

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.00 P.M. ON TUESDAY, 14 DECEMBER 2010**

**ROOM M71, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON,  
E14 2BG**

**Members Present:**

Councillor Carlo Gibbs (Chair)  
Councillor Stephanie Eaton  
Councillor David Edgar

**Others Present:**

District Auditor, Audit Commission

**Officers Present:**

Alan Finch	– (Service Head Corporate Finance, Resources)
Minesh Jani	– (Head of Audit and Risk, Financial Services Risk & Accountability, Resources)
Tony Qayum	– (Corporate Fraud Manager, Internal Audit, Resources)
Caroline Chalklin	– (Committee Officer, Chief Executives')

**1. APPOINTMENT OF VICE-CHAIR FOR THE REMAINDER OF THE MUNICIPAL YEAR 2010/11**

Councillor Eaton was nominated for the position of Vice-Chair of the Committee and duly elected unanimously.

**2. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Asad and Chaudhury.

**3. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**4. UNRESTRICTED MINUTES**

**RESOLVED:** That the minutes of the ordinary meeting held on 21 September 2010 be confirmed as a correct record of the proceedings.

## **5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**

### **5.1 Annual Audit Letter 2009 - 2010**

Mr Hayes from the Audit Commission presented the report and also drew Members's attention to the Annual Governance report Addendum on page 245 of the Agenda.

Included in the 'Overall Conclusion from the Audit' in the report (page 16-17 of the Agenda) were some issues over timeliness of responses to queries, and meetings were in train to ensure deadlines would be met in future and to make the audit process smoother.

The audit relating to Value for Money (VFM) went well, and the future focus would be on planning and resilience.

The Government had announced the abolition of the Audit Commission; staff would be setting up a mutual audit practice and would be offering their services to Councils.

Focusing on International Financial Reporting Standards (IFRS), Mr Hayes commented that the Housing Benefit claim had been very well managed, and was the best one audited by the Audit Commission this year.

In response to a request by Councillor Eaton, Mr Hayes said that weaknesses included: some reconciliations were not completed, and this meant controls could not be tested to his satisfaction. More work was created for auditors, which meant more fees were payable; discussions were in train to fix these controls and help the auditors.

There was a need for more Quality Assurance, the draft finished in June enabled auditors to do the more difficult testing. Mr Hayes said it can be difficult to get deeper questions answered and the investment and changes in the internal audit would help.

In response to the Chair's question about the Certificate of Claims, Mr Hayes said that other matters can take priority. Mr Finch said that there was a knock on effect; the extra time needed to finalise the accounts had delayed the Certificate of Claims.

Councillor Edgar commented that the unqualified audit and VFM audit were good, but there was a sorry story of adjustments, which could be worrying, but he had been encouraged by the positive comments since then. Councillor Edgar asked if the substantial cuts had informed the Audit Commission's work. Mr Hayes responded that resources were in place, and there was nothing in future plans that mitigated against retaining financial controls. In

Appendix 3 was a good Action Plan, but the Council should not rest on its laurels; there was still the challenge of IFRS. In previous assessments, the team had been very pleased with forward planning, and the challenge was to retain what was good in previous situations: Mr Hayes was confident that it would remain robust. The Chief Executive and Corporate Director were fully informed and in touch.

The Chair drew attention to the projected overspends listed on page 20 of the agenda and asked how significant these were. Mr Hayes said they were not huge in the context of the Council's overall budget (£1.1 million from the General Fund and £500,000 from the Housing Revenue Account (HRA)), but it was nevertheless important that they were dealt with. The Corporate Management Team (CMT) were receiving monthly reports on the projected outturns. The main causes were Children's Services and Adult Social Care, both of which were demand led: both services were under review as part of the Council's response to the Comprehensive Spending Review (CSR). There were ongoing discussions with Tower Hamlets Housing (THH), who had responded positively, and the projected overspend was shrinking. The projected outturn figures were manageable with the current levels of reserves, but need to be reduced.

Councillor Eaton commented that in the 3<sup>rd</sup> Quarter of the Internal Audit Plan, self managed services could make a substantial saving, as the Council was often paying twice for the same service.

