provide the services set out in this letter at the stated fee. If we agree to carry out any additional services, we will provide you with a new or amended agreement. Notice of variation or termination of this agreement by you must also be made in writing.

Worth Technical Accounting Solutions Limited will provide the services set out in this letter with reasonable care and skill and in accordance with the professional regulations and ethical requirements of the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales, and the Association of Accounting Technicians. As part of these requirements, our work may be reviewed by our professional and supervisory bodies (see above) or by an independent regulatory or quality control body.

We will endeavour to provide advice to you on all important matters in writing. If we do provide oral advice, for example during a meeting or telephone call, and you wish to be able to rely on that advice, you must first ask for confirmation of the advice provided in writing. To the fullest extent permitted by law, Worth Technical Accounting Solutions Limited does not accept any responsibility for loss, damage or expense caused by any persons relying on opinions expressed by us without our written permission.

Our liability to you is limited to losses, damages, costs and expenses caused by negligence or wilful default. We will not be responsible for any losses caused by your supply of incorrect, incomplete or out of date information, or your failure to act on advice provided or respond promptly to communications or requests for information. You will not hold us responsible for any loss suffered by you arising from any misrepresentation (intentional or otherwise) in connection with this engagement.

This engagement letter is governed by, and construed in accordance with, English law. Each party irrevocably waives any right it may have to object to any action being brought in those courts, to claim that the action has been brought in an inappropriate forum, or to claim that those courts do not have jurisdiction.

Our work is not to be made available to 3rd parties (other than external auditors) without written permission and we will accept no responsibility to third parties for any aspect of our work that may be made available to them. Worth Technical Accounting Solutions Limited will retain all intellectual copyright in any document prepared by us during the course of this engagement unless the law specifically provides otherwise.

You are responsible for giving us access to all explanations and documentation relevant to this engagement. All information provided and communication between us shall be regarded as confidential and shall not be disclosed to third parties unless we are required to do so by law, by regulatory bodies or insurers or as part of an external peer review. We

reserve the right, for promotional or training purposes, to mention that you are a client, but we will not disclose any information of a confidential nature.

We will always provide you with impartial advice and will immediately inform you of any conflicts of interest that arise during this assignment. Where conflicts are identified which cannot be managed in a way that protects your interests, we will withdraw from the engagement.

Worth Technical Accounting Solutions Limited complies with all relevant provisions of the Data Protection Act 1998 in relation to this assignment. If you want to know more about our data management and data protection arrangements, please contact us on 07714 333240.

Under current policies your email address may be shared with others as part of group emails or meeting requests. If you do not want your email address to be used in this way, please let us know.

All accountants must comply with the provisions of the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 (the "Anti Money Laundering Legislation"). This means that in certain circumstances, we may need to obtain evidence confirming the identities of clients and third parties, the source of any funds or other property, the purpose of instructions or any other matter. We may not, under the terms of this engagement, hold any monies on your behalf.

We assume that our clients are honest and law abiding. However, in certain circumstances we are obliged to make a report to the National Crime Agency ("NCA") and are prohibited from undertaking any further work on your behalf without consent from NCA.

Unless you instruct otherwise, we will communicate with you and any third parties primarily via email. We use virus scanning software to reduce the risk of corruption or interception but cannot accept any liability for problems arising as a result of this means of communication. You are responsible for virus checking any emails and attachments received from us.

We usually invoice on completion of each assignment and expect to receive payment within 14 days. We reserve the right to charge interest on late payment of invoices at 3%, and to suspend our services if payment is unduly delayed.

Worth Technical Accounting Solutions is committed to providing you with a high quality, cost effective service. If there should be any cause for complaint, we would expect you to contact us in the first instance so that whatever has gone wrong can be put right. If you are still not satisfied you can refer your complaint to our professional bodies, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales, and the Association of Accounting Technicians.