

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.00 P.M. ON WEDNESDAY, 23 SEPTEMBER 2015**

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

**Members Present:**

Councillor Candida Ronald (Chair)

Councillor Sabina Akhtar

Councillor Clare Harrisson

Councillor Amina Ali

**Others Present:**

Andrew Sayers

– (Engagement Lead Auditor, KPMG)

Antony Smith

– (Engagement Manager, KPMG)

**Officers Present:**

Zena Cooke

– (Corporate Director, Resources)

Shirley Hamilton

– (Interim Head of ICT)

Daniel Hellary

– (Service Manager, Mazars)

Minesh Jani

– (Head of Audit and Risk Management, Resources)

Bharat Mehta

– (Audit Manager)

Kevin Miles

– (Chief Accountant, Resources)

Tony Qayum

– (Anti-Fraud Manager, Risk Management, Resources)

Ann Sutcliffe

– (Service Head Corporate Property and Capital Delivery, Development and Renewal)

Antonella Burgio

– (Democratic Services)

**Apologies:**

Councillor Andrew Wood

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interest.

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

The minutes of the meeting held on 21 July 2015 were deferred.

### **3. KPMG ITEMS FOR CONSIDERATION**

#### **3.1 Report to Those Charged with Governance - ISA260 2013/14**

At the Chair's invitation, Andrew Sayers, Engagement Partner, KPMG, presented the report which related to the annual external auditor's report for the period 2013/14. The Committee was informed:

- That, as external auditors, KPMG were responsible for the audit of:
  - Financial arrangements
  - Ensuring that the Council secured value for money(VFM)
  - The exercise of any other audit powers as considered necessary and appropriate.
- That the completion of the annual audit had been deferred pending the conclusion of the investigation by PWC undertaken under the instructions of the Secretary of State. Following the final report being issued, we were able to undertake further enquiries arising from the report's findings and additional information received from other parties. Once these were completed we were able to complete our work and issue our audit opinion.
- The Audit Opinion on the financial statements is unqualified
- That KPMG had viewed the draft governance statement and this was considered to be consistent with our knowledge.
- That in relation to VFM, the various matters highlighted by PWC and additional information received from other parties had been examined and based on this assessment, and an adverse conclusion on the adequacy of the Council's arrangements to deliver value for money would be issued.
- That a Section 11 recommendation would be made recommending that the Council's governance arrangements should be reviewed.
- Normally, such a recommendation would need to be considered by the Council within a month. However, in view of the impending arrival of the new Chief Executive, KPMG were prepared to consider extending this normal deadline requirement..
- That KPMG would not presently exercise its other statutory auditor powers. In terms of a public interest report there had been significant publicity around the matters raised through the PWC investigation. In respect of potential items of account contrary to law KPMG's view is not to seek a declaration from the court given the amounts involved are not material and the relatively small benefit to be obtained from further action and the significant cost to the local taxpayers of taking court action.
- Once all final steps have been completed, the audit opinion will be issued. This was expected to be within the next two to three weeks.

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

- Concerning reasons why issues identified through PWC investigations which were of long-standing had not been made known in previous ISA260 reports, the Committee was informed that since KPMG had

become the Council's external auditors it had identified some such issues and commented on them in previous ISA260 reports. However the cumulative effects of the issues identified had not been evident at the time of earlier reporting.

- The Section 11 recommendations would have no impact on the opinion being issued on the accounts. The publication of a Section 11 recommendation was a separate and compulsory process but it did not prevent the signing of the accounts. Mr Sayers anticipated that the 2013/14 accounts would be finalised in the near future.
- Concerning the status of ISA260 report relating to 2014/15 accounts, Mr Sayers advised that:
  - There might be some effects of the Section 11 publication in 2014/15, in terms of giving an update of progress, but it was not anticipated that it would be necessary to issue a further Section 11 report in relation to 2014/15.
  - The accounts should be ready by the end of the year and requested that Audit Committee should convene in the New Year in order to consider them and the auditor's report on them.
- Responding to a Member comment that the effects of the Section 11 report were likely to continue into future years, Mr Sayers advised:
  - that it was intended that the ISA260 report 2014/15 and those of subsequent years would record progress made to rectify the issues identified.
  - Many of issues that have resulted in the adverse opinion proposed in the ISA260 report before the Committee relating to 2013/14 would still be present into 2014/15 as the organisation was being run in the same way.
- Concerning whether any cross checks and communications had been put in place to ensure that work was being undertaken in a coordinated way, the Corporate Director for Resources informed the Committee that KPMG and Commissioners have met to ensure that each of their aims and targets were focussed towards the same goals. To assure the Committee of this, Directors would have oversight of progress made and demonstrate the direction of travel. A "management response" standing agenda item also would be added to future Audit Committee agendas.

