

Non-Executive Report of the:  <b>Audit Committee</b>  Wednesday, 4 December, 2024	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Julie Lorraine, Corporate Director of Resources	<b>Classification:</b> Unrestricted
Statements of Accounts for 2020/21, 2021/22 and 2022/23	

<b>Originating Officer(s)</b>	Ahsan Khan - Corporate Head of Financial and Technical Abdulrazak Kassim - Director of Finance, Procurement and Audit
<b>Wards affected</b>	All wards

### Executive Summary

Under the terms of reference for the Audit Committee, the Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

A key function of the committee is to consider the external Auditors annual letter, relevant reports and the report to those charged with governance. With that being said, Deloitte's have now concluded their work performed as appointed auditors on the Council's accounts and Annual Reports for years 2020/21, 2021/22 and 2022/23, in advance of the legislative 'backstop' date, by which local authorities are required to publish their statement of accounts and audit reports for financial years up to 31 March 2023, of 13 December 2024. These reports are being presented directly to the committee by Deloitte's.

This report presents the expected final updates to the statements of accounts for 2020/21, 2021/22 and 2022/23, taking into consideration the work performed by Deloitte's, for final approval also in advance of the legislative 'backstop' date of 13 December 2024.

Due to the introduction of the legislative backstop date, it has not been possible to fully complete all the audit work required for financial years 2020/21, 2021/22 and 2022/23.

As envisaged in the backstop proposals, Deloitte's will therefore include in their audit report a disclaimer of opinion in respect of financial years 2020/21, 2021/22 and 2022/23, as required under auditing standards.

## **Recommendations:**

The Audit Committee is recommended:

1. To approve Statements of Accounts for 2020/21, 2021/22 and 2022/23 within the statutory 'backstop' deadline date of 13 December 2024, which takes into consideration work performed by the external Auditors, Deloitte's.
2. To approve the updated Annual Governance Statements for 2020/21, 2021/22 and 2022/23, which have been inserted within the respective Statements of Accounts; these statements have been updated to ensure they are still appropriate to reflect the circumstances as at the date that the Statements of Accounts are approved, particularly relating to procurement and the BVI report.

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

- 1.1 The recommendations are so as to fulfil statutory requirements.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Government has introduced a legislative 'backstop' date, by which local authorities are required to publish their statement of accounts and audit reports for financial years up to 31 March 2023, or 13 December 2024.

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

### Background

- 3.1 In April 2024, this Committee last received an update on the summary of proposals for addressing the Local Audit Backlog in England. To clear the backlog of historical accounts and 'reset' the system. The ministry of Housing, Communities and Local Government, at the time the Department for Levelling Up, Housing and Communities, proposed putting a series of dates in law (the "backstop date") by which point local bodies would publish audited accounts for all outstanding years. The proposed measures consisted of three key phases;
  - **Phase 1: Reset** - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23.
  - **Phase 2: Recovery** - a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five year period of local bodies' financial information.

- **Phase 3: Reform** - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.
- 3.2 The Committee has also previously received updates from senior finance management on plans to accelerate the production of accounts for outstanding years (2020/21, 2021/22 and 2022/23), in order to act in the greater public interest in order to clarify and confirm the baselines of available resources again, to ensure optimal financial management decision taking, to ensure adherence to impending legislative backstop dates for outstanding years of accounts, and to ensure the 2023/24 closedown process was appropriately prioritised, including the on-boarding of the councils new auditors, EY.
- 3.3 It was also acknowledged that there would be some risks to the planned approach and different risks to not adopting this approach, but senior management considered them acceptable and proportionate in view of the greater public interest benefit and this approach has enabled the council to seize the initiative, and helped facilitate a transition to normality in terms of production of accounts for 2023/24 and onwards. The risks to this approach were principally detailed below and related to potential errors or deficiencies in the accounts;
- There are some disclosures, which are notes of a more informational nature (regarding revenue from contracts with customers, remuneration of officers, and related party transactions) where, due to time constraints, comprehensive collation of all required data could either not be achieved, or satisfactorily demonstrated. these disclosures are very unlikely to impact on financial management and decision-making for the Council and these shortcomings will be better addressed from 2023/24 onwards;
  - Due to time constraints, there was not time to prepare group accounts. Officers considered this will have negligible impact on the quality of financial management and decision-making for the Council and again will be better addressed from 2023/24 onwards;
  - More substantially, we knew that information on scheme members feeding into our actuarial valuations was flawed in some respects. Further work is required in order to improve the quality of this data. Therefore, the consideration applied was that we shouldn't hold up everything else, and the correlating benefits, for this one item.

