

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.03 P.M. ON MONDAY, 14 JANUARY 2013

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

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Anwar Khan (Vice-Chair)
Councillor Stephanie Eaton
Councillor David Edgar
Councillor Abdal Ullah

Officers Present:

Jill Bell	– (Head of Legal Services (Environment), Legal Services, Chief Executive's)
Alan Finch	– (Service Head Financial Services, Risk & Accountability, Resources)
Minesh Jani	– (Head of Audit and Risk Management , Resources)
Tony Qayum	– (Anti Fraud Manager, Internal Audit, Resources)
Les Warren	– (Director of Finance and Resources, Tower Hamlets Homes)
Antonella Burgio	– (Democratic Services)

Others In Attendance

Daniel Hellary	– Deloitte Touch
Shona Milton	– Audit Manager KPMG
Andrew Sayers	– Audit Partner KPMG

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

1.1 Introductions

At the Chair's invitation, all parties in attendance introduced themselves.

The Chair welcomed Andrew Sayers and Shona Milton of KPMG and advised that, in respect of Council business, KPMG would carry out the audit role formerly undertaken by the Audit Commission. The Chair also welcomed Daniel Hellary of Deloitte UK who had replaced Steve Vinall.

Alan Finch advised the Committee that, following the departure of the Director of Resources, he had been assigned the role of Interim Section 151 Officer on behalf of the Council.

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2. DECLARATIONS OF INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The minutes of the Audit Committee meeting held on 25th September 2012, were approved as a correct record of proceedings.

4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

4.1 Certification of Claims and Returns Annual Report LBTH Audit 2011/12

Mr Sayers of KPMG advised the committee that KPMG would in future undertake the role previously performed by the Audit Commission and would be responsible for undertaking the audit of the council's accounts. He advised that the style of audit may differ from that undertaken by the Audit Commission but the annual report will be the same as that hitherto provided.

Mr Sayers presented the report circulated at agenda item 4.1, the annual audit of Certification of Claims and Returns. He advised that the certification of grants and returns 2011-12 had been undertaken by the Audit Commission and the report produced by KPMG.

Regarding the certification of claims and returns, Mr Sayers advised that there were six certified claims reported, two of which were subject to qualification. He noted the technical qualification against housing audit resulting from a DCLG error. This qualification although not originating the Council was reported to the awarding body in accordance with the grant certification requirements.

Mr Sayers noted the need for consistent rigour in the preparation of returns and that a reduced fee had been levied this year as there had been a general improvement in their preparation.

In response to questions from the Committee, the following matters were discussed:

The origins of the income calculations error relating to housing benefit and council tax benefit subsidy were not clear. The error was traced and was found to originate only to the figure submitted in the return. He noted that

there was no indication that monies had been paid incorrectly. Therefore the consequences of this qualification were reduced.

The Head of Risk Management and Audit informed the Committee that there was close interaction between the Council's Audit Officers and its external auditors because the number of internal audits undertaken had diminished. Because of the close cooperation inconsistencies also could be identified readily.

At internal school audits Council Audit Officers assessed where areas of higher risk existed and where the audit cycle was manipulated by Chairs of Governors.

The Service Head, Finance, Risk and Accountability advised that accounting differences in the certification of benefits claims and returns were caused by delays in the issue of software updates that incorporate changes in benefits rules. Software updates were issued regularly and reflected the changes in benefits rules. However inconsistencies could arise at times because of delays in software release from Government forcing officers to anticipate the impact of benefits changes before the software could be run on the system data. Mr Sayers advised that the updates had been released after the audit work had started on the certification of claims and returns and this had also affected the final sums reported. He also noted that this circumstance did not impact benefits claimants but affected the sum that the Council recovered for each claimant.

The Committee was informed that the single person discount claim was made based on Council Tax Band D. This was £280. The scale of discounts was not given and the figure was not held by KPMG.

Concerning the GLA Single Programme, the Council reported that it had received income of £1,083K. The sum had not been verified and the Service Head, Finance, Risk and Accountability advised that this may have occurred because it was pre-announced and/or the timing of the receipt which took place after the year end accounts had closed. He advised that this return had not been checked by the Council and therefore this risk was being addressed.

RESOLVED:

That the report to be noted

5. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

5.1 Quarterly Internal Audit Assurance Report

The Head of Risk Management and Audit informed the Committee that the report covered the period September - November 2012 in which time 15 audits were completed. Three of these were assigned limited assurance and 12 substantial assurance. He advised that all priority one recommendations

had been implemented and three priority two recommendations remained outstanding at the time of the follow-up.

In response to questions from the Committee, the following matters were discussed:

It was confirmed that sufficient time had been allowed to complete the plan barring unexpected events because the timings of the audits had been planned in advance. The Council was presently on target to deliver the plan. All preparations were in hand and the participants had been alerted.

