

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.12 P.M. ON TUESDAY, 18 MARCH 2014

**ROOM MP702, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Vice-Chair, in
the Chair)
Councillor Judith Gardiner
Councillor Stephanie Eaton
Councillor Peter Golds (Substitute for (Leader of the Conservative Group)
Councillor Craig Aston)

Officers Present:

Andy Bamber – (Service Head Safer Communities, Crime
Reduction Services, Communities, Localities and
Culture)
Minesh Jani – (Head of Audit and Risk Management ,
Resources)
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)
David Tolley – (Head of Consumer and Business Regulations
Service, Safer Communities, Communities
Localities & Culture)
Chris Holme – (Acting Corporate Director - Resources)
Kevin Miles – (Chief Accountant, Resources)

Antonella Burgio – (Democratic Services)

Others In Attendance

Andrew Sayers – (KPMG)
Antony Smith – KPMG
Jamie Carswell – (Director of Investment, Tower Hamlets Homes)

COUNCILLOR CARLO GIBBS IN THE CHAIR

At the Chair's invitation all parties in attendance introduced themselves

Order of Business

A request was made that the order of business be varied to enable item 4.1 to be considered as the first item of business. The Chair agreed following which the remaining business was considered in the order published. Accordingly the Chair **moved** and it was

RESOLVED

That order of business be varied to enable agenda item 4.1 to be considered as the first item of business.

APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Mizan Chaudhury, M.A Mukit and Craig Aston. Councillor Peter Golds attended the meeting as a designated deputy for Councillor Aston.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the ordinary meeting held on 12 December 2013 were approved as a correct record of proceedings.

3. KPMG ITEMS FOR CONSIDERATION

3.1 External Audit Plan 2013/14

The Engagement Partner, representing External Auditors KPMG presented the report informing the Committee that key risks would be the focus of the audit work to be undertaken. These areas were discussed in detail at section 4 of the report. Sections 5 and 6 of the report detailed the key financial statements, audit risks and the VFM audit approach.

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

- Concerning risks and audit work relating to Members' Enquiries (MEs) on the treatment of assets, the Committee was informed that these concerned surplus assets and disposal. The Audit Partner commented that the Council might look to scrutinise this area more generally.
- Concerning risks and audit work fees in relation to MEs, the Committee and was informed that this work was charged in addition to the scale fee. Members were advised that the charges did not include time lapsed between referral and conclusion of investigations but was based on an estimate of the work needed and of the time required to complete any investigations that the auditor considered were needed, based on reviewing the information provided. A Member suggested that, since the duration of works had been

estimated, this element might be included into the overall fee. Members were informed that the External Auditors were able to estimate costs for known factors. However other enquiries might arise during the course of such audit work and the effects of these could not be estimated, hence the decision to list fees for MEs separately. It was noted also that, under the current Audit Commission regime, extra audit work was to be itemised separately to the fee and that KPMG was accountable to the Audit Commission for any variation to the scale fees. (The scale fees are set by the Audit Commission for each Council.) A Member further suggested that, in view of the political arrangements at Tower Hamlets, fees for MEs should be incorporated into the overall audit fee. However the cost of abnormal enquiries was not to be a financial disincentive. The Audit Partner advised that it was not possible to provide an estimate but KPMG individually assessed each ME to determine which should or should not be investigated. Because of issues discussed and for other reasons work for audit of MEs were itemised and charged separately.

- Concerning whether an ME investigation might be declined because other organisations were more suited to undertake it, Members were informed that the External Auditor would first consider whether the enquiry fell within the auditor's remit and also whether the relevant investigative skills and expertise were available within the organisation. Reasons would be given where the Auditor declined to investigate a matter.
- Concerning whether lack of response from a local authority influenced whether an investigation would be taken up, Members were informed that delays did not have much effect on the cost of an investigation since no work was carried out whilst data was awaited.
- Concerning specific cost breakdowns of investigations, the Committee was informed that the Acting Corporate Director, Resources would provide a written response following the meeting.
- Members were informed that the Audit Act in force in 2014 had no particular impact on the auditor's work.
- A Member complained that the External Auditor often failed to send a written acknowledgement of receipt of an enquiry letter. The Audit Partner advised that the firm's normal practice was to give a holding reply pending further information.
- Concerning failure to respond to an ME related to the dismissal of £38,000 for an executive unsolicited letter, the Partner advised that the details of the query would be investigated and a response provided in writing.

RESOLVED

That the report to be noted

3.2 Certification of Grants and Returns 2012/13

The Audit Manager advised that unqualified certifications had been issued for grant claims and returns 2012-13 except for the housing and council tax benefits claim. As a result of the level of unqualified certifications, the fee had been significantly reduced and a further reduction was expected in the forthcoming year.

Members queried the reduction in additional tests for the housing benefit scheme and were informed that fewer errors had been found at initial testing and, in accordance with DWP protocols, less additional testing was required.

