

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON WEDNESDAY, 28 JUNE 2017

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

Members Present:

Councillor Candida Ronald (Chair)

Councillor Danny Hassell

Councillor Ayas Miah

Councillor Ohid Ahmed

Councillor Andrew Wood

Apologies:

Councillor Rabina Khan

Officers Present:

Terry Bryan

Michael Darby

Neil Isaac

Minesh Jani

John Kiwanuka

Christine McInnes

Kevin Miles

Stephen Murray

Neville Murton

Ann Otesanya

Tony Qayum

Brian Snary

Anthony Sotande-Peters

David Williamson

Ms Kaur

Head of Pupil Admissions & Exclusions

Head of Parking & Mobility Services

Interim Director of Finance, Tower Hamlets Homes

Head of Audit and Risk Management, Resources

Housing Partnerships Manager, Housing Strategy Regeneration and Sustainability, Development & Renewal

Divisional Director, Education and Partnership, Children's

Chief Accountant, Resources

Head of Arts and Events, Communities Localities & Culture

Divisional Director, Finance, Procurement & Audit

Director of Neighbourhoods Tower Hamlets Homes

Anti-Fraud Manager, Risk Management, Resources

Financial Accountant - Resources

Interim Strategic Risk Advisor, Risk Management and Audit

– Member of the Public

– Member of the Public

1.1 APPOINTMENT OF VICE-CHAIR

Councillor Ayas Miah nominated Councillor Danny Hassell as vice-chair of the Audit Committee for municipal year 2017/18, which was seconded by Councillor Candida Ronald.

The Audit Committee agreed to appoint Councillor Danny Hassell as vice-chair.

1.2 APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Rabina Khan.

Cllr Andrew Wood gave apologies for leaving the meeting for a short period to attend the Development Committee to raise objections to an application.

1.3 DECLARATIONS OF DISCLOSEABLE PECUNIARY INTEREST

No declarations of discloseable pecuniary interest were disclosed by the members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 21st March 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

3. TOWER HAMLETS ITEMS FOR CONSIDERATION

3.1 Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings

The Chair, Councillor Candida Ronald informed members the Terms of Reference, Quorum, Membership and Dates of Meetings report was for noting. She said it was useful for Members to be reminded of the purpose and responsibilities of the Committee.

Members of the Committee agreed and confirmed they were happy for future meetings to commence at 7:00 p.m.

The Audit Committee **NOTED** the report.

3.2 Draft Annual Financial Report 2016/17

Neville Murton, Service Head for Finance and Procurement introduced this report and stated the Draft Annual Financial Report for 2016-17 comprised of a Narrative Report by the Corporate Director for Resources and the draft

Statement of Account which was subject to audit. The full Annual Financial Report also contained the Annual Governance Statement which is subject to a separate report on the Committee agenda. Mr Murton said the draft Annual Financial Report and Annual Governance Statement would be submitted to the external auditors KPMG and would be placed on the Council website for public inspection next week.

Members of the Audit Committee asked the following questions

- Page 46 – the Earmark reserve has seen a large increase and so has the Pension Reserve. Is there an explanation for this?
Overall the levels of reserves have been reviewed and earmarked reserves have changed to reflect the different priorities of the Council. The Pensions reserve has increased in value due to an increased deficit in the actuary's report. Though the pension fund investments increased in value by over £200m, the bond rate used by the actuary to calculate the net present value (NPV) of future pension liabilities has reduced – this reduction increased the under the NPV of pension liabilities by over £300m.
- The Chair asked Officers to talk through the earmarked reserves on page 70.
Neville Murton responded that two notable earmarked reserves were the IT and the Transformation Reserves. The transformation reserve referred to the Council programme 'smarter together' and IT related to the Council's ambition to update IT systems. The time frame for the projects is short to medium term.
- Will external auditors have a view on the earmarked reserves?
They will examine the rationale adopted and will question the reasons behind the move away from a generic to more specific reserves.

