

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.06 P.M. ON WEDNESDAY, 27 SEPTEMBER 2017

**C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON, E14 2BG**

Members Present:

Councillor Candida Ronald (Chair)
Councillor Danny Hassell
Councillor Ohid Ahmed
Councillor Andrew Wood
Councillor Rabina Khan

Apologies:

Councillor Ayas Miah

Officers Present:

Tamsin Bookey	Heritage Manager
Zena Cooke	Corporate Director, Resources
Adrian Gorst	Divisional Director, IT
Asmat Hussain	Corporate Director, Governance and Monitoring Officer
Shazia Hussain	Divisional Director, Customer Services
Minesh Jani	Head of Audit and Risk Management, Resources
Kevin Miles	Chief Accountant, Resources
Neville Murton	Divisional Director, Finance, Procurement & Audit
Roy Ormsby	Divisional Director, Public Realm, Place
Tony Qayum	Anti-Fraud Manager, Risk Management , Resources
Brian Snary	Financial Accountant - Resources
Anthony Sotande-Peters	Interim Strategic Risk Advisor, Risk Management and Audit
Farhana Zia	Committee Services Officer

1.1 ORDER OF BUSINESS

The Chair Councillor Candida Ronald MOVED and Councillor Danny Hassell seconded the request to change the order of business as follows:

Housekeeping items 1.2 and 1.3 to be taken first; then item 4.2 to be considered followed by item 3 – KPMG Presentation plus item 4.1 – Annual Financial Reports.

Thereafter item 2 – Minutes of the previous meeting, followed by the remaining items on the agenda items 4.3 to 4.6.

The reason for changing the order of business was to allow officers in attendance to feedback on their service areas before Committee Members considered other reports on the agenda.

1.2 APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Ayas Miah.

Cllr Ohid Ahmed gave apologies for leaving the meeting early at 8:30 p.m.

1.3 DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

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

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 28th June 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

Matters Arising

Page 8 – Action point. Has this action been completed?

Page 9 – Can Members have sight of the spreadsheet log?

Page 12 – When will Children Services be invited to attend Audit?

3. KPMG ITEMS FOR CONSIDERATION

Mr Andrew Sayers and Mr Antony Smith from KPMG gave a presentation to the Committee giving their audit opinion on the Council's financial statements. Mr Sayers said there were no substantive changes to the account from previous years and the account was ready to be signed off.

He made clear KPMG provided independent opinion on the Council's financial situation and looked at two areas: Financial Statements audit and Value for money. He said from page 24 onwards the significant audit risk were listed and details on the significant risk based on value for money commenced from page 34 of the agenda pack.

Members of the Committee asked the following questions:

- Page 38 refers to Grant payments and states “a value of £152,000 has been identified by the Council as being unlawful due to the lack of formal property agreement being in place”. Have you looked at all the documentation to determine why this is?

This was one of the conditions placed on Grant funding by the Commissioners and the Council has reviewed organisations receiving funding who are based in council buildings and have ensured a property lease or license is in place before monies are released as a grant payment.

- In reference to Page 28, Youth Services it states “reviews have uncovered historical shortcomings and wide spread malpractice”. It would be helpful to know how many cases have been referred to the Police for action and have resulted in convictions plus a summary of the types of malpractice which took place and action taken by the council to resolve it.

Zena Cooke, Corporate Director for Resources said it was difficult to provide information on Police action as they have a higher threshold or burden of proof to form a case against individuals however the Council had taken action through identifying malpractice, tighten up policy and procedures plus following HR processes relating to the dismissal of staff where appropriate.

- **ACTION:** A summary report to be provided listing the types of malpractice uncovered and the action taken.
- In reference to Page 26, Section 106 agreements, are we getting value for money for section 106 spending? Some of the projects or areas identified seem not to have benefitted from the monies. They appear to be the same.
- Page 35, refers to a value for money conclusion on an ‘except four’ basis... What does this mean?
 - **ACTION:** Officer to produce a report showing in table format the risks identified in the KPMG report and the action taken to improve audit processes and change culture of services in the long term.

