

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.07 P.M. ON THURSDAY, 26 SEPTEMBER 2013**

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

**Members Present:**

Councillor Carlo Gibbs (Vice-Chair, in the Chair)  
Councillor Craig Aston  
Councillor Stephanie Eaton  
Councillor M. A. Mukit MBE

**Officers Present:**

Kate Bingham – (Service Head, Resources, Education Social Care and Wellbeing)  
Chris Holme – (Acting Corporate Director - Resources)  
Minesh Jani – (Head of Audit and Risk Management , Resources)  
Kevin Miles – (Chief Accountant, Resources)  
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)  
Manjit Saroya – (Head of ICT)  
Gina Clarke – (Deputy Head of Legal Services)  
Brian Snary – Financial Accountant - Resources  
Antonella Burgio – (Democratic Services)

**Others In Attendance**

Andrew Sayers – (KPMG)  
Antony Smith – (KPMG)  
Molly Wallis – Interim Head of Neighbourhoods, THH

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Mizan Chaudhury, Shafiqul Haque and Judith Gardiner.

Apologies from Deloitte representative Daniel Hellary were also noted.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interests were made.

**3. UNRESTRICTED MINUTES**

The unrestricted minutes of the Audit Committee held on 25 June 2013 were approved without amendment as a correct record of proceedings.

#### **4. UNRESTRICTED KPMG REPORTS FOR CONSIDERATION**

##### **4.1 London Borough of Tower Hamlets - Report to those Charged with Governance (ISA 260) 2012/13**

At the Chair's invitation, Mr Sayers of KPMG presented the Council's Annual Governance report which reported the outcome of KPMG's annual audit work for the Council according to the agreed external audit plan 2012-13.

Mr Sayers advised that:

- KPMG expected to issue an unqualified opinion and certificate concluding the 2012-13 audit, by 30 September 2013 subject to completing:
  - the investigation of a number of outstanding enquires, the and
  - the procedures specified by the National Audit Office on the Council's whole governance account return.
- only two significant audit adjustments were identified
  - accounting for employee annual leave that was not taken at the financial year end and
  - a provision relating to the administration of Municipal Mutual Limited
- eight of the nine recommendations made in the previous year's annual audit had been implemented.
- the audit had not identified any significant issues from the planning risks around property, pensions or VFM savings plans
- the control environment over all was effective and
- the report included eight recommendations, but none of these were considered to be at the highest (priority 1) risk level (see Appendix 1)

Further, he:

- confirmed that KPMG's VFM conclusion would also be unqualified as KPMG was satisfied that the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and
- noted the importance of completing the corporate governance review and implementing its recommendations.

In response to Member's questions, the following matters were discussed:

**Audit Adjustments:**

- concerning an audit adjustment to reduce the net worth of the authority by £1.184M, the Committee was informed that there was no impact as, in practical terms, it was moving funds from an earmarked reserve to a provision.

**Local Governments Electors Enquiries:**

- concerning an enquiry relating to councillors' expenses, the Committee was advised that this had been investigated and revealed no major issues. However, to improve governance further, the procedures were being revised.

- concerning an enquiry relating to the potential sale of a heritage asset, Members were advised some procurement procedures had been revised however the decision around which auction house and how the sale would be handled had not yet been finalised.
- concerning protocols for responding to these enquires; the Committee was advised that members of the public were permitted to lodge written queries with KPMG. Upon receipt, these would be assessed to ascertain whether it constituted an enquiry or an objections. If it was an enquiry, KPMG would determine whether it was best placed to investigate or consider referring it to the Council's internal audit team. It was noted that none of the enquiries received during the year had become a formal objection.
- concerning whether investigations would be charged, the Committee was advised that the Audit Commission set a scale of fees for the audit. Any additional work, such as that required by enquires and objections relating to the accounts, needed to be agreed with the Audit Commission and was based on actual time needed and at the rates set by the Audit Commission.