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

To better facilitate interpretation of complex data, Members enquired whether colour copies could be provided to them.

#### **RESOLVED**

1. That the key issues and recommendations reported at Appendix 1 of the report be noted.
2. That the draft proposed opinion circulated at Appendix 3 to the report be noted.
3. That an extraordinary Audit Committee be convened in the New Year in order to consider the ISA260 report 2014/15.
4. That a standing item titled "Management Response" be incorporated into future agendas to deal with outstanding items outlined by KPMG.

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

### **4.1 Annual Financial Report 2013/14**

The Chief Accountant introduced the report. He informed the Committee that as the ISA260 for the period 2013/14 report had been issued the annual financial report could therefore be presented for approval. He advised that a minor amendment had been made to the Annual Governance Statement and the document would be circulated to Members for comment back to the Chief Accountant. Once comments had been received a Chair's action would be requested to approve the revised inspected document (following Members' comments) by e-mail.

In considering the report the Committee noted that some of the achievements listed in the introductory paragraph lacked insufficient detail and should include statistical data to give depth to the statements.

The Committee also queried whether the level of the Council's PWLB borrowing was in the median range relative to other councils. Members were informed that the Council's loans had been placed with banking institutions and the Council was exploring options to repay these. The borrowing level was low.

### **RESOLVED**

That, subject to approval of the revised annual governance statement by the Committee via a Chair's action, the annual financial report for the year ending 31 March 2014, including the statement of accounts for this financial year be approved, having regard for the auditors annual governance report for this period.

### **4.2 Quarterly Assurance Report**

The Head of Audit and Risk Management introduced the report. He advised:

- That the report summarised the internal audit work in the period June - August 2015 and reported the assurance rating of each audit finalised in this period. The Committee noted that 16 audits had been completed in the period, two of which had returned a limited assurance.
- That assigning a limited assurance triggered a follow-up audit focussed around implementation of all recommendations arising from the initial audit.
- That the audit team was presently on target to complete its schedule of audits in accordance with the annual audit plan.

Members noted that there were 'priority one' recommendations yet to be implemented six months after the initial audit had taken place. They were dissatisfied with this situation and advised officers that Audit Committee would

monitor this matter closely with the aim of evidencing improved responses.

They asked:

- That managers explain why recommendations had yet to be implemented.
- That the Head of Audit and Risk Management report to Members any trends which might affect the audit outcomes such as long-term sickness restructures or other influencing factors.
- That a milestone-based programme of recommendations be incorporated into a performance framework for managers to ensure that recommendations can be monitored against targets and implementations pursued.
- That future Audit Assurance reports include milestones to set an expectation of a compliance framework.

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

#### *Quarterly Audits*

#### *Contract Management of Photocopying and Printing Contract*

The Head of Audit and Risk Management introduced the item informing Members that the follow up audit had returned a limited assurance because of the following issues:

- 11 lease agreements had not been signed by the authority and the supplier.
- Orders were being raised after invoices were received,
- Reports on MFD usage did not capture accurate usage information
- there was no evidence that sample checks of machine usage were being carried out,
- there were no minutes of meetings held in respect of monitoring undertaken by Agilisys in respect of the Xerox contract.

The Head of ICT Client Team responded to the issues raised informing the committee that:

- Difficulties had risen in regard to the first audit recommendation as the procedure was not clear to the client team undertaking the purchases. Therefore leases had not been signed by a member of the Council's Legal Section. These issues have now been resolved.
- Concerning the second recommendation, the non-compliance had arisen as some payments 'overs and unders' were due to the implementation of a new process. This had been rectified.
- Concerning mis-matching usage data, upon investigation it was found that the recording errors originated within the Xerox copier machines which were misreading the types of copying carried out. This was rectified by the implementation of a regular sampling process.
- Concerning the failure to keep detailed minutes of meetings the matter was investigated and it was found that minutes were being recorded via an alternative method. Steps had been taken to rectify this matter.

