LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 27 JANUARY 2022

COMMITTEE ROOM ONE - TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Val Whitehead (Chair)
Councillor David Edgar
Councillor Eve McQuillan
Councillor Leema Qureshi
Councillor Rabina Khan*

Apologies:

Councillor James King
Councillor Ayas Miah
Councillor Kyrsten Perry

Others Present:

Councillor Andrew Wood		
Mayor John Biggs	–	
Jonathan Gooding*	–	Deloitte
Angus Fish*	–	Deloitte
James Ross*	–	Deloitte
	–	
	–	

Officers Present:

Miriam Adams*	–	Interim Head of Pensions and Treasury
Kevin Bartle *	–	Interim Corporate Director for Resources and Section 151 officer
Jill Bayley	–	(Head of Legal Safeguarding)
Tim Harlock*	–	Interim Chief Accountant
Marion Kelly*	–	Programme Director, Finance Improvement Team
Ahsan Khan*	–	Chief Accountant
Denise Radley*	–	Corporate Director for Health, Adults and Community
Paul Rock *	–	Head of Internal Audit, Anti-Fraud and Risk
Will Tuckley*	–	Chief Executive LBTH
Nisar Visram	–	(Director of Finance, Procurement & Audit)
Farhana Zia	–	(Democratic Services Officer, Committees, Governance)

*Attended virtually - online

1. DECLARATIONS OF INTEREST

There were no pecuniary declarations of interest declared at the meeting by the members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the meeting held on the 1st December 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

3. DELOITTE ITEMS FOR CONSIDERATION

3.1 Report to the Audit Committee on the audit for the year ended 31 March 2019

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

3.3 London Borough of Tower Hamlets Pension Fund Final Report to the Audit Committee on the 2018/19 audit

3.4 London Borough of Tower Hamlets Pension Fund Status Report to the Audit Committee on the 2019/20 audit

The Chair proposed and the Committee **AGREED** to take all four reports from Deloitte's together.

The Chair invited Mr Jonathan Gooding, from Deloitte's to address the Committee.

Mr Gooding provided a summary of the findings and said the difficulties experienced with the Statement of Accounts for 2018/19 and 2019/20 had been documented in previous meetings and therefore he did not intend to revisit this. Referring to the 2018/19 accounts, Mr Gooding said good progress had been made to address the issues raised. He said there was still some work outstanding however the key findings summarised the significant risks and the approach taken to address this. He said the opinion was likely to be a qualified opinion, as the authority should have prepared group accounts because the subsidiary entities were material. Mr Gooding stated the accounting of the pension fund liability, where employees transfer to one of the subsidiary entities was also a concern and said the accounting treatment applied as per the 2019/20 accounts was incorrect. Mr Gooding said he was continuing to discuss and consult on this aspect of the opinion and had not reached a conclusion on this. He said the other reasons identified related to insufficient evidence provided to support disclosures of expenditure in the accounts and disclosure of Officer renumerations.

In reference to the use of resources, page 51, Mr Gooding drew attention to the conclusions and explained why a qualified conclusion had been given in

respect to value for money. Mr Gooding said the prior year adjustments were set out on page 37 and the current year adjustments, in appendix A. He said the control deficiencies were significant for this year and therefore this was reflected in recommendations made.

Referring to 2019/20, Mr Gooding stated the audit was very similar with a qualified opinion given. He said the qualifications were different because they had been able to satisfy themselves in respect to the disclosure of expenditure for that year.

Referring to the Pension Fund reports, Mr Gooding stated these were shorter reports as the number of issues identified were less. He said these set out the materiality applied and the significant risks which related to management override of controls and the procedures performed to identify this risk. He said an area of focus was the completeness of valuation and presentation of investments and the immaterial uncorrected misstatements where control recommendations had been made.