The Audit Committee **NOTED**

1. The Annual Financial Report for the financial year ending 31st March 2017 comprising of the Explanatory Foreword and the Draft Statement of Accounts which are subject to audit.

3.3 Head of Audit Report 2016/17

Minesh Jani, Divisional Director for Risk Management presented his Audit Report for 2016/17. He referred Members to page 144 of the agenda and said paragraph 3.2 set out what the report encompassed. He made reference to the table at 8.3, page 146 which summarised the audit assurance resulting from audit reports in 2016/17. 22% of services had achieved 'limited assurance' and Officers from the services were present to answer questions from Members.

Members of the Audit Committee asked the following questions:

- Were there no 'nil' returns?

The table captures information from 2016/17 and there were no 'nil' returns.

- Referring to Page 148, what does the Committee need to do in order to ensure recommendations from internal audit reports are fully implemented, in a timely way?

The Audit Committee does have a role and if services are repeatedly coming to Audit then it raises questions about how effective Risk Management has been.

- **ACTION:** Recommendations arising from audit reports should be referred to the Corporate Leadership Team to ensure they are aware how services are performing and what recommendations are outstanding.
- What effect has the churn of staff and interim appointments had on services moving from 'limited' assurance to 'substantial'?
Churn of staff does have a detrimental effect on services, however the Council is moving forward with its transformation programme with services and methodology changing.
- When recommendations are made how does Audit test the vigour with which the recommendations are implemented?
Audit will always follow up recommendations with 'follow up' visits and recommendations are fully reported back to Service Heads and Divisional Directors. The Audit Plan is devised in consultation with Senior Management and takes into account areas of concern. The Best value regime has raised the need to improve Risk Management and the control environment.

The Audit Committee heard further from Officers in the following services:

Management and Control of Parking Permits

Michael Darby, Head of Parking and Mobility Services, informed members that out of the 16 recommendations 6 recommendations were moving forward and 10 were dependant on a new IT system being in place. Mr Darby stated tenders were being sought and it was hoped the new system would be in place by February 2018. Tony Qayum offered assistance in ensuring bidders/providers had the correct risk controls when procuring the PSI system.

It was agreed the 'follow up' visit by Audit should take place in April 2018 once the new system had bedded in.

Brady Arts Centre and Kobi Nazul Centre

Steve Murray Head of Arts and Events informed Members that the Service had made significant progress against the 6 recommendations identified by Audit. Members of staff had been trained to use the HR Self-Service Portal to book annual leave and flexi time sheets and sickness records were cross referenced. He said the Centre kept hard copies of the return to work interviews conducted with staff and had tightened up procedures relating to purchase cards.

- Cllr Hassell asked if issues such as timesheets and purchase cards could be explored under thematic categories.

Minesh stated this was part of the Audit Forward Plan.

Market Vouchers – Follow up

Roy Wayre, Interim Markets Manager, referred to the recommendations on page 163 of the agenda and said he had taken over a fragmented service, which was currently being restructured. The service had reached an agreement with the Trade Unions and was in the process of recruiting to vacant positions. He said the training programme had been strengthened to include legal and enforcement processes and personal safety training.

Mr Wayre assured Members of the Committee that any follow up visit would show the service had made improvements.

Control and Monitoring of Right to Buy Valuations

John Kiwanuka, Housing Partnership Manager addressed the Committee stating the Housing contract was managed by the Council and Tower Hamlets Homes (THH). The six recommendations on pages 166-167 had been addressed. Members questioned how the contract had a seven fold overspend. Minesh Jani explained this was not something the Budget Head would have been able to spot and Neil Issac, Interim Director of Finance from THH explained the oversight occurred as THH officers and the Councils asset management had failed to communicate with each other. THH Officers did not ask about the value of the contract as the company employed was a reputable one who provided concise valuations. The procedures have been tightened up with THH providing a spreadsheet log of all outstanding recommendations, which is discussed as part of their management team meetings.

