

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.05 P.M. ON TUESDAY, 21 JULY 2015**

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

**Members Present:**

Councillor Candida Ronald (Chair)  
Councillor Sabina Akhtar  
Councillor Ayas Miah  
Councillor Andrew Wood

**Other Councillors Present:**

**Apologies:**

Councillor Rachel Blake  
Councillor Mohammed Mufti Miah

**Others Present:**

Andrew Sayers	– (Engagement Lead Auditor, KPMG)
Antony Smith	– (Engagement Manager, KPMG)
Daniel Hellary	– (Service Manager, Mazars)
Nick Spenceley	– (Head of Repairs Tower Hamlets Homes)

**Officers Present:**

Simon Baxter	– (Acting Service Head, Public Realm, Communities Localities & Culture)
Kate Bingham	– (Service Head, Children's and Adults Resources)
Chris Holme	– (Service Head, Resources & Economic Development)
Minesh Jani	– (Head of Audit and Risk Management, Resources)
Dorne Kanareck	– (Interim Service Head, Commissioning and Health)
Bharat Mehta	– (Audit Manager)
Kevin Miles	– (Chief Accountant, Resources)
Tony Qayum	– (Anti-Fraud Manager, Risk Management, Resources)
Antonella Burgio	– (Democratic Services)

**1. APPOINTMENT OF VICE-CHAIR**

A self-nomination for the position of Vice-Chair of Audit Committee was received from Councillor Sabina Akhtar and seconded by Councillor Ronald. There being no other nominations it was

### **RESOLVED**

That Councillor Sabina Akhtar be appointed Vice-Chair of Audit Committee for the duration of the municipal year.

## **2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Cllr Andrew Wood declared an interest regarding item 6.7 in that his father is on the electoral register at Tower Hamlets and receives a Council tax letter.

## **3. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the meeting held on 17 March 2015 were approved as a correct record of proceedings subject to correction at minute 3.2 in that all references to 'Section 101 Audit' be amended to 'Section 106 Audit'

## **4. AUDIT COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS**

The clerk introduced the report informing Members that this annual report was presented to enable the Committee to note its arrangements and, if desired, agree an alternative meeting time for the duration of the municipal year.

### **RESOLVED**

1. That Audit Committee's Terms of Reference, Quorum, Membership, and Dates of future meetings as set out in Appendices 1, 2 and 3 to the report be noted.
2. That scheduled meetings will start at 7.00 pm for the duration of the municipal year.

## **5. UNRESTRICTED EXTERNAL AUDIT (KPMG) REPORTS**

### **5.1 External Audit Plan 2014/15**

Andrew Sayers and Antony Smith of KPMG introduced the report which detailed how KPMG intends to deliver their financial statements audit work for the Council and its pension fund in 2014/15 and the approach to be taken in regard to value for money work in the same period. The approach to audit would be the same as in the previous year and details were given in sections two to six of the report.

The key risks identified were the High Court judgement, accounting in the local authority schools following the issue of new guidance, payments of grants and connected decisions and S106 agreements.

Key risks identified in regard to the Pension Fund were: reform of the LGPS in which will have a delayed effect on the calculation of pension benefits.

VFM risks identified were: savings that would be required relating to the medium term financial plan and if an appropriate mitigation plan exists, Best Value inspection outcomes and schools governance.

The materiality figures used were:

- for the authority £15 million
- for the pension fund £20 million

Responding to Members' questions, the following information was provided:

The annual accounts would be signed off in August 2015 unless matters were to arise which would require other clearance.

No material changes to the figures report were presently anticipated.

The work that was incorporated in the additional fee related to Audit NNDR however it was no longer necessary to undertake this work as a separate element.

## **RESOLVED**

1. That the external audit plan and external audit opinion be noted.
2. That Section 2 of the report including KPMG headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion be noted
3. That Section 3 of the report describing the approach we take for the audit of the financial statements be noted.
4. That Section 4 of the report providing further detail on the financial statements audit risks be noted.
5. That Section 5 of the report providing further detail on the audit risks for the pension fund be noted.
6. That Section 6 of the report explaining KPMG's approach to VFM arrangements work be noted.
7. That Section 7 of the report providing information on the audit team, our proposed deliverables, the timescales and fees for KPMG work be noted.

## **6. TOWER HAMLETS ITEMS FOR CONSIDERATION**

### **6.1 Annual Financial Report 2014/15**

The Acting corporate Director of Resources presented the report informing the Committee that:

- the draft annual accounts were published on 30 June 2015.
- The value for money assessment indicated that the Council was in good financial health and this position would serve to mediate the challenges that the organisation would face in the medium-term future.
- £6.5 million had been added to reserves as future contingency.
- During the financial year 2014-15 there had been a high level of right to buy activity.
- The accounts had been published for inspection. They would be audited and returned to the Committee in September for approval.

