

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 5.30 P.M. ON WEDNESDAY, 13 MAY 2020

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

Members Present:

Councillor Val Whitehead (Chair)

Councillor Mufeedah Bustin
Councillor Marc Francis
Councillor Ehtasham Haque
Councillor Kyrsten Perry
Councillor Andrew Wood
Charlotte Webster

Other Councillors Present:

Apologies:

Councillor Abdal Ullah

Others Present:

Angus Fish – Deloitte
Jonathan Gooding – Deloitte

Officers Present:

Kevin Bartle	– Interim Divisional Director of Finance, Procurement and Audit
Tim Harlock	– Interim Chief Accountant
Asmat Hussain	– (Corporate Director, Governance and Monitoring Officer)
Bharat Mehta	– (Audit Manager)
Neville Murton	– (Corporate Director, Resources)
Paul Rock	– (Head of Internal Audit, Anti-Fraud and Risk)
Will Tuckley	– (Chief Executive)
Marion Kelly	– Finance Improvement Team - Programme Director
Jean Stevenson	– Project Accountant
Farhana Zia	– Senior Committee Officer

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made by the members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 31st January 2020 meeting were agreed and approved to be an accurate record of the meeting.

Matters Arising

Cllr Marc Francis queried if the action point stated on page 11 of the agenda, under “Client Monitoring of Fire Safety in Residential Dwellings” had been followed up. He said he was aware of two recent fires. Mr Paul Rock, Head of Internal Audit, Risk and Fraud stated a response would be circulated via email to all members.

The Chair made reference to the action point on page 10 of the agenda and said that due to the current circumstances with the pandemic, she had decided not to invite Mr Baldwin to this meeting of the Audit Committee. Mr Paul Rock confirmed that the Committee could invite Mr Baldwin to attend a future meeting once the process of virtual meetings was more established.

3. DELOITTE ITEMS FOR CONSIDERATION

The Chair invited Mr Gooding, external auditor from Deloitte’s to present his report.

Mr Gooding informed Members the report before them set out the Audit Plan for 2019/20 and scoped the work the external auditors would be undertaking. Mr Gooding said it identified the significant risks the audit would be focussing on and set the level of materiality applied to the audit. It also reconfirmed their independent role as external auditors.

Mr Gooding said certain elements of their risk assessment and planning were not complete due to the delay of finalising the 2018/19 audit. He said the idea was to complete the two audits over the summer months with a view to present their findings by the end of November 2020. He said the significant risks identified in the document were consistent with those identified previously such as property value, capitalisation of expenditure and the recognition of income from grants and contributions plus the management risk of override of control, which is a presumed risk under auditing standards.

In response to questions from Members the following was noted:

- In reference to level of materiality, page 26 of the agenda, Mr Gooding confirmed they were not required to report errors found below the materiality threshold of £1.25m to the Audit Committee or management. Mr Gooding said the threshold was consistent with other local authorities. There may be circumstances where matters come to their attention that they could raise but it was not required of them.
- In response to the assessment of the value for money risk and the impact of the erosion of savings through inflation, Mr Gooding said the focus of their audit was on the arrangement, governance and processes specific to the criteria set out in the plan. Whilst they would

look at financial management and control, the example given would not be considered a significant risk.

- In response to if the risks identified in the report had changed significantly from those identified at the beginning of the year, Mr Gooding explained the work plan related to the 2019/20 audit. Some risks were consistent with those identified last year and adjustments had been made, for example to the income and grants risk, with a greater focus on controls for this. Mr Gooding said the areas identified were consistent with other local authorities.
- In reference to page 30 of the agenda, Property valuation, Mr Gooding was asked what the timeframe was for officers to put into place effective controls. In response Mr Gooding said there was a standing expectation that controls would be in place, however it was evident from the 2018/19 audit significant work was required to ensure the property valuations were correct and were recorded accurately. Mr Gooding said they would be undertaking further testing of this control in 2019/20.
- Mr Fish, external auditor confirmed the focus on grants was a carry forward from the previous plan of 2018/19 and covered a wide remit including leaseholder contributions and the Community Infrastructure levy.

