

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 30 JANUARY 2020

C3 - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Val Whitehead (Chair)
Councillor Abdal Ullah
Councillor Marc Francis
Councillor Ehtasham Haque
Councillor Ayas Miah
Councillor Kyrsten Perry
Councillor Andrew Wood
Charlotte Webster
Councillor Gabriela Salva Macallan –Substituting for Cllr Mufeedah Bustin

Apologies:

Councillor Mufeedah Bustin

Officers Present:

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| Kevin Bartle | – Interim Divisional Director of Finance, Procurement and Audit |
| Michael Darby | – (Head of Parking & Mobility Services) |
| Asmat Hussain | – (Corporate Director, Governance and Monitoring Officer) |
| Dan Jones | – (Divisional Director, Public Realm) |
| Bharat Mehta | – (Audit Manager) |
| Neville Murton | – Corporate Director of Resources |
| Paul Rock | – (Head of Internal Audit, Anti-Fraud and Risk) |
| Anthony Sotande-Peters | – (Interim Strategic Risk Advisor, Risk Management and Audit) |
| Karen Swift | – Divisional Director Housing & Regeneration |
| Farhana Zia | – Senior Committee Officer |

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made by the members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 14th November 2019 meeting were agreed and approved to be an accurate record of the meeting.

3. DELOITTE ITEMS FOR CONSIDERATION

There were no Deloitte reports for consideration and as such Deloitte Auditors were not present for this meeting.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Internal Audit and Anti-Fraud Progress Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk introduced this report stating that the report provided an update on the progress made against the delivery of the 2019/20 Annual Internal Audit Plan, as well as the current counter fraud performance and audits which have received limited assurance ratings.

Mr Rock referred to paragraph 3.1 and said the recruitment of two auditors was progressing well and he hoped the team would be at full strength soon. Mr Rock updated Members regarding the overall view of assurance to date and informed the Committee that 50% of audits has been finalised with either none or limited assurance and 50% had been finalised with substantial assurance.

Mr Rock said going forward the Committee would receive exception reports giving a better oversight of outstanding management actions from audits carried out. Regarding fraud investigations Mr Rock referred to paragraph 3.13 and said the Insurance Investigator was having a positive impact on the number of fraud cases identified and resolved.

In response to questions from Members the following was noted:

- In reference to paragraph 3.8, high and medium priority recommendations were currently followed up six months after the final reports had been issued. However, the team was looking to put in place a new follow up process whereby high priority recommendations would be followed up when they are due and medium priority recommendations would be followed up on a risk basis.
- The overall view of assurance relates to data provided at paragraph 3.6. Fourteen audits have been completed of which seven have limited or no assurance and seven have substantial assurance.

The Chair, Councillor Whitehead stated that there was one limited assurance report in the agenda pack, relating to Children's Social Care. Mr Richard Baldwin, Divisional Director for Children's Social Care had been invited to the meeting but regrettably he could not attend. Mr Baldwin had provided a written update which had been circulated to the membership.

- **ACTION:** The Chair proposed and Members of the Committee **AGREED** Mr Baldwin should attend the next meeting of the Audit Committee to explain the remedial action taken in relation to the limited

assurance report on Quality Assurance Systems in Children's social care.

Notwithstanding this, the Chair was delighted to welcome Ms Karen Swift, Divisional Director for Housing and Regeneration who had been invited to the Committee to talk about the limited assurance relating to 'Client Monitoring of Fire Safety in Residential Dwellings'. Mr Dan Jones, Divisional Director for Public Realm was also present to update Members regarding the limited assurance relating to 'Management and Control of Electronic Parking Income'. The Chair clarified for Members that both the limited assurance reports were due to be discussed at the last meeting of the Committee, namely 14th November 2019, however as written responses had been received, this was an opportunity for Officers to update Members on the remedial action taken in areas which had achieved an limited assurance.

Client Monitoring of Fire Safety in Residential Dwellings

Ms Karen Swift said fire safety was a big priority for her Directorate. The client monitoring team was working with Tower Hamlets Home (THH) to identify risks and to mitigate this. She said a Fire Safety summit had taken place in November 2019 with THH, to identify housing stock at high risk. Front entry doors would need to be replaced with fire doors however it was sometimes difficult to gain access to properties. She said visits had been made to more than 8,000 tenants to identify older people and vulnerable adults. Ms Swift said her team was under resourced but was working hard with THH and contractors to ensure fire safety standards are adhered to. Ms Swift said mixed methodology was being used, and whilst progress had been made, it was essential to standardise and regularise the process. She said her team would be working with strategic partners to ensure buildings are fire safe and well managed.