**RESOLVED:**

1. That the report be noted taking in to the account the matters raised in the audit
2. That the headline messages in Section 2 be noted
3. That the key findings in relation to the 2012/13 financial statements set out at Section 3 be noted
4. That the key findings in Section 4 from the work on VFM conclusion be noted
5. That the recommendations set out at Appendix 1 be noted
6. That progress in implementing previous year's recommendations in Appendix 2 be noted
7. That the Council's ISA 260 audit report be approved

**4.2 London Borough of Tower Hamlets Pension Fund - Report to those Charged with Governance (ISA 260) 2012/13**

At the Chair's invitation, Mr Sayers presented the Tower Hamlets Pension Fund Governance report circulated at agenda item 4.2. He noted the headline messages at section two of the report advising that officers responded promptly to queries and that an unqualified opinion was expected to be issued at the same time as the opinion on the Council's accounts. The Committee raised no matters relating to the report.

**RESOLVED:**

1. That the report be noted taking in to the account the matters reported by the auditors
2. That the headline messages set out at Section 2 be noted

3. That the key findings in relation to the audit of the Fund's accounts set out at Section 3 be noted
4. That the recommendations at Appendix 1 be noted
5. That the Council's Pension Fund ISA 260 Audit Report be approved

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

### **5.1 Statement of Accounts 2012/13 - Audit Report and Approval**

The Acting Corporate Director Resources and Chief Accountant, Resources presented the report which detailed the Authority's accounts for the year ending 31 March 2013. The Corporate Director Resources thanked KPMG for their work on the statement of accounts and advised the Committee that information reported was in accordance with CIPFA guidance. He also noted that there had been no substantive changes to the draft accounts tabled at June Audit Committee.

In response to Member's questions, the following matters were discussed:

Potential liability and potential consequences of risk relating to the transfer of tenanted and leasehold properties to other landlords:

- Members were advised potential liability could not be quantified presently; however the Director of D&R would provide a written response on the potential risks relating to transfer of this kind.

Fees paid to pension fund investment managers:

- Members were advised that:
  - fees were paid to each of the managers engaged. Normally these were administered as a charge within the investment; however GMO applied its fees separately.
  - managers' fees were not generally published however the matter would be reviewed as part of the fund triennial evaluation.

Tax liable on investment Income derived from foreign tax investments:

- the Committee was advised that tax was a matter for Governments of countries where the investments were held; therefore no UK tax was liable on these funds.

Whether the value of the Henry Moore statue was incorporated into the sum of heritage assets held by the Council:

- the Committee was informed that the figure published was for total artworks held by the Council with a material value and based on book value. For accounting purposes, either this value or an insurance valuation could be applied. These assets had recently been valued by art experts as it was normal for such valuations to be periodically reviewed, however as there isn't an active market for such specialist items, there could be a difference between a potential sales value quoted by a specialist and a suitable book value for the accounts. It will be important that officers agree an appropriate valuation approach with auditors.

**Actions by:**

Kevin Miles, Chief Accountant – Resources

**RESOLVED:**

1. That the Statement of Accounts for the financial year ended 31st March 2013 be approved having regard for the auditor's Annual Governance Report.
2. That the Chair of the Committee, if the auditor identifies any significant issues, be delegated authority to approve any subsequent amendments to the statement of accounts that may be necessary as a result of further audit work
3. That the Chief Financial Officer will brief members of the committee, on any such amendments and if necessary prepare a formal report for presentation at the next meeting of the Committee

**5.2 Quarterly Internal Audit Assurance Report**

At the Chair's invitation the Head of Audit and Risk Management presented the report which summarised the internal audits undertaken for the period June - August 2013 and reported their assurance ratings. He advised that 16 audits had taken place and of these, nine extensive audits and three moderate audits had returned substantial assurance while four extensive audits had returned limited assurance. Officers of audits in the latter category were present to discuss findings.

**Management and Control of Void Dwellings – Follow up Audit:**

The Head of Audit and Risk Management informed the Committee that this audit had returned a limited assurance since four of the six areas of improvement identified in the previous audit had yet to be completed.

Molly Wallis, Interim Head of Neighbourhoods THH was present to answer questions. She informed the Committee that since she had been in-post she had worked to address the key recommendations relating to rigour in data recording and the management of void dwellings. She advised that the following actions had been taken:

- The voids process had been reviewed
- Additional training given to ensure procedures were understood
- Date, notice served on tenant / tenant signed V2 tenancy termination form now recorded on the SX 3 system
- Ensure that each property file contained all key documents necessary for the property and also a standard tick-list of the documents required
- Key documents included:
  - gas inspection certificate
  - electricity inspection certificate
  - void keys record sheet

- Tick-list to be retained by the originating officer to verify that documents had been correctly scanned to the relevant property file
- Pre-determination inspections were carried out
- Practical measures to ensure that, in future, managers follow the void management procedures in full
- Past mis-filed data, where discovered, was corrected

She advised that, to ensure consistency, she monitored much of the work in person.