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

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Annual Financial Report 2016-17

Kevin Miles, Chief Accountant for Corporate Finance presented the Annual Financial Reports for 2015/16 and 2016/17. He said the report was interlinked with the KPMG reports to those charged with Governance 2015/16 and 2016/17.

Kevin Miles stated the report comprised of a narrative report from the Corporate Director for Resources and the audited Statement of Accounts and Annual Governance Statement.

Members had no further questions relating to this report and moved to **NOTE**

1. The auditor’s 2015/16 final report to those charged with governance for 2015/16 and the letter of representation for 2015/16;

2. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2017, having regard to the auditor's Annual Governance Report and the letter of representation 2016/17.
3. Note that the draft Annual Financial Report for 2017/18 will be published by 31st May 2018 and the audit opinion is to be provided by 31st July 2018.

The Chair, Councillor Candida Ronald thanked Kevin Miles and his team for their hard work in producing the Annual Financial Statement.

4.2 Quarterly Internal Audit Assurance Report

Minesh Jani, Divisional Director for Risk Management presented the Quarterly Internal Audit Report covering the period of July 2017 to August 2017.

The report set out the assurance rating for each audit finalised in the period and gave an overall assurance rating. He made reference to page 186 and the table which showed the total number of audits conducted and the assurance level they had achieved. He also referred Members to the table on page 187, 6.1 which showed how the internal audit service was performing against KPI indicators and the targets achieved.

Minesh Jani informed the committee the Council would cease using Mazars, for auditing council services and this would lead to a slight dip in performance over the next quarter. However he was hopeful to recover the position before the end of the financial year.

He said 30% of services had achieved 'limited' assurance and Officers from the services' were present to answer questions from Members.

Members of the Committee asked the following questions in relation to the report itself.

- Are recommendations classified as Priority 1, reported to the Corporate Leadership Team?

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

Control and Monitoring of Declarations of Interests by Council Staff

Zena Cooke, Corporate Director for Resources on behalf of Heather Daley, Divisional Director for HR and Transformation informed Committee Members the control weaknesses identified by Internal Audit had been addressed. She said all staff had been made aware of completing the Declarations form via the HR self-service system and Managers had received training on identifying potential conflicts of interest. Inaccuracies and relationships between officers had to be declared, so to safeguard the organisation.

Members made the following comments:

- Did the 23 declarations tested, page 191 uncovered any conflict of interest or family relationships?
Zena Cooke responded saying the irrespective of where staff were working, declarations of interest had be completed, ensuring the procedural record was correct and each individual had been risk assessed against the criteria. Declarations were part of the HR process and staff including interim staff, are required to update the record.
- Do members of staff understand why they are asked to complete the declaration of interest form?

Street Lighting

Roy Ormsby, Service Head of Public Realm stated the service had undergone a restructure and vacancies within the service had been advertised. The new PSI system had been procured and was bedding in. Two Performance Boards had been set up with the respective Portfolio Leads, which would look at performance management issues. Policy and procedures were looked at as part of the restructure and as such he was confident that with the resources identified the team would be compliant against the assurances identified.

Roy Ormsby offered to come back to the Committee in six months to report on the progress made.

Members made the following comments:

- Members of the Committee **AGREED** to review the service in six months.

Highways, Repairs and Maintenance

Roy Ormsby, Service Head of Public Realm informed Members not much progress had been made against the recommendations identified in the Internal Audit Report. He said the restructure of the service had only just been completed and it would take time for new policies and procedures to bed in. The PSI system which would allow officers to access files and records remotely from hand held devices required time to align within the service.

He requested if he could come back in six months to report on the progress made.

Members made the following comments:

- Members enquired why six months was required and wanted to see plans for the service and action taken to mitigate the risks before then.
 - **ACTION:** Officers agreed to provide performance information to the Committee by the next meeting with the proviso the Service showed improvement against the recommendations identified in the Internal Audit Report.
- Members **AGREED** the Service should report back to the Audit Committee in six months on the progress made.