In response to questions from Members the following was noted:

- Ms Swift reassured Members communication between the Council's insurers had improved. She said her predecessor had met with the Insurance manager. An update had been provided to the Insurance Company in December 2019, regarding substantial and moderate fire risks to buildings.
- Councillor Francis made reference to a fire risk survey in 2015/16 and asked if the client side were aware of all incidences of fire in residential buildings. For example, are incidents such as fires in rubbish chutes, logged and reported back to the Council?
 - **ACTION:** Councillor Francis asked that this be incorporated into the action plan, if not already done.
- Ms Swift stated THH had undertaken a considerable amount of work prior to the Grenfell Tower tragedy, engaging with tenants to improve fire safety such as clear stairwells and hallways. She welcomed the suggestion put forward by Councillor Francis and said this would be a good way forward.
- In response to why improvements suggested in the 2016 survey on fire risk management had not been implemented, Ms Swift said a set amount of capital expenditure is identified for repairs and

improvements every year as part of the Capital Works plan. Work to improve properties such as front doors needs to be planned and executed properly.

- The Chair asked what was being done with regard to the unwillingness of some tenants to replace front doors and remove metal gates. Ms Swift said some landlords had a zero tolerance approach whilst others would risk assess the front doors and grills, with the expectation these are removed once a double-locking fire proof front door is fitted.

The Chair, thanked Ms Swift for her update and attendance at the meeting.

Management and Control of Electronic Parking Income

Mr Dan Jones, Divisional Director for Public Realm, stated progress had been made in relation to the recommendations in the internal audit report.

Recommendation one had been completed; the Council has access to a live portal which can generate audit reports for the Council to reconcile payments. In relation to why income was collected for fewer than the 334 parking locations, Mr Jones explained this had been benchmarked with other local authorities, and it was clear not all locations would result in income. For example, Islington Council had one thousand parking locations of which ten had no income being generated from them.

Mr Jones explained the Council's contractor Capita collected income from the pay by phone payments which had been in place since December 2019. Mr Dan Jones said the Ringo system was used for this. The 3% charge for banking seemed reasonable however for commercially sensitive reasons more details cannot be shared. Checks and balances had been put in place to ensure the effective monitoring of income generated through electronic parking.

In response to questions from Members, the following was noted:

- Mr Jones clarified that Ringo was the system used to collect the payments and the income received is then passed to Capita at the end of the day for verification and reconciliation.
- In respect to how much money had been collected by the third party collectors, Mr Jones said the live shared portal allowed for both the contractor and the council to share and audit data. There were written procedures in place regarding the collection of monies.

The Chair, thanked Mr Jones for his update and attendance at the meeting.

Further discussion took place regarding the table at page 33 of the agenda and the summary of recommendations implemented. Councillor Wood asked why 'Staff Declarations of Interest' and 'DBS' checks remained red rated. Mr Paul Rock explained that updates had been sought and management had indicated that the actions had yet to be implemented. Mr Rock suggested that the Divisional Directors responsible for those areas be invited to the Audit

Committee to provide an update and reassure the Committee. However, after advice from the Monitoring Officer, the Committee came to the view the Corporate Directors ought to be invited, where recommendations had been outstanding for more than a year.

- **ACTION:** The Corporate Directors, with responsibility for those areas where recommendations from an internal audit review have not been implemented, be invited to the next meeting of the Audit Committee to explain why the recommendations remain outstanding and/or the remedial action taken to mitigate the risk.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.

4.2 Internal Audit Charter

Mr Paul Rock, Head of Internal Audit, Fraud and Risk introduced the report stating that in accordance with the Public Sector Internal Audit Standards, the Council is required to produce an Internal Audit Charter. The charter sets out the purpose, authority and responsibility of the internal audit activity, which must be approved by the Audit Committee.

Mr Rock asked Members to review and approve the Internal Audit Charter.