In response to Members questions the following information was provided:

Potential adverse impact of decent homes programme works on the time taken to prepare and re-let a void property:

- the Committee was informed that there was no impact because the works were administered under different criteria. Void properties were made ready for letting under 'day-to-day repairs' programme while the decent homes programme was administered via Surveyors Team. If a property that became void was assessed to require work under the decent homes renovation programme, it would then be removed from the day-to-day repairs list. Alternatively if a property in a block undergoing decent homes renovations became void, it would be either used as a respite property or withheld from letting until the works were complete.

Query relating to a delay of several months for work under the decent homes programme:

- the Committee was informed that this work was administered through the Surveyors Team and therefore a written answer would be provided to Councillor Mukit

Whether delays in the decent homes programme's schedule of works resulted in a delay in lettings of the properties:

- the Committee was advised that the approach taken would be dependent on the length of the delay, for example if a six-month delay were anticipated, a property would be let rather than remain empty and the intended refurbishments carried out while the property was occupied. However for periods up to one month, the property would be withheld from letting and the works completed before re-letting. The Committee was further advised that there was provision to undertake works under the decent homes programme outside of the voids program.

Limited assurance returned on the management of voids.

- The Committee was advised that one of the key issues was how documents such as gas / electrical safety certificate were filed. Documents relating to a void property could be placed in either the property file, the new tenants' file or the former tenants' file, and therefore some documents had been difficult to locate. Training had since been given to ensure that all gas/electric safety certificates would be filed appropriately and could be easily traced. In addition the Head

of Neighbourhoods had acted to correct misfiled certificates as they came to officers' attention.

#### ICT Governance Systems Audit:

The Head of Audit and Risk Management informed the Committee that although ICT governance, on the whole was good, the audit had returned a limited assurance as improvement was needed around ICT security, security monitoring and reporting

Manjit Saroya, Head of ICT was present to answer questions.

He reported that:

- there had been progress on strengthening management tools and ICT strategy
- all new staff were required to undertake ICT security awareness training as part of their induction
- the recommendations of the Cabinet Office on information governance groups had had an impact on the management of Council data
- much work had been done on data sharing to ensure the Council passed its PSN assessments

In response to Members questions the following information was provided:

Risks around using a third-party manager to administered the Council's ICT infrastructure:

- the Committee was informed that Agilysis were tasked to ensure that all software was up-to-date and patches implemented regularly. These works were carried out to a planned schedule.

Terms and conditions required to be signed by new starters:

- the Committee was advised that these referred only to ICT usage and was a procedure implemented ensure that new starters understood the terms they were required to agree to.

How the Council could ensure that partners were operating best practice in terms of ICT security:

- the Committee was informed that:
  - secure data vehicles were utilised such as GSX
  - schools had their own specific security protocols
  - secure protocols are being extended to the PCT via engagement and evaluation of data exchanges
  - the risk management process was used as a key to identify where security issues might arise.

The Head of Audit and Risk Management advised that the outcomes of schools' audits would be presented separately later in the agenda.

**RESOLVED:**

That the content of the quarterly audit report be noted taking account of the assurance opinion assigned to the systems reviewed during the quarter.

**5.3 Annual Anti -Fraud Report 2012-13**

Tony Qayum, Corporate Antifraud Manager presented to the report which provided an update of reactive and antifraud work undertaken during 2012-13. Additionally, the work of the Corporate Antifraud Team relating to corporate investigation, housing benefit fraud, social housing fraud and parking fraud was reported.

He noted that:

- the multi-agency review (paragraph 4.5) had been very successful in revealing criminal activity
- significant monies had been recouped from activities under the National Fraud Initiative
- fraud convictions were now often subject to legal challenge and therefore the process evictions or reclaiming properties from sub-lettees was delayed
- an Antifraud Hub had been established to better enable data mismatches to be tracked. This also acted to invigorate further investigations
- the Antifraud Team was exploring opportunities for joint working with further partners to ensure that housing was allocated to those genuinely in need

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

Families with children who were renting illegally:

- the Committee was informed that most cases investigated revealed that those renting illegally also owned properties elsewhere. It rarely occurred that an illegal occupier return to the Council through the homeless persons' service. He also advised that data matching had been undertaken since 2010 during which time 120 illegally rented properties had been recovered.

