

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 6.30 P.M. ON WEDNESDAY, 25 JULY 2018**

**MP702 - TOWN HALL MULBERRY PLACE**

**Members Present:**

Councillor Val Whitehead (Chair)  
Councillor Muhammad Harun  
Councillor Tarik Khan  
Councillor James King  
Councillor Puru Miah  
Councillor Victoria Obaze  
Councillor Bex White

**Apologies:**

Councillor Andrew Wood

**Others Present:**

Andrew Sayers – KPMG  
Antony Smith – KPMG  
Shoolin Yagnik – KPMG  
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**Officers Present:**

Agnes Adrien – (Team Leader, Enforcement & Litigation, Legal Services)  
Kevin Miles – (Chief Accountant, Resources)  
Tony Qayum – (Anti-Fraud Manager, Risk Management, Resources)  
Brian Snary – Financial Accountant - Resources  
Anthony Sotande-Peters – (Interim Strategic Risk Advisor, Risk Management and Audit)  
Steven Tinkler – (Interim Service Head, Risk Management Service)  
Farhana Zia – Senior Committee Services Officer

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Councillor Val Whitehead declared she is a trustee and treasurer of Toyhouse library, which receives some grant funding from the council. However she does not have any pecuniary benefit from it.

Councillor Bex White declared she worked for a charity in Tower Hamlets which did not receive any council funding and her husband worked as a GP in Newham.

Councillor Muhammad Harun declared he was Chair of the Pensions Committee.

## 2. APPOINTMENT OF VICE-CHAIR

Councillor Val Whitehead nominated Councillor Mohammad Harun as vice-chair for the Audit Committee, which was seconded by Councillor Bex White.

Councillor Tarik Ahmed nominated Councillor Puru Miah for vice-chair which was seconded by Councillor Puru Miah.

The members voted on the nominations put forward and Councillor Mohammad Harun was elected as vice-chair of the Audit Committee by 4 votes in favour out of 6.

The Committee **RESOLVED**:

- Councillor Mohammad Harun as vice-chair of the Audit Committee.

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

The minutes from the 29<sup>th</sup> March 2018 meeting were agreed to be an accurate record of the meeting and were signed off by the Committee.

## 4. KPMG ITEMS FOR CONSIDERATION

Andrew Sayers of KPMG presented the external Audit Report in accordance with their responsibilities under the National Audit Office code of Audit Practice and the terms of the Public Sector Audit Appointments Ltd (PSAA) engagement.

Mr Sayers stated the report provided opinion in two areas (1) the financial statements audit and (2) value for money conclusion. He informed members the deadline for submission was the 31<sup>st</sup> July and therefore it was important to ensure this was met.

He said no adjustments were made during the audit and no new recommendations were forthcoming. He referred members to page 12 of the supplemental agenda and the significant risks identified. Mr Sayers provided comment on each category of the audit and concluded the authority had met the requirements.

Members of the Committee made the following comments and asked questions in relation to the report:

- Page 14 – refers to Grant payments. What impact will the change from mainstream grant funding to commissioning will have on making payments?
- To get on track there is still work to do. What action is required to ensure the Council achieves this?
- Page 14- refers to 'unlawful' payments. Which of the three figures are considered as unlawful?

- Page 19 - £11.4m – Is this money held in reserve?

Members of the Audit Committee **NOTED** the presentation and thanked the KPMG Officers for attending the meeting.

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

### **5.1 Terms of Reference, Quorum, Membership and Dates of Meetings**

Farhana Zia, Senior Committee Officer presented the Terms of reference, Quorum, Membership and dates of meeting report.

She informed members the report confirmed the decision made at the Annual General Meeting of the Council held on the 23<sup>rd</sup> May 2018, which approved the proportionality and the establishment of Committees, Sub-Committees and Panels of the Council. She said the report was for noting by members and sought confirmation for the start time of the Audit Committee as 6:30 p.m.

Members of the Committee **NOTED** the contents of the report and agreed to meet at 6:30 p.m. for the remaining meetings in the municipal calendar.