Responding to Members' questions, the following information was provided:

Concerning whether any work has been undertaken on the introduction of right to buy in regard to housing associations and other types of public sector housing, the Committee was informed that details had yet to be published. The Housing Revenue Accounts would be affected by the proposed reductions in social housing rents arising from the recent government budget. It was anticipated that the introduction of the scheme would have a large impact on the housing revenue account.

Concerning whether discounts being offered by registered social landlords and public sector landlords would be affected, the Committee was informed that these would remain the same. However registered providers were private entities and therefore it was not yet known how these will be implemented. Concerning whether there would be any impacts on Tower Hamlets Homes, the Committee was informed that possible effects could not be determined before properties become available for sale. Once available for sale, the properties will need to be valued and the financial implications would become apparent.

## **RESOLVED**

That the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2015 be noted, comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

## **6.2 Treasury Management Quarter 3 Report - Year to 31 December 2014**

Chief Accountant, Kevin Miles introduced the report which provided a summary of treasury management activity relating to the Council's investments and an indication of anticipated interest rates provided by the Council's Treasury Advisers. He highlighted that in the present economic climate, new investment opportunities could arise should interest rates be increased by the Bank of England.

## **RESOLVED**

That the report be noted

### **6.3 Treasury Management Outturn Report - (including Quarter 4 Updates)**

Chris Holme, Acting Corporate Director, Resources introduced the report and highlighted that during the financial year 2013/14 the Council had been able to obtain a better interest rate and a lower borrowing rate than expected.

In response to members questions the following information was provided:

Concerning the Council's exposure to LOBOS Members were informed that the Council had three loans of this kind. These loans were at lower interest rates than the prevailing PWLB rates at the time the loans were taken. To the loans included six monthly review clauses where the Council could repay the loans without penalty if a rate change was requested by the lending bank.

#### **RESOLVED**

That the report be noted

### **6.4 Head of Audit Annual Report for 2014/15**

The Head of Audit and Risk Management introduced the report which summarised the audit work undertaken in the period 2014-15. Of the 101 audits undertaken in period, 94 had been finalised and the audit assurance returned showed the indicative confidence on the service achieving its target outcomes. The report also:

- set out to the National Audit Charter.
- contained two elements; a summary of the annual audit including the audit opinion and quarterly audits yet to be reported

Responding to Members' questions on the annual audit summary, the Head of Audit and Risk Management advised that Audit Committee was able to influence the audit plan as it was charged with oversight of internal control and risk management of audits to monitor the quality and compliance of the council's internal procedures

#### *Quarterly Audits*

#### *Contract Cleaning*

The Head of Audit and Risk Management introduced to the item informing the Committee that the audit related to contract cleaning supplied to schools, and to youth and children's centres. A limited assurance had been tricked turned because of the following weaknesses: failing to record SLAs and contractual agreements, arrangements for payments to contracted staff, failing to bill some prior services received and failure to keep some records up to date.

The Service Head Resources ESCW attended to respond to questions from the committee and informed members that:

- clients of the service were internal
- there had been some lack of focus on internal processes
- the non-compliances identified had been remedied prior to the end of the audit
- good practices administered by Catering Services had been successfully replicated and adopted by the Cleaning Services teams.

#### *Direct Payments*

The Head of Audit and Risk Management introduced the audit which concerned payments to support residents in need of additional care. These payments were paid directly by the Council to qualifying. A limited assurance was returned as the following areas required improvement; some user agreements remained unsigned, systems not updated as regularly as necessary and failure to recover money unspent.

Dorne Kanarek Interim Service Head, Commissioning and Health informed the Committee that:

- since the audit all non-compliances have been remedied
- recipients of direct payments were not all able to manage their money and in these cases support had been given
- further, where it was found that recipients had not been able to engage with this method of support, direct payments have subsequently been removed.

#### *Visit Procedures*

The Head of Audit and Risk Management reported that a limited assurance had been returned as the audit had identified that failed visits had not been recorded in a consistent manner, and protocols had not been monitored consistently. These had had implications on the accuracy of safeguarding procedures.