Tower Hamlets Local History Library and Archives (THLHLA)

Shazia Hussain, Divisional Director for Customer Service reported the Service had made progress against all the internal audit recommendations within their purview. Gaps in control such as record keeping had been addressed and

discussion about expanding the strongroom, were ongoing with feasibility studies being conducting to secure a better facility/location.

The backlog of cataloguing items was still an issue however a growth bid had been made to secure more resource. With respect to recommendation 5 it was difficult for the Council to insure all items, although the most expensive item in the collection was insured. Shazia Hussain said this was an issue that had been escalated corporately however the preservation of the collection is an expensive business.

Members made the following comments:

- Members appreciated it would be difficult to insure every item in the collection.
- With regard to recommendation 6, had the development of the Civic Centre been considered as an option to resolve the issue of a strongroom?
Shazia Hussain responded that the Civic Centre as an option had been considered however which ever option was favoured, after the feasibility studies had been completed, it would no doubt be costly.
- Could Section 106 monies be used to address the issue of resource?
- Great to see the service has National Accreditation. Can Heritage Lottery Funding be accessed to catalogue the collection?

Client Monitoring of ICT Contract

Adrian Gorst, Divisional Director for IT stated progress was being made against the risks identified by Internal Audit. He said he has monthly meetings with Agilisys regarding KPI's and it's been made clear information needs to be provided on time.

He said the challenges faced by the service were great however through delivering the transformation plan and the service improvement plan progress was being made. The contract handbook has been updated so it was clear to the Council and Agilisys of what was required.

Adrian Gorst said he would have a better view of how the service was performing by December 2017.

Members made the following comments

- It would appear as a Local Authority, contracts are not managed robustly.
- Do Agilisys incur financial penalties, if they do not fulfil the requirements of the contract?
- **ACTION:** Can a report come to Audit on large contracts – i.e. top 10 contracts, showing how much money is involved, how contractors are performing, the penalties they incur and action taken to mitigate risk to the Council.
- There is an acceptance this contract was poorly written. Do you think a cultural change is required to address the management of contracts?

- Members **AGREED** the service should report back to the Audit Committee in January 2018.

Acting up and Honoraria Payments

Zena Cooke, Corporate Director for Resources addressed Committee on behalf of Heather Daley, Divisional Director for HR and Transformation. Zena Cooke said gaps had been found in how documentation for Acting up and Honoraria payments are kept and this was being addressed. HR was reviewing its policies and procedures and the criteria for determining the basis of payment of an acting up allowance or honorarium payment, including the limit on Managers authorising payments had been tightened, with escalation to Corporate Directors if an acting arrangement exceeded 12 months.

Members made the following comments:

- Is the service confident it can hold to account Managers authorising such payments?
- How were payments made without authorisation?
- In reference to page 202, can you explain why there is a big jump in the amount of Honoraria payments?
- **ACTION:** Members of the Committee **NOTED** the explanation given with regard to Acting up and Honoraria payments however requested an update be provided on Overtime payments.

Registrar's Office Follow up

Asmat Hussain, Corporate Director for Governance stated that of the five recommendations made by Internal Audit, two had been partially implemented and three were outstanding. Since her appointment, she has instigated a review of the service, as part of a wider restructure and has devised an action plan to address the recommendations.

Asmat Hussain stated she believed the 'limited' assurance was generous as in her view the service should have received a 'nil' return. She offered to return to the Committee in six months to report on the progress made.

Members made the following comments:

- Members of the Committee **AGREED** to review the service in six months.

4.3 Draft Annual Governance Statement 2016/17

Minesh Jani, Divisional Director for Risk Management stated the Council was required to publish its Annual Governance Statement, under the Accounts and Audit Regulations 2015. He said the draft statement for 2016/17 reviewed the governance issues raised in the 2015/16 statement and tested the effectiveness of the Council's governance arrangements.

Minesh Jani, referred members to the governance issues identified in the 2015/16 statement, pages 240-242 and asked Members to note the current status of each issue. The 2016/17 statement began at page 244 onwards.