Highways Repairs and Maintenance – Follow up

No one from this Service was present to answer questions from Members.

Commissioning of SEN Placements

Christine McInnes, Service Head Education and Paternship, referred to the six recommendations made by the Audit inspection, pages 170-171 of the agenda pack and said the SEND leadership and management team had been established to increase capacity and capability of the SEND team. She said the team was undertaking three strands of work: Establishment of the SEND team; SEND area inspection – Ofsted and mapping of referrals and following processes.

Terry Bryan, Head of Pupil Services, stated he was confident if re-inspected the service could show that SEND placements were achieving value for money and assessments were now involving parents and were being co-produced with other agencies involved – i.e. health and education colleagues.

Pensions

Neville Murton, Service Head of Finance and Procurement stated officers had undertaken a repeat exercise to identify former employees who had passed away, but were still in receipt of a Pension. Next of kin were contacted and recovery action was taken to recoup overpayment. However this took time due to legal processes and sometime criminal prosecutions.

Financial Assessments

Members had no questions in relation to this audit assessment.

THH Housing Insurance Claims – Follow up

Ann Otesanya, Director of Neighbourhoods, THH addressed the committee stating THH had made progress since April 2017. She said regular meetings were in the diary with contractors and processes around performance reporting had been improved. She said information on what a Tenant or Leaseholder should expect was on their website and not in the referred handbooks.

Ann also confirmed they had agreed with the Council to turnaround insurance claims within 15 working days and any further follow –up from Audit would show they were compliant.

THH Management of Asbestos – Follow up

Neil Issac, Interim Director of Finance, THH referred Members to page 185 of the agenda and stated that a considerable amount of data had been brought together to ensure Asbestos was managed properly. He made reference to the organisations overarching Strategy and Keystone – the database which holds asbestos records.

Members of the committee were assured THH had implemented the recommendations made and that a log of recommendations recording the speed at which they were implemented would be shared with the Council's Audit function.

St Luke's CoE Primary School

Members of the Committee agreed there should be a standard report coming to the Audit committee outlining how schools were performing to ensure the safety of children, rather than individual reports being received relating to specific schools.

Members of the Committee **NOTED** the report.

3.4 Anti-Fraud Update

Tony Qayum, Corporate Anti-Fraud Manager presented his Anti-Fraud update relating to the Corporate Anti-Fraud Team's (CAFT) activities for the financial year end of 2016.

He referred Members to the table at 4.1, page 252-3 in the agenda which summarised the activity of CAFT and showed the amount of money the Anti-Fraud team had recovered.

The Chair commended Tony Qayum for the excellent work his team had achieved and enquired about the social housing amnesty. Tony confirmed this had been a successful campaign with most of the sub-let properties being returned to the Council.

Councillor Wood added the success of the team ought to be publicised by the Council's communications team so to ensure the general public were aware Tower Hamlets was not a 'soft touch'. Councillor Wood made reference to the work the CAFT team had undertaken regarding Blue Badge Fraud and said he was really pleased how the team had resolved queries from Members and the general public. Tony informed Members the team was to feature in a BBC programme about anti-fraud, which Members praised as a positive outcome of the CAFT team's achievements.

The Committee **NOTED** the report.

3.5 Risk Management Update

Anthony Sontande-Peters, Interim Strategic Risk Advisor updated Members on the Corporate Risk register. He referred Members to point 5.2 of the report and stated a total of 13 risks had been identified. Appendix 1 gave an overview about the risk and the current risk rating; appendix 2 gave further details and appendix 3 was the corporate risk dashboard which set out the heat map of the Council's risks and performance information in respect of the risks.

FIRE SAFETY – UPDATE FROM TOWER HAMLETS HOMES ON PRECAUTIONARY MEASURES TAKEN

Members of the Audit Committee heard from Ann Otesanya, Director of Neighbourhoods and Neil Issac, Interim Director of Finance from Tower Hamlets Homes about the precautionary measures they had taken in light of the Grenfell Tower Tragedy.

