

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.15 P.M. ON TUESDAY, 31 JANUARY 2017**

**MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,  
LONDON E14 2BG.**

**Members Present:**

Councillor Candida Ronald (Chair)

Councillor Denise Jones

(Mayoral Adviser for Service Quality  
and Performance)

**Other Councillors Present:**

Councillor Andrew Wood

(Substitute for Councillor Craig Aston)

**Officers Present:**

Minesh Jani

Brian Snary

Stuart Young

Roy Ormsby

Kevin Miles

Mark Baigent

– Divisional Director, Risk Management

– Financial Accountant

– Human Resources

– Service Head Public Realm

– Chief Accountant

– Interim Head of Strategy  
Regeneration Sustainability &  
Housing Options

– Interim Strategic Risk Advisor

– Rents Team

– Development Manager, Markets

Anthony Sotande-Peters

Stuart Coogan

Roy Wayre

**Others in Attendance:**

Antony Smith

Andrew Sayers

– KPMG

– KPMG

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Andrew Cregan, Craig Aston and Sabina Akhtar.

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of interest were declared.

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

The minutes of the previous meeting held on 8 November 2016 were approved as a correct record of proceedings.

### 4. KPMG ITEMS FOR CONSIDERATION

#### 4.1 KPMG Audit Plan 2016/17

The Committee received the KPMG's Audit Plan for 2016/17 presented by KPMG representatives Antony Smith and Andrew Sayers.

Andrew Sayers informed the Committee that there were no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with and highlighted the following from the report:

#### **Materiality**

- Materiality for planning purposes has set at £15m for the Authority and £20m for the Pension Fund; and
- Uncorrected omissions or misstatements are reported other than those which as "clearly trivial" to those charged with governance and this has been set at £750,000 for the Authority and £1m for the Pension Fund.

#### **Significant Risks**

- Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as –
  - Property, Plant and Equipment
  - Valuation of Pension Fund Assets
  - Pension Liability – Triennial Valuation
  - Declarations of Interest – actions that are ongoing
  - Section 106/Community Infrastructure Levy (CIL) agreements
  - Grants – up to date

#### **Other Areas of Audit Focus**

- Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as –
  - Payroll
  - Youth Services
  - Calculation of Benefits

#### **Value for Money Arrangements to work**

- Initial risk assessment regarding the arrangements to secure value for money have identified the following VFM significant risk and areas of audit focus –
  - Implementation of Best Value Action Plans

- Medium Term Financial Plan
- Progress in completing the “clear up” project

The Chair, Councillor Candida Ronald enquired if the report would need updating given that the Commissioners have returned the handling of the Grants back to the Cabinet.

Andrew Sayers informed the Committee that reporting would be up until the Commissioners left or handed back the Grants to the Cabinet and up to when the Commissioners were involved and when payments were made.

Councillor Andrew Wood enquired about Section 106 monies in relation to the significant risks.

Andrew Sayers informed the Committee that the risk involves the money being reclaimed.

The Chair, Councillor Candida Ronald enquired about the Youth Services in relation to the other areas of audit focus.

Andrew Sayers reported that there were a number of shortcomings by the Youth Service, but improvements have since been made and a value for money exercise has been embedded and some sample testing is already underway.

**The Committee agreed to:**

1. Thank Andrew Sayers and Antony Smith for attending and presenting the KPMG Audit Plan for 2016/17; and
2. Note KPMG’s Audit Plan for 2016/17 and the areas of review.

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

### **5.1 Progress of actions arising from KPMG ISA 260 Report**

The Committee received the Progress of Actions arising from KPMG’s 2015/16 ISA260 presented by Brian Snary, Financial Accountant.

Brian Snary informed the Committee that the report provided an update to the Committee regarding progress made to date on the issues raised by KPMG in the draft ISA260 and outlined the following main areas:

- Significant audit terms – items identified in the External Audit Plan 2015/16 that pose a significant risk in the Financial Statements
  - Property Plant and Equipment
  - Grant Payments
  - Declarations of Interests
  - Fraud Risk of Revenue Recognition

- Management Override of Controls
- Pensions Assets – Liabilities
- Payroll
- Income from Property Leases
- Youth Services
- Prior year recommendations – these items were included in the ISA260 for 2014/15 but have not yet been fully implemented;
- The accounts are compliant with the requirements of International Financial Reporting Standards (IFRS);
- The auditors had substantially completed the review and subject to a few areas requiring further consideration, KPMG are in a position to issue a draft ISA260 detailing the findings; and
- Areas where audit review work is continuing relates to –
  - Grant Payments
  - Declarations of Interest
  - Income from Property Leases.

Members enquired about the following –

- Clarification was sought in relation to what was meant by “the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources”;
- What were the improvements reported relating to the Value for Money conclusions?
- A member of staff being paid twice, would this be flagged up?
- Has the authority received its 2014/15 certification yet?
- How are the objections resolved in relation to the certification?