RESOLVED

That the report be noted

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

The Head of Audit and Risk Management presented the report. He summarised the work undertaken in the period December 2013 to February 2014 and noted assurance rating of each audit finalised in the period. He also reported the following audit performance:

- Under performance in audits undertaken in quarter 1 had been recouped.
- the Audit Team ensured that all priority 1 recommendations were implemented on time.
- a number of priority 2 recommendations remained to be implemented.

Four limited assurances had been returned and relevant officers were present to answer questions from the Committee.

Assessment and Commissioning of Placements for SEN Children and Young Persons

The Service Head, Learning and Achievement apologised that due to short notice, she was unable to attend the meeting to answer questions. The Head of Audit and Risk Management agreed to respond or, for more detailed answers, refer questions to the Service Head. He advised that:

- The audit examined systems of control and how SEN children were placed in independent schools in terms of clear evidence trails and VFM operated for multiple children places.
- There was good practice in regards to commissioning.
- A limited assurance had been returned because terms of reference were unclear and decision making was affected by poor attendance at Joint Commissioning Panel (JCP) meetings. Additionally he advised that the administration of the business group could be improved, and social workers better challenged to attend JCP meetings.

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

Concerning where the authority to spend money resided, the Committee was informed that the Local Authority was authorised by the Health Authority. However the Health Authority's contribution was not clearly defined.

Concerning whether the absence of controls placed pressure on social workers to accept particular solutions, the Committee was informed that the service was looking to improve speed of decision-making as delayed or slow decisions might mean that children would have to accept interim accommodation and this could be detrimental.

Management and Control of Markets

The Head of Audit and Risk Management advised that:

- The audit had been carried out to assess assurance on the Control of Markets Framework.
- The procedure for day-to-day management was compliant as was allocation of temporary and additional pitches.
- There were three areas of non-compliance. These were:
 - Dealing with arrears - these were not dealt with quickly.
 - Subletting - there was subletting of pitches which was a risk factor to the Council. It was also noted that processes were insufficient to detect sublet pitches.
 - Public liability insurance cover - in some cases inspectors had accepted lesser forms of proof of insurance cover.

The Service Head Community Safety and Head of Consumer and Business Regulations were present to answer questions from the Committee. The Service Head Community Safety informed Members that efficiency was impeded by the following factors:

- The last Market Panel meeting had been cancelled because accurate information on arrears was not available or provided to the market service from finance.
- Effective recovery of arrears was being hindered by the poor quality of the markets' data available to the Markets Panel.
- The Markets Control service experienced difficulties with software support provided by Agilisys and support from finance
- There had been issues around reconciling arrears using Agresso financial software.
- The issues were being dealt with as a priority. However the matter not only concerned markets but finance and agresso
- Subletting was a historic issue and additional staff had recently been recruited to address the matter. Additionally two officers had been recruited to look at the markets strategy and to eliminate subletting. It was noted that some markets crossed borough boundaries and here subletting was being addressed jointly with the neighbouring local authority. Management was working on these issues, some of which were linked to other corporate projects

In response to Member's questions the following information was provided:

Concerning the corporate impact of arrears, the Committee was informed that data management was the factor which affected performance. Accurate / up-to-date data was not available to the Market Panel therefore staff were unable to efficiently pursue arrears.

Concerning what actions THEOs were empowered to take upon discovering subletting, the Committee was informed that the licence conditions stipulate that holders should be present at their pitches and therefore inspectors would need to make several visits to verify the identity of a pitch holder. It was noted verification of subletting and holder identification were resource intensive tasks. Additionally subletting had other impacts such as discovery of thefts and often led to crime investigation.

Where subletting was discovered the licence of the stallholder was revoked.

Concerning whether THEOs were best deployed in this way, the Committee was informed that there was no additional bid for THEO resources since non-accredited THEOs were the original 'market officers' and funded by the market account.

The licence scheme was locally based and practices comparable with other local authorities and the Mary Portas initiative.

Management and Control of Trading Standards Evidence Stores

The Head of Audit and Risk Management informed the Committee that:

- This was a follow up audit.
- One of the priority 1 recommendations had been implemented in full and one remained to be completed hence a limited assurance had been returned.

Head of Consumer and Business Regulations informed the Committee that:

- The work of trading standards included the requisition, sample and testing of goods.
- A key issue in this regard was their safe storage and monitoring
- The issue that had been highlighted by the audit was tracking sequestered goods for which APP software was used.
- There had been shortcomings with the software and other methods and software had been investigated. These had also proved unsuitable.
- development work was now being undertaken on the APP software to provide a more bespoke application.

In response to questions, the committee was provided with the following information:

It was expected that the bespoke software would be implemented in July 2014

No prosecutions had been affected by the non-compliance as it was possible to demonstrate / identify whether or not stored sequestered evidence had been tampered with following requisition.