Dorne Kanarek Interim Service Head, Commissioning and Health informed the Committee that:

- all non-compliances had been addressed
- the robust visiting policy used by Out of Hours Team had been adopted throughout
- secondary checks have been incorporated into the procedure
- to safeguard the quality of the service in future, processes would be continually checked and where failures arise, procedures would be reviewed.
- a limited assurance automatically triggered a follow-on audit and this further insured that matters highlighted during audit would be addressed.

#### *Aids and Adaptions*

The Head of Audit and Risk Management reported that a limited assurance had been returned, for this follow-on audit as it was identified that some recommendations arising from the initial audit of this service area had yet to be implemented.

Nick Spencely Head of Repairs Tower Hamlets Homes informed Members that since the follow-up audit:

- all aids and adaptations works had received a post-works inspection
- a performance framework was now in place and this was being fully documented.
- the service was collaborating with the Council's Legal Services section to ensure that all contracts will be implemented fully

All of these measures were now in place and Mr Spencely was confident that a substantial assurance would shortly be achieved.

#### *Rechargeable Works*

The Head of Audit and Risk Management reported that a limited assurance had been assigned because of issues around the recording of petty cash 'unders and overs' and calculation of administrative fees.

Simon Baxter, Acting Service Head, Public Realm, informed Members that eight of the nine recommendations arising from the audit had been implemented. Additionally the remaining recommendation, a section to separate agreement, would be in place before 9 September.

#### *Annual Schools Report*

The Head of Audit and Risk Management informed the Committee that a full report would be brought to a future meeting.

#### *Audit Opinion*

The Head of Audit and Risk Management reported that in 2014-15 the areas that had delivered limited assurances were; mainstream grants, Telecare, Panel Care Decisions, mobile phones, staff declarations of interests, parking, youth services, information governance and Tower Hamlets Homes. Each of these areas has received a six monthly follow-up audit to monitor the implementation of recommendations arising from their respective audits.

### **RESOLVED**

That the following be noted:

1. the content of the annual audit report,
2. the summary of audits undertaken which have not been previously reported and
3. the Head of Audit opinion.

### **6.5 Annual Governance Statement 2014/15**

The Head of Audit and Risk Management informed the Committee that:

- the Council was required to review its governance arrangements at the least once each year
- the annual government statement set out the context in which the Council was required to operate, its framework of control and measures in place to manage its affairs.

- review the effectiveness of its controls and what measures are in place to remedy any gaps

The Committee asked that Objective Two in the report to be recirculated

**Action by:** Antonella Burgio, Democratic services

Concerning an enquiry around meetings of the Constitutional Working Party, Members were informed that a written answer would be provided

**Action by:** Minesh Jani, Head of Audit and Risk Management

Concerning recent issues relating to grants, Members were informed that a referral was under investigation by the Metropolitan police and the Head of Audit and Risk Management had met with Police officers a number of times. The Council would give them full support. To ensure that lessons would be learned strong compliance arrangements are being put in place

## **RESOLVED**

1. That The Audit Committee note the process and findings set out in paragraphs 4.1 – 7.3; and
2. That the Draft Annual Governance Statement for the financial year 2014/15 at Appendix 3 be agreed.

### **6.6 Annual Anti-Fraud Report 2014-15**

The Corporate Antifraud Manager presented the report and highlighted the following matters:

- Preventative antifraud work undertaken by the Council has an impact on homelessness by preventing fraudulent occupation of dwelling.
- Figures produced by the Benefits Team were lower than desired because of resourcing issues and the removal of benefits investigations from the Council to DWP.
- the Council was investigating how the antifraud service could become self-funding.
- further significant areas of antifraud work which could be investigated were; Council tax frauds relating to single person discounts and student status.

## **RESOLVED**

That the report be noted.

### **6.7 National Fraud Initiative (NFI) 2012 - Outcome**



Cllr Andrew Wood declared an interest regarding item 6.7 in that his father is on the electoral register at Tower Hamlets and receives a Council tax letter.

The Corporate Antifraud Manager introduced the report informing Members that:

- the Council had a statutory duty to support the National Fraud Initiative.
- in 2014, the Cabinet Office took on NFI responsibility.
- the approach taken to NFI is to investigate sub regional issues which are of high value.
- the program is ongoing and aims to reveal patterns and trends in fraud.

## **RESOLVED**

That the report noted

### **7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

The Head of Audit and Risk Management wished to offer his thanks to Chris Holme, Acting Corporate Director Resources, for the extensive support given to the work of the auditors and Audit Committee during his tenure.

The Chair and Committee Members also added their thanks for the work and responsibilities discharged by Chris on behalf of the Council during a challenging period.

The meeting ended at 8.33 p.m.

Chair, Councillor Candida Ronald  
Audit Committee