They stated THH had met with the Fire Brigade's Borough Commander and had written to residents about the 'stay put' policy currently followed for tower blocks in the borough. Ann said it was clear the risk register will need to be expanded to include fire safety and there was work to be done to map out what THH's policy should be, in light of the emerging advice.

Fire assessments had been undertaken and 8 tower blocks had been identified to be 'high or substantial' risk. Ann said THH was working with the Fire Brigade to ensure people's safety was not compromised. Cladding on tower blocks was being reassessed but none of the blocks in Tower Hamlets have ACM materials. However that is not to say other materials will not be identified as being a risk, so the situation is fast moving.

With respect to the fire at Turin Street, the Fire Brigade had dealt with the situation extremely well. The fire spread in the roof space and therefore THH was working with the Borough Commander on how to make roof voids safer. Three similar blocks, which are undergoing refurbishment, will have roof voids fire proofed as part of the works being undertaken.

THH officers have also had a visible presence on the Estates managed and have been providing advice and support to residents.

Members of the Committee asked the following questions relating to fire safety:

- Have residents effected by the Turin Street fire being housed outside of the borough?
THH confirmed some residents were being housed in a hotel in Barking and Dagenham. However affected residents will be offered secure tenancies from existing housing stock. THH was working with residents to achieve the best outcome.
- Letters sent in relation to the stay put policy is causing confusion amongst residents. Can you be clear on the advice you give.
- Nationally buildings are being categorised quickly as to if they are a risk, so why is this information not being used?
Work is already underway to identify and categorise buildings however in light of Grenfell those risks have changed, so fire risk assessments have to be undertaken.
Risk assessments are undertaken by independent assessors and THH's assessor – Savills carry this out. The oldest Fire assessment is 9 months old but we will go back to fire risk assess all our estate.

With respect to the 'Stay put' policy we are following the Fire Brigade's current advice. However in context of Grenfell, this will change. It's about the construction of the building and the materials used in construction that will determine if 'stay put' is the right policy.

- What has been done to ensure residents and leaseholders concerns are being listened to?
It's clear this was identified as an issue by Grenfell Tower residents. Residents need to be listened to and THH is looking at its existing policies and processes so to ensure the resident's voice is listened to. We have already started to audit past complaints and member enquires to ensure we capture emerging themes and complaint trends.

Members of the Audit Committee asked the following questions relating to the report itself.

- How is the risk rating calculated?
- In reference to page 284, are these existing controls or Ofsted ratings?
A deep dive on risk is scheduled to take place looking at Children's services for the next meeting and officers from the service will be invited to answer member questions.
- Cllr Wood requested 'Fire safety' be added to the Corporate Risk register in light of the Grenfell Tower tragedy.

The Audit Committee **NOTED** the report.

3.6 Treasury Management Outturn Report for 2016/17

Neville Murton, Service Head for Finance and Procurement and Kevin Miles, Chief Accountant Corporate Finance presented the Treasury Management Outturn Report for 2016/17.

Under the Local Government Act 2003 the treasury management activities of the Council must be reported annually. The report summaries the Council's treasury management activities for the financial year ending 31st March 2017.

Kevin referred Members to page 326 of the agenda and the summary table showing all outstanding investments as at 31st March 2017. He also referred members to page 322 which showed how current investments have been performing.

The Investment advisor would be appointed to offer training to Members of the Audit Committee.

Members of the Audit Committee **NOTED** the report and **AGREED**:

1. It would like to receive investment training from the Council's investment and treasury advisor; and
2. In future the Committee would welcome an abbreviated summary of the adviser's performance report rather than the whole report.

3.7 Forward Plan 2017/18

Minesh Jani, Service Head for Risk Management informed members the forward plan would be circulated via e-mail.

4. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no other urgent business discussed.

The meeting ended at 9.42 p.m.

Chair, Councillor Candida Ronald
Audit Committee