In response to questions and comments from members the following was noted:

- Councillor Whitehead stated this had been a long journey for both the Council and the external Auditors. She was pleased that both set of accounts were nearing completion and had been presented to the Committee.
- Councillor Whitehead said whilst it was disappointing to have qualified opinions, the hard work of Officers and the Auditors was a testimony to the efforts it had taken to resolve the issues identified. Councillor Whitehead stated she had met with Deloitte's in a private meeting and that they had not raised further concerns other than what had been documented in their reports.
- Councillor Edgar echoed the comments made by the Chair. He referred to the recommendation made for members to receive detailed accounting papers and asked if this was common practice in other authorities. He said he was sceptical about how this would work.
- In response Mr Gooding stated the proposal was not suggesting members receive detailed papers but they receive papers which support the key judgements made. He said it was important for Members to understand how judgements had been reached and this would be good practice particularly for the Committee's governance role.
- Mr Kevin Bartle, Interim Corporate Director of Resources and Section 151 officer said his view on this differed to that of Mr Gooding. He said due to the complexity of the accounts, providing detailed working papers to the Committee would slow down business. He said he appreciated his view is subjective, but he did not think providing accounting papers to the Committee would be helpful. Mr Nisar Visram, Director for Finance, Procurement and Audit, added that members were provided with training on the accounts as part of the Committee's

rolling training programme, which prepared members to analyse and question the accounts.

- **ACTION:** The Audit Committee to decide in the new municipal year 2022/23 if working papers and/or a summary of the key critical judgments in relation to the accounts, should be made available to members.

- In response to how the position of London Borough of Tower Hamlets compared with other authorities, who were in a similar position, Mr Gooding stated that due to the level of prior and current adjustments that were made to the accounts and the qualified opinion for value for money, plus the number of significant errors, the authority was one of the lower performing authorities for those specific years. He said the extent of qualification and adjustments were not common in the sector. Mr Gooding said notwithstanding this, the authority had invested heavily in resolving the issues and said the Senior Leadership Team and officers had shown great interest by working hard to resolve the position. He said it was clear this was being taken seriously by everyone.
- In response to what might cause the Authority to slip back, Mr Gooding said the big risk was the loss of retained knowledge as staff move or leave the authority. He said it was important for the Authority to ensure the recommendations and learning from the past years was embedded for future years, when producing the statement of accounts.
- In response to officer renumeration and employees working for subsidiary entities, Mr Angus Fish stated this related to schools using different payroll systems to that used by the Council. He said the issue had been reconciling the individual systems to that of the Council. He said the discrepancies were not material to the accounts, but they were sizeable numbers which made it difficult to tell if the list was complete.
- In respect to the Pension Fund audits, Councillor Whitehead said she would make the Chair of the Pensions Committee and the vice-chair aware of the additional items that need to be referred to the Pensions regulator.

The Audit Committee **RESOLVED** to:

1. Note the comments of the Committee and the recommendations made in the four reports discussed.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Statements of Accounts for 2018-19, 2019-20 and 2020-21

Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 Officer introduced the report and stated this was a significant milestone for the Council with the end point in sight. He said this had been the most thorough audit he had been involved in.

Mr Bartle thanked the staff involved in resolving the accounts for the previous years and said this had been a mammoth task, with interim staff recruited to assist in correcting the errors. He also thanked Deloitte for their patience and diligence, in particular Mr Gooding, Mr Fish and Mr Ross who had worked hard to highlight issues and had worked with the Council to get to the position where the accounts had been published. Mr Bartle said that after two years, Deloitte's were able to give an opinion on the accounts of the Council. Mr Bartle said whilst the opinion was a qualified opinion and staff were disappointed with this - they take this outcome seriously, as this is a question of professional pride – they accepted the opinion given. Mr Bartle said going forward, as the Finance Improvement Plan will show, policies and procedures had been tightened to ensure learning from the accounts can be embedded for the future production of the accounts.

Mr Bartle said he was pleased to inform the Committee that the 2020/21 accounts had also been published as of today. He said that due to the work involved for the 2018/19 and 2019/20 accounts, this had had a knock-on effect on the 2020/21 accounts. He said the errors found in the 2018/19 and 2019/20 related to past years and therefore it was not easy to go back and correct all of them. He said the versions in front of the Committee were the ones published in October 2021. He said they required finalisation, once one or two further amendments had been made, which were not significant or material. Mr Bartle said the report provided members with a detailed response to the external auditor's report and he'd be happy to take questions relating to this.

In relation to some of the questions raised by members during the Deloitte presentation, Mr Bartle made the following comments.