In response to questions from Members the following was noted:

- Mr Rock clarified the purpose of the Charter was to make clear the independent role, purpose and responsibility of Internal Audit and to ensure best practice.
- Councillor Wood asked Mr Rock if he was aware of the recommendations put forward by the external peer review of the audit function; and a letter written to the Corporate Director for Resources in December 2017.
- **ACTION:** Councillor Wood suggested that the Audit Committee be provided with an update on each recommendation and an explanation if they are not to be implemented.
- The Chair recalled one of the recommendations was to invite the Chief Executive to a meeting of the Audit Committee, in order for him to comment upon the overall health and governance culture in the organisation. Members of the Committee concurred it would be apt to invite the Chief Executive to the next meeting.
- **ACTION:** The Chair of the Audit Committee to invite the Chief Executive to the next meeting of the Audit Committee.

The Audit Committee **RESOVLED** to:

1. Review and approve the Internal Audit Charter.

4.3 Risk Management Report 2019/20 - Q3

Mr Anthony Sotande-Peters, Interim Strategic Risk Advisor introduced this report stating that the purpose of the report was to inform members of the ways in which risks are identified and managed. The report provided a summary of risk activities over the third quarter 2019/20. Mr Sotande-Peters said there were 11 corporate risks on the corporate risk register, three of which were red rated, five were amber and three yellow.

In response to questions from Members the following was noted:

- With regard to the comment at paragraph 3.3, Members asked why actions were not followed up from Audit Committee meetings. Mr Rock responded stating changes had been made to take into account the request for Members to have an increased role in identifying risks for the corporate risk register. He said the Risk Strategy was to be reviewed and it would be timely for Members to get involved.
- **ACTION:** Members requested training on risk management which explained how risks are identified for the corporate risk register and what happens to risks that do not make the register.
- **ACTION:** Members agreed they'd like be sent the risk registers of each directorate and then going forward review, through a rolling programme, one Directorate register per committee meeting and invite the Corporate Director responsible to future meetings, for a deep dive session.
- In reference to page 67 of the agenda and risk THB0001, the Chair asked why the narrative, in relation to preparing for leaving the European Union – i.e. Brexit had not been updated to reflect the current situation. Mr Rock accepted the summary for this risk required updating. The risk was being managed across the council. A significant amount of work was required to ensure risk owners took responsibility for their risks and control of risk was effective.
- Members enquired why the Transformation programme was not on the corporate risk register. Mr Neville Murton responded saying the transformation programme was sub-divided into smaller projects and individual Directorates were responsible for managing the risk related to their area. Councillor Salva-Macallan said she would expect to see the risk to be higher up on the register as collectively it was a big risk for the Council.
- Ms Charlotte Webster, independent person, enquired if risks are aggregated to show if risks are high, medium and low risks. Mr Rock said the organisation had not matured enough to allow for this type of risk management however he agreed this would be the direction of travel for the organisation. Risks such as the Veolia contract, the new Town Hall and ICT were on Directorate risk register.

The Audit Committee **RESOLVED** to:

1. Note the corporate risks and recommend changes and updates as necessary ensuring risks identified are those that could prevent the Council achieving its aims and objectives.

2. Where applicable, request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next meeting.
3. Ensure that an effective risk management framework is in place within the council and provide leadership so that the council becomes risk mature, dynamic organisation.

4.4 Statement of Accounts 2018-19 - Progress Update

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit presented the progress report in relation to the external audit of the Council's Statement of Accounts 2018/19.

Mr Bartle made clear to Members the report dealt with the present situation regarding the accounts and was seeking workable solutions to put right the issues rather than looking to criticise individuals or previous practices at the Council.

Mr Bartle said he was hugely disappointed the Accounts for 2018/19 were not in a state to be signed off, as he had hoped, for the January meeting.

He said regular meetings had taken place between the Cabinet Member for Resources, Councillor Candida Ronald and the Chair of the Audit Committee, Councillor Val Whitehead to update them with the progress made. Mr Bartle said going forward it was vital to prepare the Council for future final accounts preparation so that the new processes he was setting up become the norm for staff.

Mr Bartle drew attention to paragraph 3.3 and said a further matter had come to light which required significant work. The entries for school balances did not match correctly with the Accounts, so team members had spent a considerable amount of time to discover the reasons for the discrepancies. He said staff had to unpick, cross reference and reconcile each entry. Mr Bartle said there was a danger that the previous year's accounts for 2017/18 could be reopened, however he hoped that it would not come to this.