#### External Audit of 2020/21, 2021/22 and 2022/23 Accounts

- 3.4 Since the general election held in July 2024, the new Government proceeded to introduce the legislative 'backstop' date, by which local authorities are required to publish their statement of accounts and audit report for financial years up to 31 March 2023, of 13 December 2024.
- 3.5 The restated accounts for 2020/21, 2021/22 and 2022/23 are provided in the Appendices to this report, although it should be noted that possibly a few final minor amendments will be required once Deloitte have completed their review

of the final documents. The updated Annual Governance Statements for 2020/21, 2021/22 and 2022/23, have been inserted within the respective Statements of Accounts. These statements have been updated to ensure they are still appropriate to reflect the circumstances as at the date that the Statements of Accounts are approved, particularly in relation to procurement and the BVI report where details have been added at the end of the tables of 'significant issues' within the respective years.

- 3.6 As detailed in Deloitte's Planning Report to the Committee meeting on 10 October 2024, the scope of Deloitte's financial statement audit work has been limited by the introduction of the 'backstop' date. Due to the time available, it has not been possible to fully complete all the audit work required for financial years 2020/21, 2021/22 and 2022/23 before that date. As envisaged in the backstop proposals, Deloitte's will therefore include in their audit report a disclaimer of opinion in respect of financial years 2020/21, 2021/22 and 2022/23, as required under auditing standards.
- 3.7 Deloitte's have evaluated exceptions reported in the statement of responsibilities in relation to compliance with the Code in the 2020/21, 2021/22 and 2022/23 financial statements and concluded that these represented material presentation and disclosure deficiencies in the financial statements. Reasons why senior finance management have not updated the financial statements for these exceptions are detailed in paragraph 3.3.
- 3.8 Included within their reports, Deloitte's have also identified other uncorrected misstatements and disclosure deficiencies in the financial statements as well as possible issues with the draft financial statements, which would ordinarily need to be concluded upon prior to completion of an audit. Senior finance management have not been able to investigate all of the queries raised in the time available due to the 'backstop' date. Based on the work able to be done in the allowed time, there is no indication that these are material issues that would impact the view that the accounts present a true and fair view of the financial position of the Council for the respective years.
- 3.9 Due to the introduction of this date, it has not been possible to fully complete all the audit work required for financial years 2020/21, 2021/22 and 2022/23. As envisaged in the backstop proposals, Deloitte's will therefore include in their audit report a disclaimer of opinion in respect of financial years 2020/21, 2021/22 and 2022/23, as required under auditing standards. It must be stated that this will not be peculiar to Tower Hamlets and more a national trend, to help reset the system nationally and importantly find a way to catch up, when a true-up will be required with our new auditors, EY, for 2023/24 and onwards.
- 3.10 Besides auditing the accounting statements, the auditors are also required to provide an opinion on arrangements to secure Value for Money (VFM). The auditors opinion in this regard can be found in their 'Annual Auditors Report for the years 2020/21, 2021/22 and 2022/23', which is also being presented to the committee by Deloitte's.

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

4.1 There are no equalities implications arising from this report.

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

5.1 Approval of the accounts, once Members are satisfied, is a statutory responsibility that falls to Audit Committee.

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

6.1 This whole report presents matters that are directly concerned with fulfilment of the role and responsibilities of the s151 officer.

#### **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 Between 8<sup>th</sup> February 2024 and 7<sup>th</sup> March 2024 the then Department for Levelling-Up Housing and Communities consulted on amending the Account and Audit Regulations 2015 as part of measures to tackle the backlog of unaudited local body accounts in England. The Government's response was to set a backlog of 13<sup>th</sup> December 2024 for bodies to publish audited accounts for financial years up-to-and-including 2022/23. Further statutory deadlines will be set for the following years. Legislation will outline scenarios where bodies may be exempt from statutory backstops in limited and exceptional circumstances. Local bodies and audit firms who do not meet the statutory deadlines will be identified in a list to be published by the government and will be required to publish an explanation as to why they have failed to comply with the statutory deadlines.

7.4 Save as mentioned above, the matters set out in this report comply with the above legislation.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- There have been various updates provided to this committee since July 2019 from both Deloitte and officers, but this report, taken together with the Deloitte reports presented on this agenda, are self-contained.

**Appendices**

- Appendix A: 2020/21 Statement of Accounts
- Appendix B: 2021/22 Statement of Accounts
- Appendix C: 2022/23 Statement of Accounts

**Local Government Act, 1972 Section 100D (As amended)****List of “Background Papers” used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- NONE.

**Officer contact details for documents:**

N/A