### **5.2 Annual Risk Management Report and Q1 Risk Management Update**

Steven Tinkler, Interim Head of Audit and Risk Management introduced this report stating the purpose of the report was to inform members of the ways in which risks are identified and managed. The report provided a summary of the risk activities over the first quarter 2018/19 and appended at Appendix 1, the Corporate Risk Register.

Mr Tinkler said considerable work had been undertaken to make Risk Management a 'core element' of activities undertaken within the Council services provided and awareness sessions has been conducted in order to engage with as many staff as possible. He referred members to the table at 5.2 – page 32 and said the current corporate risk register contained a total of 12 risks, with five rated red, five rated amber and two as yellow.

Members of the Committee made the following comments and asked questions in relation to the report:

- In reference to page 32, was the risk CSDSC0014 added following the Ofsted findings?
- Risk ASD0015 – Have any cases been identified which have resulted in 'Death or serious harm'?
- Risk CSDR0011 refers to Christ Church Primary School. Why is this risk still on the register and why is it taking so long to resolve?

- It would be helpful to have a comparison of the Corporate Risk register to previous years, so to establish which risk are alive and how long it takes to resolve them. Is Tower Hamlets facing a risky time?
- What is the process of identifying new risks?

The Audit Committee **NOTED**:

1. The corporate risks and recommended changes and updates as necessary;
2. The content of the Annual Risk Management report 2017/18 and agreed actions at section 9 of the report; and
3. Requested risk owner(s) with risks requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its October meeting.

### **5.3 Annual Report of the Head of Internal Audit**

Steven Tinkler, Interim Head of Audit and Risk Management presented the Annual Report of the Head of Internal Audit. Mr Tinkler stated this report took a retrospective look at the achievements of internal audit, the audits undertaken and the assurances achieved.

He said the report was a requirement of the Public Sector Internal Audit Standards (PSIAS), which gave Members an opinion on the audits undertaken plus the Annual Governance Statement which forms part of the statement of accounts required under the Accounts and Audits Regulations 2015.

In particular Mr Tinkler referred members to the detailed report at page 77 and made reference to page 82, table 1, which showed the percentage of recommendations that had been agreed and implemented. He also referred Members to pages 84/85, table 4, which listed the schools' audited over 2017/18. Mr Tinkler said on average a total of 20 -25 schools are sampled as part of a rolling calendar. Page 85 – table 5, showed the assurance opinions in relation to Tower Hamlets Homes.

Mr Tinkler also stated in relation to point 5.3.1 – page 87 that work was actively on-going in relation to the recommendations identified by the Kent County Council peer review.

Members of the Committee made the following comments and asked questions in relation to the report:

- In reference to Table 4, Schools Audit why do some schools have 'draft' assurances?
- Have the responses to the draft assurances been followed up?
- In relation to Langdon Park – what are the reasons for a 'substantial' assurance?

- Page 82 – Leaving Care Services achieved a ‘nil’ assurance. Can you explain why this is?
- *Steven Tinkler referred Members to page 11 of the pervious minutes and said this detailed the action taken, however there would be a further audit once the formal review by independent consultants had been completed.*
- With regard to the schools, are only schools audited? Do you audit school nurseries and day nurseries?
- Do the audit reports show if services/schools are providing value for money?
- Page 83, table 2 refers to ‘Creditors’ – what does this mean and is it linked to the issues of purchase cards?
- Page 83, table 3 refers to cyber security – what steps have been taken to strengthen ICT security.
- Page 85, Tower Hamlets Homes shows limited assurance with regards to the management of housing disrepairs. What are the reasons for this?
- Page 86, point 4.6.1 refers to the increasing high risk of fraud across the public sector? Do you have Tower Hamlet specific examples?
- Page 87, point 4.6.3 – How is the work of the Counter-Fraud Team publicised?
- There is a perception that we do not publicise anti-fraud. What role can the committee Members play in countering this perception?

Members of the Audit Committee:

1. Considered the content and opinion of the Head of Internal Audit as outlined within the annual report and which included a summary of the audits undertaken, which have not previously been reported.

