

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.08 P.M. ON TUESDAY, 8 NOVEMBER 2016**

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

**Members Present:**

Councillor Candida Ronald (Chair)

Councillor Denise Jones

(Mayoral Adviser for Service Quality and Performance)

Councillor Sabina Akhtar

Councillor Andrew Cregan

Councillor Chris Chapman

(Substitute for Councillor Craig Aston)

**Apologies:**

Councillor Ohid Ahmed

Councillor Harun Miah

Councillor Craig Aston

**Officers Present:**

Minesh Jani

– (Service Head, Risk Management)

Neville Murton

– (Service Head, Finance & Procurement)

Sue Oakley

– (Senior Fraud Officer)

Charles Yankiah

– (Democratic Services)

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of interest were declared.

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

The minutes of the previous meetings held on 20<sup>th</sup> September 2016 and the Special Meeting held on 29<sup>th</sup> September 2016 were approved as a correct record of proceedings.

**3. KPMG ITEMS FOR CONSIDERATION**

There were no KPMG reports for consideration.

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

##### **4.1 Treasury Management Mid-Year Review & Activities Treasury Management Strategy & Investment Strategy 2016/17**

The Audit Committee considered the Treasury Management Mid-Year Review and Activities Treasury Management Strategy and Investment Strategy 2016/17 report, presented by Neville Murton, Service Head Finance & Procurement.

Neville Murton, Service Head Finance & Procurement highlighted the following:

- All treasury management activities were executed by authorised officers within the parameters agreed by the Full Council;
- All investments were made to counterparties on the Council's approved lending list and within agreed limits;
- There was no short term or long term borrowing raised during the period to 30 September 2016;
- From the beginning of financial to 30 September 2016, the Council earned an average investment return of 0.77% on short term lending, outperforming the rolling average 7 day LIBID rate of 0.29%;
- The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 24 February 2016. The 2015/16 Outturn report was approved by Full Council on 21 September 2016;
- UK GDP Growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% in quarter 1 of 2016 before bouncing back again to +0.7% in quarter 2. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy;
- During this financial year, two variable rate, market loans have been reclassified as fixed rate market loans. This is because on the 22<sup>nd</sup> June 2016, Barclays Bank decided to waive their right to change the applicable interest rate of loans. As a result of this waiver, the loans effectively become fixed rate loans at their current interest rates of 4.25% for the £4.5m loan with maturity date of 23/09/2077 and 4.37% for the £13m loan with maturity date of 23/09/2077; and
- As at the 30 September 2016, no Public Works Loans Board (PWLB) loans matures.

The Chair, Councillor Candida Ronald enquired where the LOBO loans were up to and that Tower Hamlets was looking good against the other benchmarking clubs.

Neville Murton informed the Committee that the LOBO loans were still ongoing and there were no write-offs and according to the loan portfolio

identified at paragraph 3.7.3 of the report it will continue to be monitored. He also stated that Tower Hamlets is above the model weighted average rate of return when looking at 1, 2 & 5 year products.

Councillor Chris Chapman enquired if targets are reviewed, by going reasonably low or more robust in order that targets are met.

**The Committee agreed to:**

1. Recommend the report to Council;
2. Note the treasury management activities and performance against targets for the six months to 30 September 2016;
3. Note the Council's investment balance of £406.85m as at 30 September 2016 of which £131.62m was invested with money market funds (MMF) and £105m invested with UK Banks and Building Societies as set out within the report; and
4. Note the Council's position on prudential indicators as set out within the report.

#### **4.2 Progress on National Fraud Initiative 2016/17**

The Committee considered the National Fraud Initiative Progress 2016/17 report presented by Sue Oakley, Senior Fraud Officer.

Sue Oakley highlighted the following, that:

- The report provided details of the background and evolution of the National Fraud Initiative (NFI) and the NFI 2014 exercise;
- It is a bi-annual data matching exercise where all Local Authorities and some other Government agencies match its data to prevent and detect fraud and error in its systems
- The exercise has evolved to extend its partners to all Local Authorities in England, Wales, Scotland and Northern Ireland and now includes pension details from the Police, Health Service and Fire Service;
- To date over £1 billion has been identified in fraud and overpayments over the various exercises across the country;
- A new exercise is about to commence with the Council's data being supplied to the Cabinet Office this month, resulting matches are due to be released in late January 2017;
- The Council Tax and Electoral Register data which is designed to highlight discrepancies in Single Person Discounts awarded on Council Tax will be matched at a slightly later time due to the Electoral Register's changes to compiling the register, because the completed register is not available until 1<sup>st</sup> December. These matches will also be available in January 2017;

- The last exercise conducted in 2014, revealed over 18,000 matches, which is being overseen by the Risk Management Section;
- To date over 2,000 matches have been processed and a further 177 are still in progress;
- 109 cases of fraud has been detected and a further 122 cases of “error” has also been recorded; and
- 2,278 matches have been cleared with no issues.