Andrew Sayers informed the Committee that –

- The “Authority had not made proper arrangements” has now been looked at and assessed and there is a real Value for Money awareness and the Best Value Action Plan has been produced, however, it is still early in the year so not much progress has been made, but it is continued to be monitored.
- The improvements would be reported in the 2016/17 Action Plan and consideration would be given to the fact that the Commissioners have handed back Grants to the Cabinet and the progress is currently being tracked.
- A member of staff being paid twice would be flagged, as controls are in place and the risk would be assessed, however some things can still slip through, but random tests are conducted to ensure this does not happen regularly.
- KPMG are waiting on the final assessments for the certification for 2014/15, as there were some objections that had been lodged.
- Objections are usually resolved by requesting the information from the Authority and waiting on the information to be submitted to be assessed based upon the objection.

**The Committee agreed** to note the progress of the items detailed in the ISA260 report.

## 5.2 Quarterly Internal Audit Assurance Report

The Committee received the Quarterly Internal Audit Assurance Report presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani informed the Committee that the report summarised the work of Internal Audit for the period September 2016 to November 2016 and set out the assurance rating of each audit finalised in the period and provided an overall assurance rating.

Minesh Jani reported to the Committee the following:

- Of the 15 finalised audits which focused on high risk or high value areas –
  - 1 was assigned full assurance
  - 9 were assigned Substantial Assurance
  - 4 were assigned Limited assurance and
  - 1 was not applicable
- A further 13 audits were of moderate significance and of these 11 were assigned Substantial Assurance and 2 were assigned Limited Assurance
- Overall 75% of audits resulted in an adequate assurance, the remaining 21% of audits have an inadequate assurance rating and 4% Not Applicable
- Three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the monitoring process the actual and targets for each indicator for the period is as follows:

<b>Performance Measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to the quarter to November 2016	65%	65%
Percentage of Priority 1 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	100%	70% (14 out of 20)
Percentage of Priority 2 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	95%	40% (6 out of 12)

- Lettings Systems Audit – an update was provided including information relating to 19,120 people were on the housing waiting list and for 2015/16, approximately 2,091 lettings had been made, with 2 cases being tested by Audit, with management confirming that these lettings did not meet the required standards and procedures as the applicants' eligibility and assessment could be open to challenge.
- Establishment Control – an update was provided including information relating to a review of the establishment list obtained for March 2016

confirmed the concerns raised over the usefulness and completeness of the data including the fact that there are 102 posts that are detailed as being vacant for four or more years but there are no further details as to why they have been long-term vacant.

- Risk Management Follow Up – an update was provided including information relating to two detailed medium priority recommendations which had been agreed at the conclusion of the original audit, none had been fully implemented.
- Market Vouchers – an update was provided including information relating to the market fees and charges generated in 2014/15 and 2015/16.

Members enquired about the following:

- How was progress monitored across all audits being conducted;
- Are the systems in place robust enough in Tower Hamlets;
- When properties are offered to tenants are checks completed in the event of fraud etc;
- Is Tower Hamlet joined up with Tower Hamlet Homes in terms of document checking and fraud;
- Does TH always get it right, in terms of “right person, right home” or can it be “wrong person, right home”;
- Does the market management meet with the market traders; and
- Are market management looking at new sites for new markets across the Borough.

The Committee was informed that –

- the progress of the audits being conducted was monitored by risk assessments and issues being raised and then drafted within reports.
- Social Housing is a commodity within the Borough and as such proper checks are in place and usually conducted to ensure housing is allocated to the right people.
- There are clear policies and procedures in place for staff to conduct the checks, but the system may not be robust enough.
- A procedure guide for staff was being produced together with checklists and ad hoc checks by managers to ensure the procedures were being followed.
- If there were consistent failures by staff then formal action would take place.
- Information is shared between TH and Tower Hamlet’s Homes and checks are conducting on tenancy agreements and subletting issues.
- Information is also referred to the Fraud Team and use is made of the “whistle-blowing” facility by staff.
- In relation to the “Risk Management follow up update” that a Risk Management Review was currently underway.
- A new Market Manager has been appointed since September 2016 and there have been changes made to the enforcement and processes which are now monitored more closely.
- Changes have been made to the back office and frontline staff and the way things are done.

- Regular meetings are held with the team and market traders and there is now a different working environment and a zeal to improve standards.
- Market staff are looking at improving current market sites by raising standards and ensuring the markets maintain a high quality of food and other products.
- Once this is complete and maintained then work will begin on establishing more markets in new areas.

**The Committee agreed to:**

1. Note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.
2. Receive an update relating to the Lettings Systems Audit within 6 months.
3. Receive a report relating to the Establishment Control at the Audit Committee meeting in June 2017.
4. Defer the “Troubled Families” and “Management and Control of No Recourse to Public Funds” Updates to the next meeting of the Audit Committee on 21<sup>st</sup> March 2017.