#### **5.4 Annual Governance Statement**

Steven Tinkler, Interim Head of Audit and Risk Management presented the Annual Governance Statement and stated this was a requirement as part of the Annual Accounts and in accordance with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

Mr Tinkler informed members that the Council was required to undertake a review of its corporate governance processes, systems and the assurances on the governance framework to support the creation of an annual governance statement.

The draft Annual Governance Statement was appended at appendix 1 and the updated Code of Corporate Governance was appended in the supplementary agenda.

Members of the Committee made the following comments and asked questions in relation to the report.

- In reference to decision making chart – page 98 main agenda, the explanation box states “As a general rule, Executive Decisions are most decisions of the Council and are taken by the Mayor/Cabinet or Officers” –should it not say ‘Mayor in Cabinet’

Members of the Audit Committee **AGREED** to:

1. Approve the draft 2017/18 Annual Governance Statement and Action Plan attached to appendix 1 of the report.

## **5.5 Annual Financial Report 2017-18**

Kevin Miles, Chief Accountant presented the Annual Financial Report 2017/18. He said the report comprised of a narrative report by the Corporate Director – Resources, the audited Statement of Accounts and the Annual Governance Statement.

He informed Members they had already heard from the external Auditors, KMPG who reported back on their findings.

Mr Miles said the accounts were published on the Council website on the 31<sup>st</sup> May 2018 and have been open to public inspection until mid-August. He referred members to the Account’s and the pie charts on pages 3 and 4. He provided members with a summary of the accounts and referred them to the following pages:

Page 6 – the Accounting Statement

Page 7 – Movement in reserves statement

Page 9 – the balance sheet

Page 10 – the cash-flow statement

Page 51 – Members Allowances

Page 52 – Corporate Remuneration Scheme; and

Page 53 – the external audit costs

Members of the Committee asked no questions in relation to this report, as most to their questions were answered as part of the Audit training on the Annual Accounts on the 10<sup>th</sup> July 2018.

The Committee **AGREED** to:

1. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31<sup>st</sup> March 2018, having regard for the auditor’s Annual Governance Report and the letter of representation.

## **5.6 Treasury Management Outturn Report for 2017/18**

Kevin Miles, Chief Accountant introduced the Treasury Management Outturn Report for 2017/18. He informed members the Treasury Management

Strategy Statement and the Treasury Prudential Indicators for 2017/18 were approved by the Council on the 22<sup>nd</sup> February 2017 as required by the Local Government Act 2003.

Mr Miles said this report was the last in the annual Treasury Management cycle and reported on the investments made on behalf of the Council. He said considers the Council's treasury management investments which are separate to the ones considered by Pensions Committee. These investments are reported to the Audit Committee for them to comment upon the investments, ensuring management arrangement is transparent and in the interest of the Council.

Mr Miles stated interest rates had been a low level and a limited amount of interest had been earned on returns. However the hope was to secure more income from the investments made. He said the Council was looking to increase the long-term investments and was in dialogue with Fund Managers as detailed at 3.9 of the report. Many investment opportunities such as property, bonds and shares are relatively expensive at present, but they give scope to earn higher returns so the Council was working with its external advisors to use external fund managers to access these investments.

Members of the Committee made the following comments and asked questions in relation to the report.

- In relation to Page 153, Table 3 – Bank LOBO – Is the Council part of the legal action being taken by other local authorities?
- What are the risks for the Council, in terms of Treasury Management?
- Has the risk of Brexit been factored in future projections and investments?
- Table 3, page 153 – the Public Works Loan Board – the interest rate is high. Why is this?
- Is our risk appetite governed by statute?
- Point 8 – page 160 states there are no sustainable actions for a greener environment. However is the council investing in greener products and how long is it likely to take to ensure we make socially responsible investments?

Members of the Committee **AGREED** to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31<sup>st</sup> March 2018;
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 31<sup>st</sup> March 2018 was £464.82m which includes £24m, pension fund cash awaiting investment and
3. Note the new investment funds as set out in section 3.9 of the report.

## 6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no other urgent business discussed.

The meeting ended at 8.20 p.m.

Chair, Councillor Val Whitehead  
Audit Committee