The Committee was satisfied to learn that there had been no nil assurances and queried why no full assurances had been achieved. Members were advised that this was because the standard was high and full assurances would be assigned only when systems were considered sufficiently robust to assure delivery of their objectives. The Head of Risk Management and Audit noted that most audits had returned substantial assurances and advised that the Council aimed to perform within this range. Should an audit return a 'fail', an investigation would be considered.

Limited assurance levels had been returned for Tower Hamlets Homes (THH), contractors financial accounts-systems audit. The Director of Finance and Customer Services, THH advised that the audit had indicated some areas of need concerning capital contracts. He advised that membership of the contracts group would be reviewed for conflicts of interest. Also the final account audit would ensure that all sums were reconciled. Following the audit outcome there has been work on the capital manual and a follow-up audit will be undertaken to ensure that all recommendations have been implemented. Tower Hamlets Homes was presently looking into commissioning external auditors to undertake this work. The Director confirmed that he was confident that the recommendations would be implemented as implementation of the measures to remedy the limited assurances identified was ahead of schedule. In considering whether THH lacked risk awareness in the areas that returned limited assurance, the Director advised that the audit was a system audit and therefore officers with who were aware of the issues would be tasked to deal with them and also would be involved in the discussion. He further advised that the issue was not so much around risk awareness but concerned acknowledging conflicts of interests around the group. The Head of Legal Services, Environment also advised that since THH had a small workforce it was necessary to avoid ruling out participation by those with expertise. She therefore suggested that it would be more prudent for those evaluating the audit to declare an interest rather than to remove themselves from the audit.

The Head of Risk Management and Audit advised the Committee that a full confirmed that audits in the following year would explore how the Council managed its final accounts process.

The Head of Risk Management and Audit advised the Committee that that a satisfactory response had not been received from Sir John Cass school in regard to the limited assurance returned following the audit of management and control of school meals income. Therefore the Council had agreed a new

process be followed in the management and control of school meals income and cash handling. Accordingly a follow up audit was due to be undertaken.

It was confirmed that the recommendations around the medium-term financial plan given at appendix 3 had been implemented.

RESOLVED

That the report be noted

5.2 Revised Internal Audit Plan for 2012

The Head of Risk Management and Audit advised the Committee that, at the start of the financial year, an audit plan had been set that identified the key risks for all operations of the Council. The report provided an update of audit activity planned in this year and also advised of changes to be made to the original internal audit plan as a result of changing priorities and available resources.

The Committee was also informed that the data given at paragraph 4.2 of the report had been amended as follows:

Additional audits added to the plan had increased to 225

Number of days per the revised plan had increased to 1435

The revised current internal audit plan 2012 - 13 was printed at Appendix 2 of the report.

In response to questions from the committee the following information was discussed:

It was confirmed that the internal audit plan incorporated audits carried out by Deloitte and KPMG and included an audit of the management of Baishaki Mela contract.

The Head of Risk Management and Audit advised that in June 2012 the Council had written to the Baishaki Mela Trust recommending certain controls. An audit of these has been completed by Deloitte seeking also to verify the expenditure that the Trust claims to have incurred.

At Members' request, The Head of Risk Management and Audit agreed to present a report on the findings of the audit of the Baishaki Mela Trust before the next Mela festival took place. The Head of Legal Services – Environment advised that the event was to take place in Spring and preparations were mostly underway leaving insufficient time for a report and recommendations to be actioned. Members therefore requested that officers ensure that the recommendations of the audit be implemented and were informed that most recommendations were financial and should already be in place. The Head of Risk Management and Audit agreed that an audit would be carried out before

the Mela Festival took place and confirmed that if areas of concern were identified, these matters could be raised at senior officer level. The Head of Legal Services – Environment advised that, if it were found that audit recommendations were not being followed, the event could be halted if necessary. Members considered whether an audit post-event should be carried out and were concerned that such an audit brought exposure to risk into the following Mela Festival preparation cycle. Additionally they were concerned that the present audit had taken six months; and enquired whether the audit controls were sufficient to address previous allegations around human trafficking. They were advised that the audit process had started in October 2012 but had taken longer than expected. It was now advanced although some work remained to be done. The audit emphasis had been to ensure that any claims could be justified before being paid. At present 80% had been paid to the Mela Trust and the remainder would be paid after the audit had been completed.

Concerning human trafficking allegations, the Head of Risk Management and Audit advised that the Mela Trust was charged to ensure that artists used at the festival possessed the right credentials. An external company was used to verify credentials and it is believed that some artists have been refused participation after vetting.

The Chair asked that a report on the audit of the Baishaki Mela Trust be prepared for the next meeting

Members queried whether the allocation of 15 days for Oyster Card audits was wise use of staff resources and were advised that the first audit of Oyster Card usage had identified an abuse. Therefore it had had been necessary to re-audit the provision. It was also noted that because of staff reductions, audits generally took longer.

Concerning the audit of right to buy scheme, Councillor Ullah highlighted that two different valuations had been given against one property. He was advised that right buy scheme is planned and valuations were generally made by professional bodies; however the discrepancy in the valuations offered by competitive valuers and the possible implications and costs to the Council were noted. It was agreed that this matter would be pursued outside of the Committee by the Head of Risk Management and Audit.

