

LONDON BOROUGH OF TOWER HAMLETS**MINUTES OF THE AUDIT COMMITTEE****HELD AT 7.02 P.M. ON TUESDAY, 25 JUNE 2013****TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG****Members Present:**

Councillor Mizan Chaudhury (Chair)
 Councillor Stephanie Eaton
 Councillor Judith Gardiner
 Councillor Carlo Gibbs
 Councillor M. A. Mukit MBE

Officers Present:

Chris Holme	– (Acting Corporate Director - Resources)
Kevin Miles	– (Chief Accountant, Resources)
Paul Thorogood	– (Interim Service Head Finance and HR Development, Resources)
Minesh Jani	– (Head of Audit and Risk Management , Resources)
Andy Bamber	– (Service Head Safer Communities, Crime Reduction Services, Communities, Localities and Culture)
John McCrohan	– (Trading Standards & Licensing Manager)
John Rutherford	– Interim Service Head, Adult Social Care, Education Social Care and Wellbeing
Owen Whalley	– (Service Head Planning and Building Control, Development & Renewal)
Claire Symonds	– (Service Head, Customer Access and ICT)
Antonella Burgio	– (Democratic Services)

Others In Attendance

Daniel Hellary	– Deloitte Touch
Andrew Sayers	– Audit Partner KPMG
Jamie Carswell	– (Director of Investment, Tower Hamlets Homes)

1. APPOINTMENT OF VICE-CHAIR

Nominations were received for Councillor Judith Gardiner and Councillor Carlo Gibbs. In the absence of a seconder, Councillor Gardiner agreed to withdraw from the election and the nomination that Councillor Gibbs be appointed Vice-Chair of the Audit Committee for the duration of the municipal year was seconded. There being no other nominations, it was

RESOLVED

That Councillor Carlo Gibbs be appointed Vice-Chair of Audit Committee for the duration of the municipal year.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Shafiqul Haque.

3. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made.

4. UNRESTRICTED MINUTES

The unrestricted minutes of the Audit Committee held on 26 March 2013 were presented for approval.

RESOLVED

That the minutes of the Audit Committee held on 26 March 2013 be approved as a correct record of proceedings.

5. AUDIT COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS

The clerk presented the annual report which asked Members to note its Terms of Reference, Membership, Quorum and Dates of future meetings.

RESOLVED

That, Terms of Reference, Membership, Quorum and Dates of future meetings of Audit Committee for the municipal year 2013-14 as set out in Appendices 1, 2 and 3 to the report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION**6.1 The Annual Financial Report 2012/13**

The Acting Corporate Director - Resources presented the draft Annual Financial Report for 2012/13. He apologised that, owing to statutory deadlines and the time required to prepare the accounts for external audit, it had been necessary to circulate the Annual Financial Report as a supplementary agenda. He advised that, as the external audit of the accounts had yet to be undertaken the Committee was required only to note the information presented at this time. The main elements of the report were summarised. These were:

- that Council finances were healthy
- that expenditure 2012/13 in all directorates except benefits was within budget

- that the Council had been able to set aside £5 million into general reserves. These funds would be used to mitigate further savings that were anticipated from the forthcoming Government spending review which was to be announced on 26 June 2013

Noting that timescales around the circulation of the report may have afforded Members reduced access to the documents, the Acting Corporate Director - Resources offered to meet with Councillors individually to discuss in detail any issues which may have arisen from the report. The Committee was also asked to note:

- That that some preliminary audit work had already been undertaken.
- That some minor changes might become necessary as a result of the audit process but these were not expected to have any material impact on the Council's overall financial position.
- It was planned that the external audit would be concluded in late August and the results reported to the Committee at its meeting on 24th September 2013.

In response to a Member question, the Committee was informed that the report had not been available in the normal agenda publication timescales because of other statutory deadlines. He advised that this issue occurred annually and there had been no exceptional circumstances associated with the task this year.

RESOLVED:

1. That the annual financial report for the year ending 31 March 2013, comprising the explanatory forward and the draft statement of accounts which is subject to audit, be noted
2. That the Acting Corporate Director - Resources invitation to meet individually with Committee Members to discuss in detail any issues arising from the draft statement of accounts be noted.