**RESOLVED:** That the Annual Audit Letter 2009-2010 be received and noted.

## **6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION**

### **6.1 Quarterly Internal Audit Assurance Report**

Mr Jani introduced the report, saying that the Council was on schedule. He drew Members' attention to the Performance Indicators (page 35 of the agenda), especially the percentage of Priority 1 Audit recommendations.

Mr Jani gave examples of systems audits assigned 'Limited Assurance', which included Climate Change (page 39). This involved control of the greenhouse gas emissions produced by the Council during service delivery, and the effectiveness of the Council in influencing the community to reduce its emissions. Ms Odunoye's team was working on mitigation and adaptations. It was 'limited' as some programmes were in place, but there were delays in implementing others; work was needed on the carbon impact assessment and the penalties the Council could incur for generating carbon emissions. Ms Odunoye said that it was hard to get a grip on the problem as it was not given a high priority, and the team was aiming for Corporate ownership. Ms Odunoye's team was working on demonstrating the savings that could be made by saving energy.

Ms Bell said that in the CSR the Government had changed the rules, and the Council had no details on how the Treasury was going to make them work. Ms Odunoye said that 2010-2011 would be the base year for all penalties. This created problems with schools, as the Local Education Authority was responsible for schools emissions.

Another systems audit assigned 'limited assurance' was the caretaking service (page 41), which comprises cleaning and site management. It was found that inspections were not being managed, and there was a weakness around stock control in the stores.

The final example Mr Jani gave was Management of Value Added Tax (VAT) (page 43): reconciliations had been done late, and it could be troublesome if they were delayed. Local Authorities had exemption of input VAT if the rate was 5% or below; it was important that the calculations be done regularly. In response to the Chair, Mr Jani said that no money had been lost due to delays.

Councillor Eaton asked about a large recent refund on VAT; Mr Finch responded that this was over 30 years, and was separate from the monthly recovery of VAT described by Mr Jani, and was from a suspense account that had a small balance. The work reclaiming the money was done by a 'no win, no fee' firm and Her Majesty's Customs & Revenue (HMRC) were willing to entertain the claim which resulted in a £1 million refund due to a change in the rules.

In response to Councillor Edgar, HMRC last did an inspection last year, but the Council had not had a full inspection for 6 years; Mr Finch continued that he would be in discussion with HMRC shortly. London Boroughs were classified as 'Not low risk' by HMRC.

**RESOLVED:** That the content of the report be noted and the assurance opinion assigned to the systems reviewed during the period be taken account of.

## **6.2 Revised Internal Audit Plan 2010/11**

The report was introduced by Mr Jani; the Plan was designed to capture the changes that may happen. Extra audit days had been spent on advising managers on robust systems, and this was now a key activity for internal audit.

In response to Councillor Eaton, Mr Jani explained that 15 days to investigate the RIPA Compliance was not over generous, the timescales were based on previous experience. If there was a high-risk exposure or it was important, testing would take longer. If there were only 9 transactions in RIPA, and the time required was small, the excess days would be used elsewhere.

Councillor Edgar commented that the Government was changing the framework for National Performance Indicators, and asked what discussions were taking place on how the Council was going to proceed. Mr Jani said that the indicators had been helpful for decision making, and the less extreme indicators would be retained. Where systems are changing, Mr Jani's team would try to be involved from the start and will be consulting on controls and systems. Systems that have worked are changing, and there may be a need for reprofiling; staff have a broad mix of skills available. Mr Vinall of Deloitte commented that the Audit Plan will shrink as the Council shrinks.

Mr Jani gave the example of the area of contract management; his staff were now engaged on improvements, and the work area and management will evolve. There is a myriad of ways changes can happen.

In response to Councillor Eaton, Mr Jani said that Corporate Complaints were fed into the audit. Mr Jani said that he did not know what effect the political leadership would have on indicators.

**RESOLVED:** That the revised 2010/11 internal audit plan and the supporting Audit Strategy and Terms of Reference be endorsed.

### **6.3 Annual Governance Statement for the 2009/10 Accounts Update**

Mr Jani introduced the report. He informed the Committee that the report covered more than control issues, but included work on how to make Tower Hamlets better. A further statement would be made in June 2011.

An example given by Mr Jani was Disaster Recovery: in the event of a serious disaster, the Council's ICT might not work. The ICT section was now working on a plan to review this: 4 systems had been tested, 3 systems came back on, but one failed. Work continues on the failed system.