The Chair thanked Mr Gooding and Mr Fish for their contribution to the meeting.

The Audit Committee **RESOLVED** to:

NOTE the Deloitte work plan for 2019/20 and looked forward to their key findings report later in the year.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Statement of Accounts 2018-19 Progress Update

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit presented the progress report in relation to the external audit of the Council's Statement of Accounts 2018/19.

Mr Bartle said the set of accounts attached to the report was an attempt at restating the 2018/19 accounts. He said the previous set of accounts produced for the end of July 2019 had a significant number of audit queries and concerns and as such it was decided the accounts should be reproduced before presenting these to the Committee. Mr Bartle said it should be noted the impact of this had resulted in the re-opening of the 2017/18 accounts, with several material adjustments being made. He said whilst it was not a statutory requirement to bring the accounts to the Audit Committee, an officer decision had been made to share the extent of the work undertaken with Members for the sake of transparency. Mr Bartle said that in some areas work was still on-

going, but Deloitte's would undertake their detailed external audit of these accounts before examining the 2019/20 accounts. He referred members to paragraph 3.3 which set in detail the issues and action taken.

Mr Neville Murton, Corporate Director for Resources, then addressed the Committee stating he regretted the position the Council was in but wanted to reassure the Audit Committee more robust processes had been put in place to identify issues early. He referred to the table at paragraph 3.3 and said these covered a wide range of technical accounting issues. Prior to these issues being identified by Deloitte's, the previous external auditors had given the Council a clean audit opinion for several years. Therefore, there were a few lessons the finance function of the Council needed to understand and learn. Mr Murton said a report by CIPFA, which was a pre-cursor to the Finance restructure, had stated the audit process and the successful production of the accounts was a strength of the Council. Hence this would need to be re-examined; how this can be so, when all these matters have arisen. Mr Murton went on to say that he would be commissioning an independent report which would report back to the Audit Committee, the lessons that need to be learnt and how and if the finance restructure had impacted on the production of the accounts. Mr Murton said he would bring back a clear and unambiguous evaluation for the Committee to consider.

In response to questions from Members the following was noted:

- Mr Murton confirmed his intention was to bring back the independent report to the Committee in November 2020, when the 2018/19 and 2019/20 accounts were to be signed off. He said the timescale may move due to the current situation with the pandemic, because discussions would need to take place virtually. Mr Murton added staff helping with the production of the accounts were interim appointments however he was seeking to recruit a permanent Chief Accountant as soon as the pandemic situation improved, and the jobs market was ripe for recruitment.
- In response to if the position of Chief Accountant was vacant prior to the interim appointment, Mr Murton confirmed the former Chief Accountant was involved in the production of the 2018/19 accounts and left the organisation in September 2019. Mr Murton said the finance restructure, which took place in April 2019, involved all staff having to be reassessed for posts in the finance team and the former Chief Accountant had been unsuccessful in securing a post however remained with the Council until September 2019.
- In response to how lessons learnt are being embedded into finance processes, Mr Murton said the Finance Improvement Team were ensuring further training and development of staff in key areas of recovery. Mr Murton said one of the challenges was the need to be consistent and to embed good practice, especially as the finance teams were centralised as part of the restructure. Mr Bartle added the interim appointees within his team were keen to ensure knowledge transfer took place and were running training courses on the need for

enhanced working papers and the standard required. He said the production of the accounts not only involved finance staff but staff in the Services, where budget holders equally needed to ensure finance process were being followed.

- In response to how many posts were filled with interim staff, Mr Murton said there were quite a few interim and agency staff in post. He said three out of five Strategic Finance Officers were permanent members of staff however efforts were being made to recruit to the vacant posts which had been hindered slightly by the pandemic.
- In reply to if the independent review would be looking at the role of the previous auditors and their liability, Mr Murton confirmed the review would do this. He said based on the findings and recommendations from the review, the Council would make a judgment on writing to the previous auditors plus the governing body for auditors to express dissatisfaction, especially as some of the issues highlighted by Deloitte's are standard accounting issues which the previous auditors ought to have identified.
- Regarding the independent review Mr Murton confirmed this would look at the issues identified at paragraph 3.3 of the report and would question why processes had failed. He said he would expect the review to comment upon the quality of working papers, the testing and challenge of those documents. He said the report would put forward recommendations and resolution.
- **ACTION:** Mr Murton to share the terms of reference of the Independent review with members of the Audit Committee via email.