6.2 Internal Audit Annual Report 2012/13

The Head of Risk Management and Audit presented the report at agenda item 6.2 which summarised all of the work carried out by Council's auditors during 2012/13. The Committee was advised that the report contained the following five elements:

- A the annual internal audit opinion in accordance with the CIPFA code of practice
- B summary of audits not previously reported
- C resources used in providing internal audits
- D the number of audits completed but not previously presented and
- E a guide on how Tower Hamlets compares as part of the CIPFA benchmarking club

Internal Audit Opinion - The Head of Risk Management and Audit summarised the professional opinion provided in the report. He advised that, in his opinion, systems of control were adequate and noted 108 system audits had been undertaken 75% of which achieved full or substantial assurance. And 18% returned limited assurance. The remaining 7% were audits where assurances had yet to be returned or where assurance was not applicable. He advised that these results had been achieved not only by audits procedures but also by offering assistance and support to departments that, having been audited, wished to improve their controls and implemented actions to this end. He noted that two of the planned audits had not been completed within the annual timescale and advised that work on these had now begun.

Audits not previously reported. - The Head of Risk Management and Audit reported on management of audit recommendations, advising the Committee that a 6-month post-audit review of the implementation of all agreed recommendations had returned that, as a whole, 84% of priority one recommendations had been implemented and 82% of priority two recommendations had been implemented. He acknowledged that this could be a concern and agreed to follow up limited and nil assurance reports so that a satisfactory level of assurance can be obtained. .

Concerning the summary of audit assurance published in the table at paragraph 8.3 of the report, Councillor Gibbs enquired why significantly more substantial assurances had been assigned to extensive audits than to non-extensive audits. The Head of Risk Management and Audit advised that this was because the risks around extensive systems were greater therefore the Council needed to ensure that arrangements were robust. He advised that most moderate systems were in fact schools and referred to past issues that had been raised around the number of poor assurances that had been returned from their audits.

Concerning audit performance data given in the table at paragraph 9.1 of the report, Councillor Gibbs noted that percentage of priority one and two recommendations implemented at the six-month post audit review were both 84% and considered this figure to be low. The Head of Risk Management and Audit acknowledged that there was presently no system to monitor whether or not recommendations had been implemented after the six-monthly review. However this was an area that he was looking to develop.

Resources used - The Head of Risk Management and Audit advised that in 2012/13 costs were £174,900, a saving of £4000 against planned costs. He advised that, in the period, Deloitte had undertaken a larger number of audits than had been planned as a member of the internal audit team had been assigned to the anti-fraud project. This work had now been completed and therefore this officer time could now be allocated back to normal audits that were planned for the forthcoming year. Additionally it was intended that, during this time, some further data matching work would be undertaken.

Councillor Eaton noted that the costs of audits carried out by Deloitte and a council auditor were comparable and queried whether the work undertaken by

Deloitte should be retained in the forthcoming year to release the council's auditor to undertake other projects due to HR issues.

Audits completed but not previously presented - The Head of Risk Management and Audit advised that 32 audits had been undertaken and the key findings were presented at appendix 2 of the report. He noted that some limited assurances had been returned and advised that these would be discussed with Members. A number of Service Heads were in attendance to respond to Members questions arising from the audit results and the Head of Risk Management and Audit invited each of them to respond to Members questions.

Safeguarding vulnerable adults systems audit – The Head of Risk Management and Audit advised that the audit revealed the following:

- Not all staff had a current CRB check at the time of audit. This was a key issue at the time however it had been subsequently resolved
- Not all staff had received regular training as frequently as had been expected
- Policies and procedures were dated 2011 but some policies were outdated
- A sample check of procedures showed that 10% of reviews had not been carried out

The Interim Service Head, Adult Social Care, Education Social Care and Wellbeing provided the following responses to Members' questions:

- Concerning why the delay in updating CRB statuses had occurred, the Committee was advised that the time of the audit had coincided with his appointment and, at this time, he had not been involved in the oversight of this process. However this had now been addressed. He advised that, on an operational level, practice was good but processes to evidence this were poor. Since April new processes had been brought in which delivered a better audit trail.
- Concerning whether applicants were required to have a CRB check before starting work, he advised that in most cases this would be required. However he was empowered, under certain circumstances, to authorise an applicant to start work on the condition that no unauthorised access would be given to vulnerable adults until the CRB process had been completed.
- Concerning who would be accountable for any incident, he advised that any applicant who possessed a criminal record would not necessarily be barred from employment. However he would scrutinise any such applications and decide whether the nature of the conviction / criminal record would cause a risk. Furthermore all such applications would be scrutinised and assessed individually.