RESOLVED

That the report be noted

5.3 Annual Risk Management Report

The Head of Risk Management and Audit presented the annual risk management report which highlighted the Council's framework of control, the key risks and what further action the risk officer would take to address key risks identified.

Risk was categorised into low, medium and high categories using a risk matrix. In 2012, the annual risk audit identified 12 risks, grouped into corporate priority themes and directorates and reported in paragraphs 5.6 and 5.7 of the report.

The authority wished to progress in the area of risk management and has been reviewed by Zurich Insurance to identify areas for improvement. A report of the findings of this review will be presented at the next Audit Committee by the Head of Risk Management and Audit.

To raise corporate awareness of risk, the risk management team undertook a programme of lunchtime seminars for staff and have developed a screen saver which is displayed on the Council's computer terminals. The Committee noted that these were positive initiatives.

In response to Members' questions, the following information was provided:

A proprietary software package was used to perform risk audits, actions returned from these would indicate where the Council had more or less control over a risk.

The risk categories operated by the Council provided a good indication of exposure to risk faced by the Council and which of these could and/or could not be controlled. Additionally risk management monitoring a tool to evaluate how risks changed over time and gave an indication of what the Council was able to do about them.

RESOLVED

That the report be noted

5.4 Annual Internal Audit Report for Schools 2011/12

The Committee was advised that an internal audit of schools was undertaken annually to safeguard against financial risks. The key issues returned from this year's audit were governance, schemes of delegation, declarations, financial procedures and inventory control. It was noted that these areas needed to be better embedded in schools procedures.

In response to Members' questions, the following information was provided.

Following recent legislation, the relationship between schools and local authorities was changing. In regard to impacts this change on school audits, Members were advised that the Audit Team always sought to maintain a good relationship with schools but noted that audits created a tension by their very nature; therefore auditors were always cautiously welcomed. Audits were undertaken in an open and objective manner and findings reported to schools management and governors.

Concerning whether there had been a difference in audit prior to schools becoming more independent, members were advised that there had been no change in the approach taken by auditors.

RESOLVED

That the report be noted

5.5 Annual Governance Statement for 2011/12 - Update

The Head of Risk Management and Audit presented the report circulated at agenda item 5.5 which outlined progress made on a governance issue that was identified in the Annual Governance Statement (AGS) presented to Committee on 25 September 2012. The AGS report had highlighted an issue concerned with creditors and year-end cut-off procedures. Progress was reported in the appendix to the report and Committee informed that the Council was to implement a new finance system and exploring how to improve the procurement process

RESOLVED

That the update be noted

5.6 2011/12 Treasury Management Report to 30 November 2012.

The Service Head, Finance, Risk and Accountability presented the report circulated at agenda item 5.6. In noting the treasury activity for the period, he advised the Committee that the continuing adverse global financial situation meant that markets rewards were presently not favourable. Treasury management had been affected by the diminishing availability of safe investments and a fourth year of low interest rates.

In response to Members' questions, the following information was provided.

The difference in the rate of same day borrowing between Royal Bank of Scotland (RBS) and Bank of Scotland (BoS) was due to the maturity dates of each of the investments and also that BoS presently had a better offer.

The Committee noted that the Council had significant exposure to RBS and BoS, was advised that this had come about because fewer secure investments were available. Since these organisations were under the Government's guarantee scheme there was lower risk and assurance therefore the Authority had preferred these investments.

Members were advised that the Council was at liberty to opt to invest in Australian banks but this would depend on rate of return on offer and the date of investment.

The Council's investment strategy aimed to avoid all non secure investments; therefore the council was restricted to a smaller circle of investors. Additionally there was now lending between local authorities indicating that local authorities have lesser trust in banks.

The Committee was advised that Cash Managers were achieving the targets set by the Council. Members would be informed in writing of the portfolio benchmark of the Councils cash management arrangement with Sector.

The Committee was informed that to gain access to the most favourable investments, the Council used Cash Managers who had expertise and a background in these areas of investments. The Committee requested that a Cash Manager be invited to speak at the next meeting and asked officers to undertake all necessary arrangements.

RESOLVED

That the report be noted

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

The Service Head Finance, Risk and Accountability (FSRA) was asked about interim arrangements following the departure of the Corporate Director – Resources. He replied that he had been appointed Interim S151 Officer on a three-month basis pending the appointment of a new Director of Finance. In this regard access had been granted to all necessary decision making mechanisms. Additionally he had met with the Monitoring Officer and Interim Head of Paid Service. The management of Resources Directorate, in the inter-regnum, was divided between the relevant service heads and routine management of the directorate would continue unchanged.

The Service Head, FSRA also reported that levels of organisational risk relating to the numbers of interim staff at senior level had been noted and was being monitored by the Council's auditors.

The meeting ended at 8.30 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee