

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.30 P.M. ON WEDNESDAY, 4 FEBRUARY 2015**

**MP701, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14  
2BG**

**Members Present:**

Councillor Amina Ali (Chair)  
Councillor Ayas Miah  
Councillor Ohid Ahmed  
Councillor Rachel Blake  
Councillor Alibor Choudhury  
Councillor Andrew Wood

**Apologies:**

None

**Officers Present:**

—  
Kate Bingham — (Service Head, Resources, Education  
Social Care and Wellbeing)  
Barbara Disney — (Service Manager, Strategic  
Commissioning, Adults Health &  
Wellbeing)  
Everett Haughton — (Third Sector Programmes Manager,  
Third Sector Team, Development and  
Renewal)  
Chris Holme — (Acting Corporate Director -  
Resources)  
Minesh Jani — (Head of Audit and Risk Management  
, Resources)  
Kevin Miles — (Chief Accountant, Resources)  
David Tolley — (Head of Consumer and Business  
Regulations Service, Safer  
Communities, Communities Localities  
& Culture)  
Antonella Burgio — (Democratic Services)  
Nishaat Ismail — (Committee Officer, Democratic  
Services, Directorate Law Probity and  
Governance)

**Others Present:**

Mike Clarkson - (Mazars)

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of Disclosable Pecuniary Interest or any other declarations of interest were made.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the previous meeting held on 16<sup>th</sup> September 2014 were presented for approval.

Referencing page 5, para 1 of the minute pertaining to agenda item 3.1, Chris Holme (Acting Corporate Director) requested the figure to be corrected to £250,000.

The Chair moved and it was:-

**RESOLVED**

That the unrestricted minutes of the meeting of the Audit Committee held on 16th September 2014, be agreed as a correct record of the proceedings, and the Chair be authorised to sign them accordingly.

**Action by:**

Nishaat Ismail (Committee Officer, Democratic Services, LPG)

**3. TOWER HAMLETS ITEMS FOR CONSIDERATION****3.1 Quarterly Assurance Report**

The Head of Risk Management and Audit presented the Quarterly Assurance Report, which summarised the work of Internal Audit for the period September 2014 to November 2014.

The Committee heard that;

- 18 Audits were undertaken
- 9 were assigned Limited Assurance and of these 4 were school audits.
- The Audit performance against the Audit plan achieved a return of 48% as opposed to 50% as planned.
- All priority 1 recommendations will be expected to be implemented in the next quarter and priority 2 recommendations will be implemented over the next 6 months.
- Appendix 3 (page 55 of agenda pack) indicates the number of recommendation remaining to be implemented.
- It was stated that internal auditors have made recommendations that management have agreed before the recommendations are followed up.

The Committee were also told that a number of key performance indicators in relation to the audit plan were identified with delivery being slightly behind than planned however the target is to deliver plan by the end of March 2015.

### **Summary of Audits assigned Limited Assurance**

#### **Pest control audit** (reported to the Audit Committee on 16 September 2014)

This was assigned limited assurance. Feedback was provided and it was identified that a number of services were being provided free of charge and some Service Level Agreements (SLAs) were not updated and reviewed. There were also a number of jobs which were left open on the system and showed as “outstanding”.

The Head of Consumer and Business Regulations informed the Committee that the properties listed on the management system had been updated. There were 86 properties on the system and 21 of them were chargeable. The Committee heard that there was 0.6% loss on income and 50% of the jobs recorded open at the time of the audit, 50% had been closed.

#### **Monitoring and control of mainstream grants**

This was assigned Limited Assurance. The Committee were told that although there were examples of good practice in some directorates and there was authorisation of payments in line with guidelines. However there were no documented monitoring procedures currently in place.

#### **Specific issues on Youth Connexions**

The Committee were informed that there were no documented monitoring procedures currently in place for those organisations receiving MSG funding for the Youth and Connexions projects.

#### **Luncheon Club projects**

The Committee were told that some service providers were not achieving the targeted outputs for which the grant was awarded.

The Third Sector Programmes Manager informed the Committee that there are 11 funding streams across ESCW, CLC and D&R. A number of weaknesses were found in the programmes tested however they had been addressed by setting out clear procedures guidance for officers administering grants.

The Committee heard that all grants officers had been given a Grants Procedure Manual and they are to attend a briefing so they understand the procedures. In addition, all grants officers have been asked to implement procedures give feedback to the Third Sector Programme Manager, to ensure that the manual can be improved and updated with relevant practices.

In response to Members questions, the Committee heard that;

- Officers had access to the manual before the audit however it was in draft and not implemented across the funding streams. The final draft has now been signed off and distributed to all grants officers so that they can follow the approved procedures.
- The audit was finalised in August 2014 and given the timing of this, the officers who were monitoring the grants at the time were also required to simultaneously provide information to Pricewaterhouse Coopers (PwC) inspectors.
- The Limited Assurance level indicates that there was monitoring taking place but the controls did not meet the expected standards and any deficiencies identified by internal and external audit needed to be addressed immediately and the report regarding the monitoring of grants highlighted how officers could strengthen governance of grants.

Members requested information regarding when the last audit of this area was conducted and requested a follow up of the audit be reported at its committee in June 2015:

**Action by: Head of Risk Management and Audit:** Minesh Jani

Members also requested that an officer attend the next meeting of the Audit Committee to explain the lack of monitoring on Youth Connexions.

#### **Management and control of mobile phones**

This audit was assigned Limited Assurance due to staff not being able to review mobile phone usage effectively.

The Committee were told that, although there was good practice in checking if employees reached threshold of usage, there was no evidence of how this was being monitored.

A usage report obtained from Agilysis for April 2014 showed that there were 1,565 accounts where "usage" charges were zero for the month.

Directorates and departments were responsible for administering pool phones, standby phones and returned phones, and the audit highlighted that this was not being done effectively.

The Chair moved and it was;-

#### **RESOLVED**

That the contents of the Quarterly Assurance report be noted taking account the assurance opinion assigned to the systems reviewed during the period.

### 3.2 Updated Internal Audit Plan 2014-15

This report, presented by the Head of Risk Management and Audit, provided Members with an update of audit activity planned for this financial year and reflects the amendments made to the original internal audit plan as a result of the changing priorities of the authority.

- The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for approval in March 2014.
- The Committee heard that the plan has been revised in line with the internal audit strategy and the reasons given were;
  1. Requests from officers to perform audits that were not originally planned;
  2. Requests from officers to increase the scope of audits which resulted in higher allocation of audit days;
  3. Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
  4. Make use of days provided in the original plan that had not been allocated to specific audits;
  5. To avoid duplication of work with either the external auditor or other assurance provider and
  6. Additional commitment to unplanned work.

The appendices attached to this report summarised the audits that had been added to or deferred from the original audit plan.

In response to Member's questions the Committee were informed that;

- There is a risk assessment formula used to make decisions regarding the changes made to the internal audit plan.

The Committee were also informed that key findings identified from the work of the Anti-Fraud team will be reported to the Audit Committee in Anti-Fraud Annual Report scheduled for presentation to the June 2015 Committee.

Members requested to see an action plan around processes given to PwC.

**Action by:**

Chris Holme (Acting Corporate Director Resources)

The Committee also asked for information about the number of whistle blows received.

**Action by:**

Minesh Jani (Head of Risk Management and Audit)

The Chair Moved and it was:-

**RESOLVED:**

- That the changes proposed and endorsed the revised 2014/15 internal audit plan attached at Appendix 2 (p62 of agenda pack) be noted.
- The resourcing of the audit plan as detailed at para.4.1of the report be noted.

### **3.3 Annual Internal Audit Report for Schools 2013-14**

This report summarised the work of Internal Audit in relation to the audit of schools for the financial year 2013/14.

The Committee were informed that;

- During the financial year 2013/14, audit visits were carried at 27 schools.
- The report highlighted the weaknesses in financial control and management in 14 out of 27 schools visit by Internal Audit during 2013/14
- There were 12 control areas examined during the audit;
  1. Operation of Governance Processes;
  2. Financial Planning and Budgetary Control;
  3. Control and Monitoring of Schools Bank Account
  4. Procurement, including Large Single Purchases, Tendering and Value for Money;
  5. Accounting of Income and Expenditure;
  6. Charging Policy, Income Collection and Banking;
  7. Personnel and Payroll Management;
  8. School Meals
  9. Voluntary Fund and School Journey;
  10. Asset Controls and Security of Assets;
  11. Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
  12. Risk Management and Insurance.
- 14 schools were assigned Limited Assurance.
- Key findings by Audit Area were around;
  - Operation of Governance Processes
  - Financial Planning, Budget Setting, Monitoring and Forecasting
  - Control and monitoring over School Bank Accounts
  - Procurement
  - Accounting of Income and Expenditure
  - Charging Policy and Income Collection and Banking
  - Personnel and Payroll Management
  - School Meals
  - Voluntary Fund and School Journey

- Asset Controls and Security of Assets
  - Security of the IT Infrastructure, Disaster Recovery, Data Protection
  - Risk Management and Insurance
- Members were informed in detail about the schools audited ;
    - Cambridge Heath Sixth Form
    - Shapla Primary School
    - St Anne's Catholic Primary School
    - St Paul's Way Trust School

The Service Head for Resources-ESCW was present to answer Members' questions. She informed the Committee that;

- Four schools audited had been assigned Limited Assurance for the 3<sup>rd</sup> time, indicating a systematic failure over a 3 year period and failure to implement internal systems.
- There had been regular meetings with the schools concerned but it was difficult to intervene directly
- The audit has highlighted the need to provide additional support to these schools.

Further to Members' questions the Committee was informed;

- That it is for schools to monitor the number of people entitled to free school meals.
- The Council has the authority to withdraw finance delegation- but this would be the ultimate sanction
- 10 schools had been identified as needing extra support to avoid being assigned Limited Assurance for a 4<sup>th</sup> year.
- In order to assist schools who were failing financially, the entire governance system needed reviewing.
- Very few schools were in deficit and those that were, were due to specific reasons such as; school building expansion.
- There are a number of schools that had not been audited in over 4 years however they were assessed as low risk schools.
- There are currently 96 schools on the programme

Members stressed the importance of monitoring the schools in questions due to child protection issues arising in other UK authorities.

The Committee asked for a response plan from the ESCW directorate to improve internal control and governance at schools and reduce the number of limited assurance reports.

Action by:  
Service Head, Resources, ESCW

The Chair moved and it was;-

### **RESOLVED**

That the contents of the Annual Internal Audit Report for Schools be noted.

### **3.4 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015-16**

This report was presented by the Acting Corporate Director of Resources, who informed the Committee that the Council is required by legislation and guidance to produce 3 strategy statements in relation to its treasury management arrangements.

The report also dealt with the setting of Prudential Indicators for 2015/16, which ensured that the Council's capital investment decisions remain affordable and sustainable.

The Committee were given a brief background and told that the Council is required to operate a balanced budget, which broadly means that revenue raised during the year will meet revenue expenditure.

The Committee was told the following;

- The authority was well within its' borrowing limit.
- The strategy was similar to previous years.
- A scheme was at the early stage of development that could lead to the building of additional housing in the borough.
- Higher investment returns were available from Government owned banks, Royal Bank of Scotland (RBS) and Lloyds Bank. However the credit ratings of these banks might fall if and when the Government sells its share in the future.
- The Council were exploring alternative investment opportunities at suitable credit ratings to invest in.
- The Council has a large capital programme for a local authority and it is important to manage investment balances to ensure payments are funded as they become due.

The Chair moved and it was;-

#### **RESOLVED**

That Members noted the;

- The Minimum Revenue Provision Policy Statement set out in section 7 of this report;
- The Treasury Management Strategy Statement set out in sections 8-11 of this report; and
- The Annual Investment Strategy set out in section 12 & 13 of this report.



### 3.5 Treasury Management Activity for Period Ending 31 October 2014

This report was presented by the Chief Accountant, which advised the Committee of treasury management activity for the current financial year up to 31st October 2014.

The Committee heard that the current average return on investment stands at 0.72%, compared with budget set of 0.80%, whilst the budgeted cash return on assets was £1.6m for 2014/15; this has been revised to 2.7m due to large cash balances.

The Committee were informed that the Council's Treasury Management Strategy was approved on 26<sup>th</sup> February 2014 by Full Council. The Strategy covers the following:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- The current treasury position;
- Prospects for interest rates
- The borrowing strategy (including policy on borrowing in advance of need);
- Debt Rescheduling;
- The Investment Strategy;
- Credit Worthiness Policy
- Policy on use of external service providers; and
- The Minimum Revenue Provision (MRP) Strategy

The Committee heard the economic outlook and position for the UK, US and Eurozone. Noting that the economic outlook for the UK and US has improved but for the Eurozone the future remains uncertain.

Members were informed about the performance of investments. Figures displayed in the report showed that performance has consistently outperformed LIBID and has achieved a better rate of investment return (commensurate to risk) compared to other Councils in the benchmarking group.

The Chair moved and it was;-

#### **RESOLVED**

That the contents of the treasury management activity report for period ending 31st October 2014 be noted.

**4. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

Nil items.

The meeting ended at 9.30 p.m.

Chair, Councillor Amina Ali  
Audit Committee