

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE EXTRAORDINARY MEETING OF THE AUDIT COMMITTEE

HELD AT 8.00 P.M. ON THURSDAY, 29 SEPTEMBER 2016

**ROOM C1, 1ST 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)

Councillor Sabina Akhtar
Councillor Ohid Ahmed

Apologies:

Councillor Andrew Cregan
Councillor Harun Miah

Others Present:

Andrew Sayers
Antony Smith

(Engagement Lead Auditor, KPMG)
(Engagement Manager, KPMG)

Officers Present:

Graham White

(Interim Service Head, Legal Services,
Law, Probity and Governance)

Neville Murton

(Service Head, Finance & Procurement)

Brian Snary

Financial Accountant - Resources

Kevin Miles

(Chief Accountant, Resources)

Joel West

(Senior Democratic Services Officer)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

None were declared.

2. CHAIR'S REMARKS

The Chair of the Committee, Councillor Candida Ronald, asked the Committee to note that the Report to Those Charged with Governance (Item 2.1 on the agenda) had been circulated to Members late and stressed that reports must be made available to Members in good time if their duty to scrutinise information is to be discharged adequately.

3. KPMG ITEMS FOR CONSIDERATION

3.1 Report to Those Charged with Governance ISA 260 Report - Council and Pensions Accounts

Andrew Sayers, KPMG, introduced the report, which summarised the key issues identified during the external auditor's audit of the financial statements for the year ended 31 March 2016 for both the Council and its pension fund; and its assessment of the Council's arrangements to secure value for money.

Mr Sayers first explained an outstanding matter, relating to an objection, for the previous year's report (2014/15). The objection relates to LOBO loans. KPMG have obtained legal advice on this matter and have concluded it will be possible to sign the 2014/15 annual report prior to resolution of this objection. The 2014/15 report will therefore be signed very shortly.

Mr Sayers then explained the key findings from the 2015/16 audit, which are contained in the 'Headlines' section of the report (pages 6-9 of the supplementary agenda). He explained that the audit opinion at Appendix 5 of the report is draft and that the Committee will be informed if any changes are made to it before it is finalised.

Mr Sayers reported that there were no material adjustments to the 2015/16 accounts and an unqualified opinion (as per appendix 5 of the report) was anticipated.

In response to questions from Members, Mr Sayers provided more details on:

- Work on grant payments. A sample of grants made will be selected and tested by KPMG. For clarity, Mr Sayers explained it was never KPMG's intention to test every grant made.
- The non-audit service work conducted (page 35 of the supplementary agenda). He explained the nature of the work requested by internal audit and stressed that all such work is cleared with Public Sector Audit Appointments Limited (PSAA).
- The statements regarding the youth service (page 17 of the report). Work in this area is ongoing but is not expected to have any effect on the final accounts.
- Work on Section 106 contributions. Work focussed on spending of s106 funds, but did not necessarily seek to identify whether all sums were collected. However, no instances of non-collection were identified.

The Chair thanked Mr Sayers and other attending employees of KPMG for their report and attendance.

RESOLVED that the Committee notes:

1. the draft External Audit Report 2015/16 including the key issues highlighted during KPMG audit of the financial statements for the year ended 31 March 2016 for both the Council and its pension fund;

2. KPMGs assessment of the Council's arrangements to secure value for money; and
3. that some work is still ongoing and accordingly this draft report will be updated to produce a final version at the point the financial statements are signed.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Annual Financial Report 2015/16 (Incorporating KPMG's Report to Those Charged With Governance 2015/16)

Kevin Miles, Chef Accountant, introduced the report on the Council's financial outturn 2015/16, which he explained was materially the same as the draft report presented to the Committee in June 2016.

In response to questions from Members, Mr Miles explained

- A process to identify and validate all General Fund earmarked reserves will be taking place shortly. Neville Murton, Service Head Finance and Procurement, advised that a reserves policy is expected to be drawn up by around December 2016.
- The technicalities of LOBO loans. The Council has borrowed around £77.5 million through such loans. Mr Miles explained that the Council's decision to take these loans was based in part on predicted interest rate rises at the time, but interest rates have fallen and so have affected the Council's ability to repay the loans. The Committee heard that objections to LOBO loans have been voiced, on a national scale, that questioned their suitability for local authority borrowing. Graham White, Interim Head of Legal Services, advised of another local authority where objections regarding LOBO loans had been received. Their external auditors were satisfied LOBO loans were lawful and appropriate, as it had been shown the interest rates on the loans were competitive when compared to alternative products at that time.
- Whilst the amount of 'collectible' business rates (NNDR) is identified in the report, the level of actual collection is not. The collection level is on target to be over 99%.

Officers agreed to separately provide information on the estimated timescales for possible overage receipts related to the Blackwall Reach and Ocean Estate regeneration schemes (section 30a on page 68 of the report).

RESOLVED that the Committee:

1. approves the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2016, having regard for the auditor's Annual Governance Report; and

2. note that the 2014/15 Accounts are still to be signed off by KPMG, however the LOBO loans objection is no longer a barrier to an audit opinion being issued.

The meeting ended at 8.35 p.m.

Chair, Councillor Candida Ronald
Audit Committee