Software licensing audit – The Head of Risk Management and Audit noted that the purpose of the audit was to ensure that there were effective systems around software licensing. The audit revealed the following:

- That there was a good system for the purchase of licences however no inventory of licenses purchased was kept

- The current VDI environment was resilient but an auditor had recorded a non-standard download and therefore this resulted in returning a limited assurance
- There was training around software licensing but no inclusion of the implications or consequences of using not licensed software.

The Service Head, Customer Access and ICT provided the following responses to Members' questions:

- Concerning whether there was a policy on downloading unauthorised software, she advised that there was a policy in place which clearly stated the criteria and sanctions. She advised that since the implementation of VDI it was no longer possible for departments to purchase smaller licences; these were now all centrally held.
- Concerning the risks around duplicate software purchasing, she advised that a corporate standard for software packages had been devised which incorporated a list of every package used and enabled staff to identify where these could be used throughout the organisation.

Planning and building control fees audit - The Head of Risk Management and Audit advised that the audit had revealed:

- That fees and charges payments were mostly made by cheque and that the Council was trying to expand its methods of receiving payments
- A limited assurance had been returned because there was no clear process for the collection and prompt banking of fees and charges
- There was no evidence of robust reconciliation to give assurance that all of the fees and charges due had been banked.

The Service Head Planning and Building Control, Development & Renewal provided the following responses to Members' questions:

- Concerning cost incurred in terms of interest lost due to late banking of cheques and fees, Members were advised that auditors did not feel this was a great risk because the time delay between receipt and banking was small; additionally interest rates were presently low. He noted that a greater risk was that of cheques lost before banking.
- Concerning progress of staff training on financial payment processes, Members were advised that a proactive training programme was being undertaken and would be completed in the next few weeks.
- Concerning reasons for the delay in delivering the required the financial training, Mr Whalley advised that training had coincided with the reorganisation of the services from three teams into one. While the service had been divided across three areas, each had been focused on its own priorities and therefore training had taken longer to deliver. However, a unified system was now in operation.
- Concerning the methodology for training, Members were advised that there was on-going professional, technical and payment process training. Mr Whalley noted that since the reorganisation there had been a culture change in the way that processes were operated.

- Concerning reasons why cheque payments were preferred over other payment methods, Members were advised that while cash payments could not be accepted, portal payments and cheques were acceptable. Mr Whalley noted that in relation to the different types of payments used, applicants often preferred to make cheque payments, especially in relation to payments for section 106 matters although the Council's systems were able to accept electronic payments. However, where applications were initially refused and then later approved, payments would then often be made by credit card for speed.
- Concerning additional costs in terms of officer time for the additional controls instigated, Mr Jani advised that auditors tried to design controls to deliver higher levels of control for the lowest possible cost. He noted that the value of the extra costs incurred was in the controls and assurances that the new processes created.
- Concerning whether there would be additional costs incurred from operating electronic payments, Mr Jani advised that the costs would be no greater than normal.
- Concerning whether the Council would be able to promote electronic payments, over other forms, Mr Thorogood advised that the Council was presently reviewing the costs of different payment methods.
- Concerning whether the Council could require payments to be made electronically, Members were advised that to refuse certain types of payment methods would run the risk of increasing the Council's debt.

Water systems audit - The Head of Risk Management and Audit noted:

- That the audit investigated the Council's arrangements for checking water installations to ensure that there was robust systems to minimise the risk of water-borne infections.

The Director of Investment, Tower Hamlets Homes provided the following responses to Members' questions:

- The water systems in question comprised of cold water tanks and communal hot water systems throughout the THH housing stock.
- Concerning the key risks that were revealed through the audit, Members were advised that the nature of the risk was a public health one through the potential for waterborne infections. Three tests for each water system were carried out per year and the audit revealed a weakness in the recording of the test outcomes. Since the audit, a more systematic approach to tracking the tests had been taken and an application (Keystone) purchased which would provide at-a-glance management information to track and monitor actions. This system was due to go live in September 2013.
- Concerning why monitoring processes, in terms of reporting and follow-up, had not been agreed at the outset of the water testing contract, the Committee was advised that contractors had met their obligations but recording processes were not sufficient to enable tracking and planning of maintenance.
- Concerning lessons learned in terms of monitoring, Members were advised that THH would be using Keystone application to ensure that information was uploaded earlier and could be tracked more easily.