Responding to a Member question the Head of ICT Client Team informed the Committee that the cost of leases was a fixed sum but the cost of consumables was variable and based upon the usage of the machines.

*Management and Control of Staff Use of Taxis and Minicabs*

The Head of Audit and Risk Management introducing item informing the Committee that the audit examined the procurement arrangements for taxis and minicabs used by staff. A limited assurance had been returned as:

- the framework contract was put in place in January 2014 at the contracts with the providers needed to be signed in accordance with the Council's procedures
- expenditure of the taxi journeys was not been authorised by approved officers in accordance with the scheme of delegation,
- invoices from the provider had insufficient detail

The Service Head Corporate Property and Capital Delivery, Development and Renewal informed the Committee that:

- A four-year contract was signed from April 2012 to bring together a set of formally disparate arrangements and to ensure consistency.
- The authority was now looking at re-procurement in the form of a single contract across all areas of the Council ensure that issues around authority and responsibility are addressed.
- There was a legal query round the process of entering into a contract that related to how staff taxis were ordered - this was reviewed and now undertaken via the FM Helpdesk.
- Procedures were being put in place to ensure that managers are accountable for usage of this resource.
- In regard to requiring drivers to give details of the journeys, it was not easy to persuade taxi-drivers to comply with such a request, some drivers even issued blank receipts.
- There was agreement that there needed to be more stringent practices in regard to taxi waiting times as it was known that waiting taxis caused costs to mounts up.
- It has been difficult to ensure that taxi services be provided through one contractor because of taxi timetabling issues. Therefore the procurement process, will factor in the cheapest and nearest provider.
- In regard to contract management reports it was intended that this issue be resolved through usage of the Council's proprietary software. Additionally the lessons learned from the issues experienced with current contract would be used to better procure the forthcoming contract. Members commended this approach and noted the account given the Service Head.

**RESOLVED**

1. That the summary of audits undertaken and the actions reported by officers ne noted
2. That the opinion assigned to the systems reviewed during the period be noted..

3. That the following steps be taken to strengthen the framework of audit outcomes:
  - That managers explain why recommendations had yet to be implemented.
  - That the Head of Audit and Risk Management report to Members any trends which might affect the audit outcomes such as long-term sickness restructures or other influencing factors.
  - That a milestone-based programme of recommendations be incorporated into a performance framework for managers to ensure that recommendations can be monitored against targets and implementations pursued.
4. That future Audit Assurance reports include milestones to set an expectation of a compliance framework
5. That a performance framework incorporating milestones be established to better ensure that non-compliances identified can be address in a timely and structured manner.

#### **4.3 Social Housing Fraud Update**

The Corporate Anti-fraud Manager introduced the report which provided an update on work concerned with the recovery of unlawfully let public sector dwellings carried out by the Social Housing Fraud Team and performance since the termination of Government funding for this work.

The Committee was informed:

- That Mr Bryce, formerly of the Audit Commission would attend Committee in December 2015 to inform the Committee about protecting the Public Purse.
- That social housing fraud was a national problem.
- Of the team's performance in 2014/15 and the steps taken to enhance resources through the employment of three permanent positions and two temporary positions in conjunction with Tower Hamlets Homes.
- That there was an increased tendency towards action through the Courts before the property became void. This trend created extra work for the Council's legal team and delayed the recovery of units as subtenants often had to be removed before the property could be voided and so recorded as recovered.
- Of the proposal of a "key amnesty" scheme to improve the rate of release of sublet properties.

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

Concerning the Council's recovery performance under the key amnesty scheme in relation to other authorities, the Committee was informed that most other authorities had had between seven and 12 properties returned under the scheme. The initiative was also being copied by other registered social landlords in other boroughs.

There was a rise in resistance to subletting surrenders as this area of activity was lucrative for inappropriate income generation.

Tower Hamlets wished to develop and enter into a voluntary code of practice with letting agents to promote better vetting of prospective tenants. The Corporate Director of Resources suggested that the Corporate Anti-fraud Manager collaborate with the Cabinet Member for Housing, who was reviewing the Council's housing policies and strategy, to explore how the Council could better engage with social registered landlords.

#### **RESOLVED**

1. That the social housing fraud update be noted.
2. That the Corporate Anti-fraud Manager collaborate with the Cabinet Member for Housing, who was reviewing the Council's housing policies and strategy, to explore how the Council could better engage with social registered landlords and promote the voluntary code of practice.