- He hoped future accounts would have none or fewer errors in them. Additional staff had been recruited to correct the errors and learning from this was being embedded into new practices within the finance team and the Council more widely. Mr Bartle said it was important to ensure the transfer of knowledge was not lost when staff moved or left the Council.
- In respect to the qualification issues raised, Mr Bartle said he did not disagree with the recommendation of group accounts however this was subjective opinion and was not a requirement of the previous external auditors KPMG.
- The remuneration of officers and employees working for subsidiary entities sounds worse than it is. Mr Bartle said he was confident that with a little bit of effort the reconciliation of school payrolls with the Council's, was achievable.
- In respect to the 'use of resources' judgment, Mr Bartle commented the accounts had taken a long time to produce however they were on the road of improvement. The production of the 2020/21 accounts had improved dramatically.
- Lastly, Mr Bartle said the majority of issues related to disclosure issues and working papers that were inadequate or where things were

incorrectly categorised. He said this did not affect the mid-term financial planning process or the council budget setting process.

In conclusion, Mr Bartle said 91% of Councils this year, had not achieved the statutory deadline to have their accounts signed off and this clearly was an issue for the Government to look at. He said he did not expect to come back to the Committee with the 2018/19 and 2019/20 accounts unless there were significant issues. He said these would be signed off under delegated authority with the consent of the Chair of the Committee.

In respect to the certificates relating to 2016/17 and 2017/18 accounts, Mr Bartle said they were in advanced conversation with KPMG and once the due diligence work had been completed, he was hopeful the certificates would be issued.

In response to comments and questions from members the following was noted:

- Councillor Whitehead commented that the valuation of assets was a lot of work and whilst these should be valued there was a view on how effective this was given the assets are not going to be sold. Councillor Whitehead said the Council was not an exception when it came to the number of resources required to produce the accounts and said this was being felt throughout the sector.
- In response to how long it would take to attain the certificates from KPMG, Mr Bartle reassured the Committee they were in advanced stages of discussion and that he was hopeful these would be provided once a couple of things had been finalised. Mr Bartle said he did not know how much the cost would be to the Council for the additional work undertaken by KPMG.
- In response to what the timeline was to achieve a set of accounts without qualifications, Mr Bartle said the aim was to ensure the 2021/22 accounts were unqualified. He said this as a challenge for him and his team, but this was the aspiration.
- Councillor Edgar commented on the report and said it was clear and provided useful linkage to the Finance Improvement Plan.

The Chief Executive, Mr Will Tuckley and the Mayor John Biggs were also present for the meeting and thanked the staff as well as Deloitte's for the improvement journey made. Mr Tuckley said the improvement plan was part of the long-term goal of improving systems and process which had been identified by the independent review by Mr Worth.

The Audit Committee **RESOVLED** to **AGREE**:

1. In conjunction with reviewing the findings of the external auditor, Deloitte, presented separately on the agenda, to note the Council's response.

2. Specifically, to note that the Council will be updating the Statements of Accounts for 2018-19 and 2019-20 as detailed within this report.
3. To delegate authority to the Chair of Audit Committee and the s151 Officer to sign off the final versions of the Statements of Accounts upon completion of agreed amendments (with the only exception being if, subsequent to this meeting, significant and material matters arise).

4.2 Progress Report on the Finance Improvement Plan

Ms Marion Kelly, Programme Director for the Finance Improvement Team presented the progress report on the Finance Improvement Plan.

Ms Kelly referred to Appendix A and said of the sixty actions, 41 were now complete shown as blue, 12 were on track, shown as green and 4 actions were amber and 3 red rated. She said two-thirds of the actions were complete and good progress was being made.

Ms Kelly provided a detailed analysis of why the red rated actions had been slow to progress stating that this was mainly due to capacity issues. Ms Kelly said actions were risk assessed through a monthly dashboard and an in-depth review of the improvement plan was planned so to ensure the recommendations from Deloitte's were also included in the plan. Ms Kelly said a fuller report would be provided to the Committee in March 2022, which would include how all the actions have been sustainably embedded within the finance function. She said progress on any remaining actions would be reported but incorporated into other Accounts reports after March.