Another area was information governance: the Data Protection Commissioner can fine organisations for failures. Full encryption was needed to protect data on laptops and flash drives.

Councillor Eaton raised the example of confidential papers being faxed to the wrong telephone number; email was also vulnerable. Mr Jani said that human error cannot be entirely eliminated, but it can be minimised. There was currently an emphasis on GSX email between GSX addresses; this had a higher level of encryption. Councillor Eaton suggested staff scan documents and email them. Ms Bell said there was a system of a virtual room where documents could be deposited, and then accessed by those needing to see them.

**RESOLVED:** That the action in dealing with the issues raised on the Annual Governance Statement 2010/11 Accounts be noted.

#### 6.4 Annual Internal Audit Report for Schools - 2009/10

The report was introduced by Mr Vinall of Deloitte.

There had been 32 school visits, which comprised a probity audit and FMSiS. A follow up audit was listed at 7a with 6 recommendations, and a full report would come to the next meeting of this Committee.

In response to Councillor Eaton, Mr Vinall said that schools should indelibly and permanently mark any items that might go missing, as these items would have to be replaced out of school budgets. Staff identify weaknesses, so that schools can remedy them, and staff also work with schools prior to audit.

The key points of FMSiS will be picked up, but the system will be reprofiled. Mr Vinall said FMSiS was over bureaucratic. Internal audit was just the messenger, and schools needed more than 3 visits a year. Councillor Edgar said that schools ought to have controls in place, this was part of the underestimation of the support schools receive from the Council. Mr Minesh said that the probity visit was prior to the FMSiS, so that schools had something to begin with. Governing bodies were supposed to receive an 'Assurance Statement' from the Headteacher, but Governors did not know what this was.

In response to Councillor Eaton, Mr Jani said that OFSTED may take assurance into account during an inspection. In response to the Chair, Mr Vinall said that the number of 'Limited Assurances' did not change much from year to year, but he felt schools took the process seriously. Mr Jani said that schools financial management needed to be raised to the next level.

**RESOLVED:** That the content of this report be noted and matters raised by audit in each of the 12 areas examined be taken account of.

#### 6.5 Audited Statement of Accounts 2009-2010

Mr Finch introduced the report which provided the Committee with a final set of accounts following the conclusion of the audit. All matters raised by the auditor had been adjusted for except for the treatment of the Tower Hamlets Homes pensions liability where officers remained of the view that there was no justification for treating the liability differently from the Council's main pension liability.

**RESOLVED:** That the final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2010 and the changes made from the draft accounts be noted.

## 6.6 Treasury Management Activity for Period Ending 31 October 2010

*Mr Finch said that the report detailed the Council's investments as at 31<sup>st</sup> October 2010, and officers were looking at ways of making the money work harder without extreme risk: the limit of any one investment was to be increased to £30 million from £25 million and overseas investment would be in highly credit rated (sovereign rated) countries.*

*Councillor Eaton pointed out a different rate of interest was payable on two investments made on consecutive days through the same institution. Mr Finch said that Cater Allen was a part of the Santander banking group, and offered outstanding rates of interest. The Council's investments were made through brokers; the Council does not deal with banking institutions direct: these brokers sift the market for the best rates.*

*Subsequently, Mr Finch responded to Councillor Eaton's question: a deposit had been placed with Cater Allen Bank in May for a 12 month deposit at a rate of 2.10%. which was much higher than the 1.50% achieved for a similar deposit the day before.*

*The 2.10% offer was a special deal negotiated by a broker. The deal was recommended by the Council's cash managers specifically because it involved an exceptional 0.6% rise on the previous day's rate. There would be no way of knowing why this rate was on offer.*

*The Chair said that there were 2 different deposits made on 3 June 2010; Mr Finch explained that there might be investment limits. The Chair also commented that the length of the investments was increasing; Mr Finch explained that the investment strategy was to find longer term investments when possible, but the Council needed cash to meet its obligations, so some cash would be put 'on call' or 'overnight'.*

**RESOLVED:            That the contents of this report be noted.**

The meeting ended at 8.35 p.m.

Chair, Councillor Carlo Gibbs  
Audit Committee