The Audit Committee **RESOLVED** to:

1. Note the revised set of accounts produced by officers to address the points raised by Deloitte.
2. Note the continuing progress made on the points raised by Deloitte in their report to this committee on 23rd July 2019.
3. Note further emerging matters.

4.2 Annual Governance Statement

Mr Will Tuckley Chief Executive, London Borough of Tower Hamlets presented the Annual Governance Statement. Mr Tuckley said the Statement accompanied the Financial Accounts for 2018/19 and identified actions since 2017/18. He said there were many areas of challenge for the Council such as Children Services, Pension administration and Adult Social Care payments however good progress was being made to remedy these areas. Regarding governance processes, the council had sound checks and balances in place to address challenges, such as the production of the Annual Accounts for 2018/19. Mr Tuckley said this was a key challenge and a corporate issue which would be overcome through the internal and external controls in place.

In response to questions from Members the following was noted:

- Referring to the overspend mentioned to on page 206 of the agenda and the missed budget saving, Mr Will Tuckley said this was a matter of considerable concern. The Council was re-doubling its efforts to meet the saving targets. Budget management had not been rigorously enforced however processes and training had be put in place to re-emphasize good practice in this area. Corporate Directors needed to ensure good budget management in their areas of responsibility.
- Regarding the areas in which the overspend had occurred, Mr Tuckley said these were in areas where Local Government was experiencing the greatest pressures, such as Children Services, particularly in social care and Adult Social Care packages. Mr Tuckley said this was partly due to a rise in demand however the failure to meet the budget saving targets was unacceptable and going forward more effort was required to achieve the budget saving targets.
- Councillor Marc Francis expressed his concerns relating to the Governance Statement. He said whilst the statement had been revised, he did not feel it addressed the quality of governance arrangements in Tower Hamlets. He said the model of governance and the culture within the organisation meant decision making lacked transparency and therefore he could not support the report and recommendations therein.
- Mr Tuckley said given the history at Tower Hamlets, substantial progress had been made over the years, to change the culture within the organisation. He said the Statement acknowledged work was still on-going. Debate ensued with Councillor Perry saying cultural and organisational change took time to embed in any organisation and suggested the Chief Executive be given the opportunity to reflect and make further changes to the document as necessary.
- **ACTION:** Further reflection and amendment be made to the Annual Governance Statement before returning to the Committee in July 2020.

The Audit Committee **RESOLVED**

1. The Annual Governance Statement be further revised considering the discussion with an amended version of the Statement being presented to the Committee in July 2020.

4.3 Internal Audit and Anti-Fraud Progress Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Internal Audit and Anti-Fraud progress report. Mr Rock said his team's capacity to deliver the Internal Audit Plan had been hampered by the pandemic, as well as other factors. However, the plan had been critically reviewed and he was confident enough audit activity could be delivered to offer an audit opinion by July 2020.

The report summarised the audits that had been completed plus identified the audits which were to be undertaken in the next six to eight weeks. The table at paragraph 3.7 showed the draft reports which were awaiting management responses. Mr Rock updated the Committee that a management response had been received in relation to the “Financial Safeguarding for the Learning Disabled” audit and the report had been issued as final.

At the request of the Committee, paragraph 3.13 updated and provided a view on the current position in relation to the recommendations identified by the external peer review and a letter written to the former Corporate Director for Resources in December 2017.