In response to comments and questions from members the following was noted:

- The Chair, Councillor Whitehead commented that she was pleased the review of the Agresso system and health check had been brought forward to June and the review on whether the Council should continue with Best of Breed Systems or invest in an Enterprise Resource Planning system will take place in the Autumn. She said this was an outstanding issue that needed to be decided on, so that the Council can move forward in a smoother and more controlled way.
- Councillor Edgar provided feedback and said the work on reconciliations and the re-alignment of the budgets was an important task as this effected the balance sheet. He said it was clear the issues identified by Deloitte's were historic, but it was crucial to ensure reconciliations were conducted in a timely way, as they help to identify issues quickly.
- In respect to the re-aligned budgets, Councillor Edgar said that aside from training budget holders, it was important that the organisational structures supported the budget managers and that these are reflected in the budgets.
- In reference to paragraph 3.13, Councillor McQuillan asked if the finance team were confident that the systems used would provide accurate information for the budget setting process that Councillors

were currently tasked with. Mr Bartle responded saying although the matters with the accounts were serious, they did not affect the Council's ability to set a balanced budget.

The Audit Committee **RESOVLED** to:

1. Note the progress against the actions set out in the Finance Improvement Plan (FIP).

4.3 2022/23 Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2021-22

Ms Miriam Adams, Interim Head of Pensions and Treasury provided the Committee with a detailed update on the Treasury Management Strategy Statement, Investment Report and the Capital Strategy Report for 2021-22. Ms Adams explained the three reports were a requirement of the legislation and guidance provided by CIPFA and the DLUHC.

Ms Adams referred to Appendix A, the Treasury Management Strategy Statement, which set out the external and local context. She referred to table 1, the balance sheet summary which detailed the Authority's investments and borrowings. Ms Adams made reference to paragraph 4.7 and the table demonstrating capital expenditure. She said a key factor for the future was to ensure investment managers managing council's strategic pooled funds meet the ESG requirements.

Ms Adams drew attention to paragraph 8.2 in the Investment Strategy Report, appendix B and said the table demonstrated the possible forecast and risk exposure on balances for investments and the forecast for future years as well as risk exposure in relation to other non-treasury investments like lending for service purposes. She said the Capital Strategy Report, appendix C was a high-level report which set out the Council's strategy for capital expenditure. She referred to paragraph 1.4 which summarised how the £299m would be invested.

Ms Adams also referred to the remaining appendices and said the prudential indicators and treasury management statement provided guidance on the treasury management activities that are undertaken and monitored. She said they worked closely with their external treasury advisors, Arlingclose to ensure the investments were sound and provided value for money.

In response to comments and questions from members the following was noted:

- Councillor Edgar stated the reports were helpful. He asked about the capital programme and said the estimated cost rose from £231m in 2021-22 to £299m in 2022-23. He asked why projects seem not to complete on budget and in time, as per the capital strategy.
- Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 Officer responded saying it was the responsibility of the Project

Manager to ensure projects were delivered to the budget set. He acknowledged there was considerable slippage within the capital programme and said the figures provided were a forecast. He said the report had been late coming to the Committee due to deliberations taking longer to be concluded. He said it was important to use the most up to date information possible as this effects projections and indicators. He said the figures are revised daily as part of the work done by Treasury Management.

- Referring to the New Homes bonus money, with forecasts increasing from 3.8m to 16.3m, Councillor Khan asked why there was a big jump. Mr Bartle responded saying there was a misapprehension in respect to this money. He said the government was consulting on the distribution methodology in 2021 and reached a final conclusion to roll over the previous years' bonus for a year. It was a fortuitous windfall and therefore was not forecast.
- In response to the liability debit of 2.1m, Councillor Khan asked what might be done to mitigate against this. Ms Adams responded stating that the Council had a community role and is required to underwrite and provide guarantees for liabilities. She said the council's pension liability was long term which could not be resolved immediately.

The Audit Committee **RESOLVED** to recommend to Council to:

1. Approve and adopt the following policy and strategies:

1.1) The Treasury Management Strategy Statement contained in Appendix A;

1.2) The Investment Strategy Report contained in Appendix B;

1.3) The Capital Strategy Report, which includes the Minimum Revenue Provision (MRP) Policy Statement, contained in Appendix C;

1.4) The Prudential and Treasury Management indicators contained in Appendix D; and

1.5) The Treasury Management Policy Statement as set out in Appendix E.

5. AUDIT COMMITTEE WORK PLAN

The Audit Committee noted the work plan for the forthcoming meetings of the Committee.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 8.30 p.m.

Chair, Councillor Val Whitehead
Audit Committee