

Non-Executive Report of the:  <b>Audit Committee</b>  Thursday, 26 January 2023	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Interim Corporate Director, Resources	<b>Classification:</b> Open (Unrestricted)
<b>2018/19 and 2019/20 Letters of Management Representations to Deloitte</b>	

<b>Originating Officer(s)</b>	Tim Harlock, Interim Head of Strategic Finance – Chief Accountant
<b>Wards affected</b>	(All Wards);

### Executive Summary

This report presents some of the final steps required to finalise and close the audits for 2018/19 and 2019/20.

It presents the draft letters of management representation to the auditors, which will need to be scrutinised by the committee, and if satisfactory (possibly after further amendments), then signed off by the Chair and the Interim Corporate Director of Resources, and finally provided to Deloitte.

### Recommendations:

The Audit Committee is recommended to:

1. Scrutinise and challenge the basis on which the letters of management representations are considered fit for purpose.
2. Note the wider context within which these accounts have been improved and brought up to the required standard.
3. Assuming that the aforementioned scrutiny provides satisfactory responses, then delegate to the Chair of the Audit Committee the authority to sign the management letters of representations to be made to Deloitte, as provided in the appendices, subject to any further updates to be reported verbally at the meeting, or subsequent modifications as proper practice should dictate.

## **1. REASONS FOR THE DECISIONS**

- 1.1 Producing a statement of accounts, and having it reviewed and signed off by auditors is a key statutory requirement of local authorities. As part of the proper process, auditors request that their clients provide assurance that appropriate processes and appropriate consideration has been applied to the compiling of the accounts.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There is no alternative to the proper process (other than to not provide that assurance, which would then leave the proper process unfinished).

## **3. DETAILS OF THE REPORT**

### Introduction

- 3.1 The 2018/19 and 2019/20 Statements of Accounts are being presented to this committee elsewhere on the agenda, and are presented as almost final versions, with only a few matters left to complete. Those matters that are not yet complete are under discussion with the auditor, Deloitte, and are likely to complete by early February. Also on the agenda at this meeting are reports from Deloitte giving full consideration of these accounts.
- 3.2 Hopefully a picture is emerging that, after enormous time and effort, these accounts are nearing finalisation, and we are now in the final steps of that process.
- 3.3 One of the very last steps required is for the Council to send a letter of management representations to Deloitte, providing assurances, with caveats where we can't, such that the underlying processes can be evaluated as credible and robust enough for the purposes of compiling the accounts.
- 3.4 In this report we will provide insight into the processes that have underpinned the making of the accounts, by means of illustrating the journey of improvement that we have undertaken

### Background

- 3.5 For the original 2018/19 accounts published in May 2019, the following (without intending this to be an exhaustive list) will provide some observations and summary assessment of major concerns:

- i. The Finance function had just undergone a major restructure, and it became clear that this exercise had impacted on the quality of the accounts; furthermore, upon investigation, we discovered that some of these errors had been made in previous years and continued into the years of audit.
  - ii. Valuations of Property, Plant and Equipment had suffered from poor engagement between departments, resulting in inadequate record-keeping and insufficient scrutiny of the results of the external valuer.
  - iii. Accruals relating to service expenditure were not satisfactory.
  - iv. Grant income had been incorrectly accounted for, with little appreciation for the underlying concepts that dictate this.
  - v. Accruals relating to leaseholder contributions and Community Infrastructure Levy had not been performed (the accounting entries had been based only on the actual invoices raised on the system)
  - vi. The control processes for the accounting interactions with schools had been misunderstood and misused, with particular problems in 2017/18.
- 3.6 Officers acknowledge that they have been unable to correct some of the disclosures where materiality is dictated qualitatively (rather than quantitatively), and it would be reasonable to assume that the qualifications on the 2018/19 disclosures might have some bearing on 2016/17 and 2017/18 disclosures.

#### Turning it around

- 3.7 With such a poor base to start from, it was evident that a far-reaching programme of correction and improvement was required, and this was achieved by means of extensive exercises of investigation in order to understand the fundamental facts, and then to interpret what this means in terms of what the accounting entries should be by means of reference to the technical guides. In many cases these exercises took months to complete, and so were not approached with the view of a “quick fix”.
- 3.8 These exercises of correction were within the oversight of the Deputy s151 officer, who later became the s151 officer in full, by means of weekly progress meetings attended by all Heads of Strategic Finance.
- 3.9 Furthermore, an independent review of accounts closure reported back to this committee in November 2020, making a series of recommendations for improvement. In response to this report, officers drafted the Finance Improvement Plan, which was presented to this committee first in April 2021, and continued to report on progress regularly until July 2022, at which point most objectives had been achieved.

- 3.10 At the November 2022 meeting of this committee there was a follow-up report from the author of the independent review which noted that much progress had been made, and thus provided a level of general assurance.
- 3.11 For some of these areas that required improvement we should acknowledge that the work was not complete by the time the 2019/20 accounts were published, which then led to corrective adjustments being required sometimes across both 2018/19 and 2019/20.
- 3.12 We have received assurance from our pension fund actuary with respect to the overall methodology that they employ in producing their IAS 19 reports, on which we base the accounting entries.

### Conclusion

- 3.13 Members should acknowledge that the accounts for both 2018/19 and 2019/20 are still not flawless but have been compiled on a risk-based approach. Ensuring that we have a clear view of our resources (ie our useable reserves) is of paramount importance: from January 2022 until now the useable reserves as held at 31 March 2020 has remained unchanged at £559m.
- 3.14 Adjustments have been applied where they were considered significant and where there was a reasonable cost benefit; there are some matters which in theory should be resolvable but in practice would take much time to clarify. We now have the benefit that some considerable time has elapsed since the balance sheet dates, and we still have not seen any consequences come out in these subsequent years that we might consider related back to the years of account.
- 3.15 Since the auditor is going to issue qualifications on four matters in each year (subject to update at the meeting), we clearly must apply exceptions to the assurances we provide such that we accept our failings in these matters.

## **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no specific implications arising from this report.

## **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 None.

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

- 6.1 The report is financial in nature and, as such, the views of the CFO are incorporated throughout the report. No new considerations arise from this report.

## **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 kept.
- 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**

- Appendix A – Letter of management representations for 2018/19 accounts
- Appendix B – Letter of management representations for 2019/20 accounts

#### **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