The non-compliance related to tracking goods that had been requisitioned. However trading standards had improved their paper audits so that all items from point of seizure could be tracked from point of seizure to the Court.

Officers were presently investigating how this process might be computerised and remain robust.

The bespoke package first trialled had not proved suitable because the system did not permit a spreadsheet to be created which was specific to each individual storage site. Additionally it would not interface with Civica, hence bolt-on software being developed for this purpose and APP Flaire software was being explored

Aids and Adaptions Audit

The Head of Audit and Risk Management advised that aids and adaptations service was comprised of two elements; assessment performed by the Council's Adaptions Team and implementation of the adaptations which was carried out by Tower Hamlets Homes. He noted that referral and allocations of aids and adaptations were compliant but a limited assurance had been assigned because:

- There was no post-works inspection regime of what value the works gave.
- There were performance issues.
- Some suppliers had not formally signed a contract.
- There was a delay in completion of some of the works sampled.

The Director of Investment Tower Hamlets Homes did not dispute the findings of the audit in broad terms. He also noted:

- A typographical error at page 61 of the report in that THH property services had initiated client post works inspections for 100% major works adaptations active from mid October 2013; the correction was noted.
- That the focus for their works had been on maintaining high standards and quality.
- That the arrangements with contractors had been improved and rationalised; That a post-inspection regime and associated KPIs had been put in place.

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

Concerning how slippage in time taken to complete the works would be addressed, the Committee was informed that a target time of eight weeks maximum had been incorporated into the KPI's. The Director advised that seven of the 20 aids and adaptation works sampled had been completed within 56 working days. Additionally he advised that new targets had been set; these were 10 days for urgent referrals and 20 days for non-urgent referrals.

Concerning why the contracts with Precision had not been signed, the Committee was informed that the contracts were four year framework contracts which initiated in 2012. The non-compliance had arisen because of a lack of follow-through and compliance discipline. This was now being built into the current contracts framework.

The Chair thanked the participating officers for their submissions.

He then noted that four priority 2 recommendations relating to the quality assurance on child protection services remained to be implemented and asked that the responsible officer attend at the next meeting to speak to speak on these outstanding matters.

RESOLVED

That the report to be noted

Action by:

Minesh Jani (Head of Audit and Risk Management, Resources)

4.2 Annual Audit Plan for 2014/15

The Head of Audit and Risk Management presented the report. He advised that some of the audits, in previous years, undertaken by Deloitte would in future be managed by Mazars. The proportion of the audit work to be managed had not changed. He also highlighted the planned areas of work, review of the risk registers, and the summary of the audit work days allocated to these.

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

Concerning the reduction of planned audit work days for Education, Social Care and Welfare audits, the Committee was informed that these areas had the second highest proportion of critical financial systems therefore this areas were given a significantly higher level of audit. This accorded with the overall risk assessment for service areas within the Authority. The Head of Audit and Risk Management advised that the allocation of auditor days could be reviewed if Members felt that additional resources were required. Additionally DMT had identified risks around adult services and asked that additional audit time available be dedicated to this area.

Concerning why management of sickness absence had been reintroduced into the audit plan, the Committee was informed that this had been done because

- sickness monitoring was a strategic management systems matter
- some time had lapsed since the last sickness absence audit.
- the proposed audit was also necessary as the Authority had recently introduced flexible working
- the Authority would shortly implement an online sickness reporting mechanism therefore it was necessary to ensure that sickness was reported at the right time to reduce the risk of overpayments

RESOLVED

That the annual internal audit plan for 2014-15 as set out in Appendix 1 be endorsed

4.3 Anti-Fraud and Corruption Strategy and Proactive Anti - Fraud Plan

The Anti-fraud Manager introduced the report highlighting the following:

- some resources in antifraud investigation would be removed to DWP
- resourcing of antifraud investigations would be impacted by this change
- in view of this, it was planned to identify where activity could be maximised and where the Council's own data matching could be utilised
- the aim was to maximise external data matching and utilise available internal data matching
- up to £1.4 million could be recovered using data matching
- a typographical correction at page 139 was noted

Concerning fraud detection performance by DWP the Committee was informed that under present arrangements where a fraud was detected in one area it could provide an investigative lead via benefits records, this form of data matching might not be available in future and in Local Government, there general concerns around what data would be shared by DWP

RESOLVED

That the antifraud and corruption strategy and proactive antifraud plan 2014-15 be noted.

4.4 Treasury Management Activity Update Report to 31 January 2014

The Chief Accountant presented the report. He advised that although the Bank of England had maintained a low base rate, the Council's investments remained on target to achieve their budgeted returns. Additionally the investment portfolio had been expanded and an account opened with Svenska in order to better access short-term returns.

RESOLVED

That the Treasury management activity report period for the ending 31 January 2014 be noted.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 8.43 p.m.

Chair, Councillor Mizan Chaudhury
Audit Committee