

Terms of Reference – Statement of Accounts

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