Members raised the following concerns:

- Why is the report produced bi-annually and not an ongoing reporting mechanism;
- What are the data sets that is looked at; and
- Are there any counter-fraud measures in place.

Sue Oakley informed the Sub Committee that the bi-annual report has always been produced with that timescale but an ongoing report would be better. She also stated that the data sets referred to were Transport Passes, Blue Badges, Right to Buy applicants, Personal Budget Holders, Private Supported Care Home Residents, Creditors Standing, Creditors Payments and Council Tax Account Holders.

Minesh Ali, Service Head Risk Management informed the Committee that there are statutory requirements in place for participants and covers all data sets. He also stated that the information is match with other London Boroughs and Local Authorities across the country to identify fraud. The system is a bit “clunky” but ideas are a being explored to revamp the system and looking at other pilot studies already being conducted e.g bank systems etc. Once the research is complete then discussions will be held to see if specific systems can be procured. Tower Hamlets is currently is discussion with Haringay Council and Lloyds Bank looking at existing systems and pilot systems.

The Chair, Councillor Candida Ronald enquired about Housing Benefits and the DWP and if the system looks at this area as well.

Minesh Jani informed the Committee that the data from Housing Benefits is also matched with other London Boroughs and Local Authorities across the country, but because Housing Benefit is dealt with by the DWP then it is unable to identify fraud etc, however, anything relating to tenancies or car parking can be dealt with by Tower Hamlets. He also stated that Tower Hamlets has a good relationship with the DWP and share information and work together to monitor any concerns.

**The Committee agreed** to note the report.

### 4.3 Revised Audit Plan 2016/17

The Committee considered the Revised Audit Plan for 2016/17 presented by Minesh Jani, Service Head, Risk Management who informed the Committee that the report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

The Chair, Councillor Candida Ronald enquired about the changes that had been made and if it was included in the report.

Minesh Jani referred the Committee to Appendix 1 of the report that identified the audits that were added to the plan.

The Chair, Councillor Candida Ronald enquired about the Withey House TMO.

Minesh Jani informed the Committee that the Withey House TMO were being audited for its management and systems.

Councillor Denise Jones enquired about the Tendering for the Ice Cream Pitches and the Ben Jonson School.

Minesh Jani informed the Committee that concerns were raised with Tower Hamlets through a “whistle blower” regarding contracts for ice cream pitches and potential fraudulent practices. An investigation was done in 2015 and it was discovered that the claims were correct and that the tender and complaints process was flawed so changes were being put in place to correct it. He also stated that in relation to the Ben Jonson School that an internal “whistle blower” again identified some issues and when the investigation was complete it identified a weakness in management and financial control and procurement. It has now been referred to the Police.

The Chair, Councillor Candida Ronald enquired about the Monitoring of the MSG Grants Programme.

Minesh Jani informed the Committee that it was taken out for a wider review and it is currently being done by a firm of Accountants and Tower Hamlets are currently waiting for the results which is due next year.

**The Committee agreed to note:**

1. the changes proposed and to endorse the revised 2016/17 internal audit plan as set out in Appendix 2; and
2. the resourcing of the audit plan as detailed as paragraph 4.1 of the report.

#### **4.4 Changes to the Arrangement for Appointment of External Auditors**

The Committee considered the Changes to Arrangements for the Appointment of External Auditors presented by Minesh Jani, Service Head, Risk Management who informed the Committee that the report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

Councillor Chris Chapman commented that the proposed changes seemed sensible and cost effective and were welcome.

**The Committee agreed** to note:

1. the three available options;
2. the preferred option being to join the Sector Led Body, Public Sector Audit Appointment (PSAA) that has been set up by the Local Government Association (LGA); and
3. that further decisions will be required by the Council to either
  - a. set up an auditor panel should the recommendation be to carry out a procurement exercise; or
  - b. to approve any Sector Led Body recommendation.

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

There was no other business considered.

The meeting ended at 7.45 p.m.

Chair, Councillor Candida Ronald  
Audit Committee