Members of the Committee made the following suggestions and comments relating to the Annual Governance Statement:

- In reference to page 254, point 3.20 this needs to be highlighted at the beginning of the statement rather than in the middle of the report.
- In reference to page 256, the Ofsted assessment of children services, what does the governance process learn from the assessment and how does it challenge the organisational culture?
- How is the performance and implementation of recommendations tested in the timely and relevant way?
- Can the Local Plan also be referenced in the statement?
- With regards to the organisational culture – what does this mean? Need a clear definition and clear pathway as to where we want the organisation to be.

Minesh thanked Members for their input and said he will ensure this is reflected in the Annual Governance Statement.

The Audit Committee **NOTED** the report and

1. Agreed the draft Annual Governance Statement for the financial year 2016/17 at appendix 1

4.4 Annual Risk Management Report 2017/18 and Q2 Risk Management Update

Minesh Jani, Divisional Director for Risk Management introduced this report and updated Members on the Corporate Risk register. He referred Members to Page 262 and the table at 5.2 which showed the number of corporate risks by directorate for quarter 2 2017/18.

In addition he referred Members to the table at 5.3, page 263, which showed the number of risks associated with corporate priorities.

He said the Audit team needed to win the 'hearts and minds' of officers with regards to the importance of having correct policy and procedures in place and recording risks on the risk register.

Members of the Committee asked the following questions:

- **ACTION:** With regards to Page 273, death and serious harm to children can anonymised information be provided to the Members regarding what lead to the death or serious harm and what action has been taken since the review?

- Can fire safety be added to the Corporate Risk register as discussed at the last meeting of the Audit Committee?
This will be included in the report for the next quarter – quarter 3.
- Do you monitor the effect of staff turnover and interim appointments on areas which have been identified on the risk register?

Members of the Committee **NOTED** the report and recommendations:

1. To note the corporate risks and recommend changes and updates where necessary;
2. Note the contents of the Annual Risk Management Report 2017/18 and agree the actions at section 9 of the report;
3. Request risk owner(s) requiring further scrutiny provide detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its December meeting;
and
4. Determine if risks on the corporate risk register are a significant threat to the achievement of corporate objectives or the performance of activities to satisfy core statutory obligations.

4.5 Treasury Management Quarterly Update Report (April 2017 - June 2017)

Kevin Miles, Chief Accountant Corporate Finance presented the Treasury Management Quarterly Update Report (April 2017 to June 2017).

He informed Members the report advised on the Council's borrowing and investment activities for the quarter and provided a summary of the Prudential and Treasury indicators as well as a summary on the credit criteria. The report also provided information on the projected investment returns.

In particular, Kevin Miles referred Members to point 1.1 and said the Council was working with its new Treasury Management Consultants – Arlingclose to ensure the Council achieved the optimum returns for its investments.

In addition Mr Miles referred Members to point 3.8 stating Local Authorities must be classified as 'retail clients' unless they have opted up by firms to an 'elective professional client' status.

Members of the Committee asked the following questions:

- In reference Page 3, point 3.3.3 the General Election took place in June 2017 and this needs to be updated.
- In reference to Page 6, point 3.4.13 why are equity funds being considered? Members thought the Council was moving away from equity funds.

The Audit Committee **NOTED** the recommendation to

1. Note the contents of the treasury management activities and performance targets for the quarter ending 30th June 2017;
2. Note the Council's outstanding investments which are an outstanding balance of £501.9m at 30th June 2017 which includes £50m, pension fund cash awaiting investment (appendix 2)
3. Note the potential impact on the Council of becoming a retail client with effect from 3rd January 2018 as set out at section 3.8; and
4. Note the protections available to retail clients that the Council will forgo as a result of opting up to professional client (appendix 4).

4.6 Internal Audit Forward Plan

Minesh Jani, Head of Risk Management referred Members to the forward plan and asked them to note the report.

He said the Annual Schools report 2016/17 and the Annual Fraud Report 2016-17 would be coming to the next meeting, as will the risk report on Children Services.

Members of the Committee **NOTED** the forward plan

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

The Chair, Councillor Candida Ronald reminded members the next meeting of the Audit Committee was scheduled for Thursday, 16th November 2017 at 7:00 p.m.

The meeting ended at 9.20 p.m.

Chair, Councillor Candida Ronald
Audit Committee