Additionally it would be possible to determine where servicing inspections had not been completed. It was expected that the system would be extended to all planned maintenance activity.

- Concerning why contract review meetings had been omitted and how THH would ensure records would be held properly in future, the Committee was advised that the audit report had identified lapses by members of staff; however the Keystone application would ensure that this did not occur in future. Additionally the results of the audit would be reported to the Tower Hamlets Homes Board. He advised also that since the audit a full backward review of processes had been carried out to ensure that all inspections had been acted upon.

Trading standards storage of goods audit - The Head of Risk Management and Audit noted:

- That the audit had been undertaken to establish a system for cataloguing storing and tracking confiscated goods.
- A limited assurance had been returned around management of the stores.

The Service Head Safer Communities, Crime Reduction Services, Communities, Localities and Culture provided the following responses to Members' questions:

- Concerning whether there was evidence of goods lost or of materials contamination that might compromise a court prosecution, the Committee was advised that there were none as service had been restructured and potential risks had been quantified. The audit had enabled systems to be realigned and a robust solution put in place.
- Concerning security of the stores and whether goods could have been stolen before the audit, the Committee was advised that theft was not possible but the audit had revealed that the process for tracking confiscated goods was insufficient and the procedure for exhibit handling was not adequate; these might affect the continuity of evidence used in prosecutions. Despite the limited assurance in these areas, it was found that these factors had not caused any issues.
- Concerning whether the services would implement Crimson software, the Committee was informed that APP was in use which was a corporate system and was adequate for its purpose. Although Crimson application was better, it was not a good use of money to upgrade as APP was sufficient even though the process took longer.

Schools audits - The Head of Risk Management and Audit advised that reports on this matter would be deferred until the Audit Committee in September.

Oyster cards - The Head of Risk Management and Audit noted:

- This was a small system audit but nonetheless it was undertaken to address a reported misuse
- The aim of the audit was to ascertain whether there were weaknesses in the system and were they occurred

- A limited assurance had been returned because methods of authorising and recording Oyster card journeys were inconsistent which raised a risk of abuse of card use
- The financial risk was small but the reputational risk was much higher
- The audit had and revealed that journeys were not being correctly coded in the departmental financial systems

The Head of Risk Management and Audit provided the following responses to Members' questions:

- Oyster cards were used for small journeys where out of Borough travel was necessary. This authorised method of travel saved operational and time costs involved with formal petty cash applications and journey reimbursements. It was noted however, that the use of Oyster cards for this purpose needed to be regularised.
- Season tickets issued to staff through the Council's season ticket loan scheme could also be used for work journeys where applicable.

Benchmarking club – Concerning the benchmarking club results at appendix 7, it was noted:

- That the costs were higher. Members were advised that this was due to the use of external providers. However it had been found that the provision was a better model and therefore this provision was intended to continue.
- That the audit team presently comprised four officers at PO4 grade and other benchmarking club structures may engage lower graded staff. However it was noted that higher graded staff provided better value as they were able to design systems as well as execute them. Notwithstanding this, to address cost issues, the Head of Risk Management and Audit intended to explore ways of filling the vacancy current vacancy at a lower grade.

RESOVLED:

That:

1. the content of the annual audit report be noted
2. the summary of audits undertaken which have not been previously reported be noted
3. the Head of Audit opinion be noted

6.3 Annual Governance Statement 2012/13

The Head of Audit and Risk Management presented the report containing the draft statement that set out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003 which was required to be produced to review the Council's governance arrangements. He advised the Committee that the review must be satisfied that the Council's governance arrangements were adequate and, should any non-compliance

be found, the Council must identify a remedy. The appendices to the report gave details of the elements that the review required to be checked. After the review some areas for improvement were noted were identified and these were detailed in Appendix 3 (the draft governance statement) together with details of what structures were in place.

He advised that a similar report would be presented to the Standards Advisory Committee with a focus on governance arrangements.