#### **4.4 Single Fraud Investigation Service- Position Update**

The Corporate Anti-fraud Manager presented the report which updated the Committee on the arrangements for the transfer of the existing Housing Benefits Fraud Investigation Service to DWP. The Committee was advised:

- That the service would be transferred in February 2016.
- That the transfer created a potential risk that joined up service working would be lost. To address this, Members were asked to support a proposal that an officer be recruited to investigate and explore new areas of fraud activity such as single person discount fraud and student registration fraud.

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

- The Council did not intend to recruit to the services given over to DWP as this was a smaller area.
- By investing in relevant anti-fraud initiatives potential annual savings of £500,000 could be made in relation to council tax and NNDR fraud.

#### **RESOLVED**

1. That the update on the creation of a single fraud investigation service be noted.
2. That the resource gap the service transfer will create be noted and support in principle be endorsed to minimise the exposure to abuse by resourcing the shortfall from Council funds.

#### **4.5 Annual Risk Management Report 2015/16**

The Head of Audit and Risk Management introduced the report which provided the committee with an oversight of the authority's processes to



facilitate the identification and management of its significant business risks. It also provided a summary of the first quarter 2015/16 corporate risk register and risk management activity over the past 12 months. He advised:

- That the purpose of the report was to enable members to review the risk management arrangements of the authority which were divided into three themes:
  - Identify the corporate risks.
  - The Council's work to manage identified risks.
  - To ensure that risk management work has been embedded in the organisation.
- That it was not realistic to expect all of the Council's risks to be managed down to zero but the purpose of the register was that officers should give thought on the management of their risks in the best possible way.
- That the elements of this process were identification of the risk, and the presence of management controls which would prevent its occurrence.

Members noted the following:

- That many targets in the register will not be met however the register did not indicate whether the trigger was a real or hypothetical threat.
- Some elements of the register were out of date.
- Some of the vulnerability targets were not being met. Members asked at what point the triggers caused the matter to be considered at a directorate management team meeting. Members requested:
  - more information be provided on timescales and basis of the work and
  - to see more of the analysis behind the figures published.
  - To see where the responsibility for the work areas resided. The Corporate Director for Resources agreed to bring a report setting out the risk appetite of the Council and how responsible officers, and Councillors would work to manage the risks faced by the Council in the delivery of its services.

## **RESOLVED**

1. That the contents of the report be noted
2. That the actions highlighted in the Risk Management Action Plan 2015/16 (Section 9 at Appendix 4 of the report) be approved.
3. That, having considered the corporate risks outlined in the report, the risk owner(s) requiring further scrutiny provide a detailed update, at the December 2015 Audit Committee, on the treatment and mitigation of the risks identified including impact on the corporate objectives.

### **4.6 Treasury Management Activity Report for Year to 31 August 2015**

The Chief Accountant introduced the report which provided an update on the treasury management and investment activity carried out by the Council as

that 31st of August 2015. He informed Members that the current low interest economic environment meant that there was little potential to achieve significant investment returns.

Responding to Members questions the Committee was informed that:

- In relation to whether any ratings be damaged as a consequence of the recent decline in the Chinese economy, the Chief Accountant advised that he was not aware of any such effects but asked Members to note the recently downgraded rating of Barclays Banking Corporation.

#### **RESOLVED**

1. That the contents of the treasury management activities and performance report against targets for the period ending 31<sup>st</sup> August 2015 be noted.
2. That the Council's outstanding investments as set out in Appendix 1 to the report and the balance outstanding at 31<sup>st</sup> August 2015 at the value of £415.7 million be noted.

#### **4.7 Audit committee forward plan**

The Head of Audit and Risk Management presented the report which informed Members of the forward plan of Audit Committee business in the forthcoming six months. He asked them to consider the proposed forward plan topics as detailed in Appendix 1 and to give their feedback. He then advised that any amendments would be incorporated into the updated report was next published.

#### **RESOLVED**

1. That the proposed forward plan for committee business as detailed in Appendix 1 to the report be noted
2. That it be noted that any amendments to the plan will be reported as a standard item on the agenda.

#### **5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

Nil items.

The meeting ended at 9.10 p.m.

Chair, Councillor Candida Ronald  
Audit Committee