In response to questions from Members the following was noted:

- Mr Rock said the Audit Committee had played its part in recognising there were draft reports awaiting management responses. He said he would send reminders asking Officers to comply with the request and suggested he could copy in the Chair of the Audit Committee to the emails sent. Ms Asmat Hussain, Corporate Director for Governance, reminded the Committee it had at its last meeting, agreed to also copy in the lead Corporate Directors and asked that this be done too. Ms Hussain said it was important to be mindful of the pandemic and allow some time for responses.
- **ACTION:** The Chair of the Audit Committee to be copied into emails chasing for management responses for outstanding Audit reports. The lead Corporate Directors to be also copied into emails requesting management responses.
- In response to the recruitment of staff to vacant posts, Mr Rock said this was a real concern for him. He said he had wanted to restructure the service and therefore having vacant posts was advantageous; in the event he had to move staff within the structure. However, he recognised there was a need for a temporary solution which could involve temporary agency staff to help deliver the audit plan or the use of the third-party partner BDO to deliver additional work. There was also the option to explore sharing audit resources with neighbouring boroughs and utilising staff in those local authorities.
- In response to individual audits, Councillor Wood enquired about the purchase order follow up audit. He said whilst this was a difficult area, he'd like to know what the current situation was with credit card purchases. Mr Bartle responded saying this was a concerning area. One way to resolve this would be to withdraw cards however, this required support of management. Presently cards are withdrawn on the third strike – i.e. when paperwork has not been completed however a more robust and tougher stance is needed. Mr Murton agreed with this but said it was a difficult balancing act because the withdrawal of cards, could result in frontline services being affected.

- **ACTION:** An update to be provided on the number of purchase cards currently in circulation within each Directorate; with an opinion if the correct number of cards and the right members of staff have been issued with cards in each service area.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.

4.4 Internal Audit and Anti-Fraud Annual Plan 2020-21

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented his report on the Internal Audit and Anti-Fraud Plan for 2020/21.

Mr Rock said he had set out the Internal Audit Strategy within the report in order to provide a clear direction on the new ways of working that he was introducing. Mr Rock said he had consulted with stakeholders and had the approval of the Corporate Leadership Team to make these changes. He said the strategy was a living document which would be reviewed annually to ensure it reflected the changing circumstances facing the Council. Mr Rock said he believed the changes would raise the profile of Internal Audit within the Council and would help achieve better outcomes.

Mr Rock said the new ways of working recognised best practice and adopted the CIFPA standards. He said table 1, at paragraph 3.24 showed the new scaled assurance opinions and how these would apply to future audits. The majority of London Boroughs were moving to this scale of assurance and as such he hoped the scale would assist in the annual audit opinion he provided to the Committee, showing clearly any movement in the opinion given. He said he had revised the methodology for agreed follow up of management actions, especially high-risk recommendations, to ensure these were timely. Mr Rock said these should result in increased engagement with management and improve the implementation of recommendations.

In reference to the draft annual Internal Audit Plan, Mr Rock said that whilst this would be reviewed by the Committee and agreed at this meeting, the plan required revision due to the pandemic. Mr Rock said the plan must focus on identifying the key risks and as such he was in consultation with Divisional and Corporate Directors. Mr Rock said he would bring the final version of the plan to the next Audit Committee for approval.

In response to questions from Members the following was noted:

- Mr Rock welcomed Members to contact him outside of the meeting, to put forward their suggestions in terms of what should be included in the Internal Audit Plan for 2020/21. The Chair asked that she be copied into any emails sent to Mr Rock.

The Audit Committee **RESOLVED** to:

1. Agree the Internal Audit Strategy for 2020 to 2023.
2. Note the draft Internal Audit and Anti-Fraud plan for 2020/21 which required further revision; and
3. Note the changes to the internal audit practice to be implemented from 2020/21.

5. AUDIT COMMITTEE WORK PLAN

The Chair informed the Audit Committee that a number of items on the Audit Committee Work Plan had been deferred to the new municipal year, due to the pandemic. She said reports such as the quarterly risk update, the Treasury Management update and Whistleblowing report would be added to the Committee's work plan for 2020/21.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 7.30 p.m.

Chair, Councillor Val Whitehead
Audit Committee