In response to Members' questions the following information was provided:

- The annual government statement 2011/12 returned a number of queries relating to creditors and the year end cut-off procedures. These had been resolved and the actions implemented were provided in the table at paragraph 7.2 of the report.
- Concerning whether governance arrangements around the Elected Mayor model of governance presented any risks for the Council, the Committee was advised that each model of governance worked differently however it was the Council's responsibility to ensure that any governance systems in place were robust.

RESOLVED:

That

1. The Audit Committee note the process and findings set out in paragraphs 4.1 – 7.4; and
2. Agree the Draft Annual Governance Statement for the financial year 2012/13 at Appendix 3.

6.4 Anti-Fraud and Corruption Strategy and Pro-active Anti-Fraud Plan 2013-14

The Head of Audit and Risk Management reported the following matters to Committee:

- There had been no significant changes since the last report presented to Committee
- The plan for anti-fraud work 2013/14 was set out at Appendix 2 of the report
- The East London Anti-fraud Hub had expanded, enabling future data to be shared amongst all London boroughs. This meant that data now could be checked against all London authorities to ascertain if there was benefit fraud. Data matching could now be carried out across London. He noted that this was a big piece of work liaising with other local authorities and costing out. (??)

In response to Members' questions, the following information was provided:

- Concerning how the Council was linking its anti-fraud work with RSA's, the Committee was advised that the Corporate Anti-fraud Manager

fostered involvement by attending joint RSA board meetings. Additionally these organisations supported data matching.

- Concerning what risks, might occur through joint working, in terms of local protection of data, the Committee was advised that the applications that were used included a data usage statement advising how data would be used; this ensured that activity complied with the Data Protection Act. Should there be insufficient data for a proper data match, a standard procedure existed where by notices could be issued in employee pay-slips advising how data would be used for fraud prevention.
- Concerning whether there was a public communication strategy and whether this could serve as a deterrent, the Committee was advised that housing benefit fraud was a criminal offence and that this message was communicated in all Council publications including East End Life. Responding to a Committee request, the Head of Audit and Risk Management agreed also to promulgate this message at management levels.

RESOLVED:

That the anti-fraud and corruption strategy and Pro-active Anti-Fraud Plan 2013/14 be noted.

6.5 Treasury Management Activity for Period Ending 30 April 2013

The Interim Service Head Finance and HR Development, Resources presented the quarter one treasury management report 2013/14. The Committee was asked to note the following:

- The market update at section 8 of the report
- The reformatted investment table at section 10 of the report
- The composition of the investment portfolio as at 30th April 2013 printed at section 10.4 of the report
- That monies held with Lloyds Banking Group were in line with the Council's investment strategy.
- Should the Chancellor propose to sell Lloyds shares, the Council would disinvest.
- The performance year-to-date was lower because of the levels of economic performance
- Information provided at paragraph 13 of the report concerning the downgrade of the Co-operative Bank. The Committee was advised that the Council did not use the Bank for investment banking but for its day-to-day bank balances. To lower the risk of any loss of funds the Council sought to ensure that balances were cleared to zero daily. Additionally he advised that the Council's level of investment was minimal and that, despite the circumstances, the Bank's service was good
- Senior finance officers were constantly monitoring the situation to keep abreast of developments in the matter of the Co-operative Bank

The Acting Corporate Director – Resources further advised that most local authorities banked with the Co-operative Bank and that the Co-op, as an organisation, had significant other assets. Therefore the risk of loss of capital was mitigated.

In response to Members' questions the following information was provided:

- Concerning whether the Council should operate a second account in the event that the Co-operative Bank should default, the Committee was advised that risks were being minimised in the following ways:
 - all anticipated deposits were invested on the day of deposit to enable balances to be cleared within the day
 - transactions were carried out at 8:00 a.m. when banking activity was safer

The Committee was asked to consider the track record and status of the Co-op Bank; given these, senior management was of the view that the Government would not allow the Bank to become insolvent. None-the-less senior officers were monitoring the situation constantly and keeping a daily review of developments in the Council's relationship with the Bank.

RESOLVED:

That:

1. The contents of the treasury management activity report for period ending 30 April 2013 be noted and
2. The recent downgrade of the Co-operative Bank be noted.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.45 p.m.

Chair, Councillor Mizan Chaudhury
Audit Committee