### **5.3 Review of Accounting Policies**

The Committee considered the Draft Accounting Policies 2016/17 and 2017/18 presented by Brian Snary, Financial Accountant.

Brian Snary highlighted the following, that:

- Appendix A includes the draft accounting policies for 2016/17 and also provides a summary of the main content of the policies and highlights any recent changes.
- The requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2016/17.
- IAS 8 also requires entities to disclose the expected impact of new standards that have been issued but not yet adopted.
- The Accounting Policies(including the new requirement for the Highways Network Asset Policy) will also be adopted for 2017/18 subject to any amendments arising from the ongoing consultation process.

The Chair, Councillor Candida Ronald enquired if there were any changes.

Brian Snary informed the Committee that the changes were reflected in section 5, page 141 of the report and were mainly around changes to the Transport Infrastructure Asset.

**The Committee agreed** to approve the Accounting Policies for 2016/17 and 2017/18.

#### 5.4 Treasury Management Strategy Statement 2017/18

The Committee considered the Treasury Management Strategy Statement for 2017/18 presented by Kevin Miles, Chief Accountant.

Kevin Miles highlighted the following, that:

- The council is required by legislation and guidance to produce 3 strategy statements, they are –
  - A policy statement on the basis of which provision is to be made in the revenue accounts for the repayments of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
  - A Treasury Management Strategy Statement which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and
  - An annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- The report also dealt with the settling of Prudential Indicators for 2017/18 which ensures that the Council's capital investment decisions remain affordable, sustainable and prudent.

Councillor Denise Jones enquired about who advises the Council on investment.

Kevin Miles informed the Committee that a representative from Capita usually advises on investments.

#### **The Committee agreed to:**

1. Note the report and approve for submission to Full Council to adopt the following policies and strategies -
  - a. The Minimum Revenue Provision Policy Statement set out in Section 2 at Annex A attached to the report;
  - b. The Treasury Management Strategy Statement set out in Sections 5 & 6 at Annex A attached to the report; and
  - c. The Annual Investment Strategy set out in Section 7 at Annex A attached to the report, which officers involved in treasury management, must then follow.
2. Approve the Prudential and Treasury Management indicators as set out in Appendix 1 of Annex A attached to the report.
3. Delegate authority to the Corporate Director, Resources to use alternative forms of investment, should the appropriate opportunity arise to use them and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior



consultation with the Lead Member for Corporate Finance on any possible use of these instruments.

4. Organise training for the Audit Committee members in the new financial year relating to “Investments”.

## **5.5 Quarter 3 Risk Management update and Corporate Risk Register 2016/17**

The Committee considered the Quarter 3 Risk Management Update and the Corporate Risk Register 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following, that:

- The purpose of the report was to update the Committee of the Council’s corporate risks.
- A total of 12 corporate risks had been identified across the directorates.
- The Council continues to face significant challenges given the current funding environment.
- There are currently 367 active risks on the Council’s Risk Management Information Systems of which 105 are overdue for review.
- There are also 332 active control measures on JCAD of which 141 are also overdue for review.

Andrew Wood informed the Committee that there was an article that he had come across entitled “Centre for Cities – Think Tank” which identified Tax Income by Borough.

The Chair, Councillor Candida Ronald enquired if the Committee in the future could go “deep dive” on a chosen risk.

Minesh Jani thanked Andrew Wood for the information and informed the Committee that he would explore the article and see its merits. He also stated that it would be a good idea to look at some risks that had been discussed previously e.g. Business Rates and Social Services.

**The Committee agreed to:**

1. Note the contents of the report.
2. Look at in some depth the following risks at a future meeting “SEN” and “Business Rates”.

## **5.6 Bribery Risk Assessment**

The Committee considered the Bribery Risk Assessment for 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following:

- The report presents an assessment of bribery risks carried out by the risk management team and the heightened risk transactions identifying the sorts of transactions by which a bribe might be effected and activities and/or relationships which might give rise to risk.
- The Bribery Act 2010 came fully into force on 1 July 2011 and provides a legal framework to combat bribery in the public and private sectors. It creates 4 new offences –
  - Bribing another person
  - Being bribed
  - Bribing a foreign public official
  - Failing to prevent bribery
- The Committee was given an update relating to the high risks within each of the directorates.
- The Committee was also informed of the possible bribery risks highlighted to CMT –
  - Property disposals
  - Housing tenancies
  - Contract award and contract monitoring
  - Sponsorship
  - Grants decisions
  - Regulatory and enforcement activity

**The Committee agreed to note** the actions in the report.

#### **5.7 Forward Plan 2016/17**

The Committee considered the Audit Committee Forward Plan 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

**The Committee agreed** to note the Forward Plan 2016/17.

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

There was no other business to be considered.

The meeting ended at 9.15 p.m.

Chair, Councillor Candida Ronald  
Audit Committee