Anticipated date for the establishment of the London Authorities Partnership:

- the Committee was advised that establishment was expected to be concluded within the next month. Since a protocol for sharing information would be established through this partnership, all London authorities would be able to undertake data matching exercises, fraud investigations and share data more effectively

**RESOLVED:**

That the Annual Anti-Fraud Report be noted.



#### **5.4 Annual Internal Audit Report for Schools for 2012/13**

The Chair noted the typographical error at agenda page 238 and advised that a corrected chart had been tabled at the meeting.

Minesh Jani, Head of Risk Management and Audit and Kate Bingham, Service Head Resources, Education, Social Care and Wellbeing Directorate (ESCW) then presented the report which provided an overview findings arising from schools' audits. The Committee was advised that, overall, governance arrangements in schools had improved. In the year 2012 -13, approximately one third of the audits undertaken had returned a limited assurance and work was being undertaken by the ESCW to explore how further improvement could be achieved. The audits examined 12 control areas ranging from governance, procedures, security, risk management to financial matters. The audits had commonly identified that there was a lack of evidence demonstrating that schools' development plans had been formally reviewed and approved by the full governing body; and some schools had limited assurances around financial procedures and procurement procedures.

The Service Head Resources ESCW was concerned the results indicated that there was insufficient adherence to protocols and procedures amongst schools. She advised that ESCW was already working collaboratively to support and give guidance to schools concerning adherence to procurement and finance procedures. However the audit outcomes indicated that leadership teams needed to be engaged in resolving issues. To widely communicate this message, the annual audit report had been presented at the Schools Forum and would also be published in the Headteachers' Bulletin to better engage with schools' leadership teams. The scheme for school governance had been completed and it was now necessary to ensure that schools implemented it.

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

Whether schools were receiving the right to levels of support:

- the Committee was advised that, in the past, ESCW had relied on training school finance officers. However to implement the appropriate cultures across the schools it was felt necessary to focus on the leadership teams.

#### **RESOLVED:**

That the contents of the report be noted and that Members take account of the matters raised in each of the 12 areas examined.

#### **5.5 Treasury Management Activity for Period Ending 31 August 2013**

The Acting Corporate Director Resources presented the report which advised the Committee of treasury management activity in the current financial year

up to 31 August 2013. This report was required to be presented under the powers of the Local Government Act 2003.

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

The Council's rationale for investment in small local authorities and whether any had failed to meet the necessary credit ratings:

- the Committee was advised that:
  - all local authorities were indemnified by the Government and had AAA rating.
  - it was generally understood that no local authorities had failed to meet the credit ratings, however this would be investigated and a written reply provided.

The Committee was advised that a small investment pool in itself was a source of risk. The Council's investment advisers were tasked to monitor the levels of risk exposure. However a change in the pool of risk would be investigated.

Counterparty exposure to banks and local authorities in which the Council invests:

- regarding Members' concerns that the Council's choice of investment should be safe and they were advised that the investments chosen had very low risk. The Corporate Director Resources noted that as Lloyds bank remained partly Government owned, it would retain the same rating as Royal Bank Of Scotland (RBS). In response to Members' concerns, he agreed that the ratings of the Council's chosen investments be investigated and reported back.

Whether the Council expected to be required to reassign funds following the anticipated sale of Lloyds and RBS back to the private sector:

- the Committee was advised that officers would take advice on this matter from the Council's investment advisers. The Corporate Director, Resources noted that RBS presently remained under Government ownership although some Lloyds Bank shares had been floated on the Stock Exchange. While, overall, it was not expected that these floatations would have an impact on the Council's investments because a risk averse approach to investment had been chosen, a report would be given at the next meeting

### **Action by**

Chris Holme, Acting Corporate Director of Resources

### **RESOLVED:**

That the treasury management update report for the period ending 31 August 2013 be noted.

**6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT**

Nil items.

The meeting ended at 8.25 p.m.

Vice-Chair, Councillor Carlo Gibbs  
Audit Committee