Mr Bartle made reference to paragraph 3.4 onwards and provided an update regarding each area.

Mr Bartle answered a number of questions from Members relating to the significant items outstanding. In response to answers provided Members noted the following:

- The issues relating to school balances concerned schools that had become academies. However there could still be a risk to the General Fund. Mr Bartle said a judgment would need to be made on if a prior year adjustment could be made or if the previous accounts for 2017/18

would require reopening. He said schools would also need to be informed.

- Mr Bartle reassured Members there was no financial penalty for the late production of the accounts but there was reputational risk. He said whilst the accounts are very late, there were many other authorities in similar situations. The Ministry of Housing, Communities and Local Government (MHCLG) are aware that approximately one third of local authorities are late with their 2018/19 accounts. Reasons for lateness vary from the shortened timetable to produce the Accounts, resourcing issues and the change in external auditors.
- In response to Councillor Francis suggestion the matter be referred to Full Council for a further debate, Mr Bartle reassured Members that in his view, it is unlikely that there would be direct intervention from Government. His view was that the worst case scenario was the external auditors issuing a 'Report in the Public Interest' which could raise concerns, although he thought its issue was unlikely.

The Chair thanked Mr Bartle for his update and said she very much hoped the accounts would be ready for sign off by the April 2020 meeting. Regarding the suggestion of referring this matter to Full Council, the Chair said this would not be beneficial as it would distract from the production of the accounts. She said Mr Bartle should be given the opportunity to present the accounts at the next meeting.

The Audit Committee **RESOVLED** to:

1. Note the continuing progress made on the points raised by Deloitte in their report to the committee on 23rd July 2019; and
2. Note the emerging matter since the last report.

4.5 Treasury Management Strategy Statement, Investment Strategy and Capital Strategy Report for 2020/21

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit firstly apologised for the late production of the report. He said this had been for a number of reasons but was mainly due to the impact of the 2018/19 accounts not yet being completed which had 'knocked on' to the production of the Treasury Management Strategy Statement

Mr Bartle highlighted the key points of the Treasury Management strategy and referred Members to paragraph 3.20 which outlined the main change to the strategy. Mr Bartle said the Council and its treasury management advisors, Arlingclose had agreed to use a slightly different methodology for selecting counterparties to invest with. The council would use credit ratings provided by Fitch, Moodys and Standard & Poors to derive its selections. He said this would give treasury management staff the ability to invest more efficiently given the new approach but it would not make investing more risky.

In response to questions from Members the following was noted:

- Mr Bartle confirmed using the credit agencies' ratings would mean that if the credit rating changed for an investment, treasury management staff would have the authority to pull out of the investment. There would continue to be an upper limit on all investment types.
- In response to if there would be penalties for early withdrawal from deposits, Mr Bartle confirmed there would be
- Councillor Wood asked what control process was in place, when loans were made to charities. Page 36, supplement agenda. He said grants are considered by the Cabinet's Grants Determination Sub-Committee but what happens to loans? Mr Neville Murton, Corporate Director for Resources responded stating the charity would need to make a business case and must satisfy the criteria when applying for a loan. However there was no reporting process in place for this to be referred to a committee. Ms Asmat Hussain, Corporate Director for Governance added this would be an officer decision and would be published on the Council's website.
- Councillor Francis enquired if the Audit Committee would receive reports to vary the Treasury Management Strategy like the one the Committee considered earlier this municipal year. Mr Murton confirmed that this would be the case. He explained where a commercial opportunity existed and the Council wanted to invest in it, it would require the Committee's approval.
 - **ACTION:** Members of the Committee requested training in relation to the Treasury Management Strategy. Mr Bartle confirmed this would form part of the annual induction training for Members.

The Chair thanked Mr Bartle for the report.

The Audit Committee **RESOLVED** to:

1. Approve and adopt the following policy and strategies:
 - a) The Treasury Management Strategy Statement contained in Appendix A;
 - b) The Investment Strategy contained in Appendix B;
 - c) The Capital Strategy Report contained in Appendix C;
 - d) The Prudential and Treasury Management indicators contained in Appendix D; and
- 2) Note that the Approved Limit for loans to local charities for service purposes of £0.6m was exceeded by £0.4m in 2019/20, as the approved limit did not consider a pre-existing loan to one charity, as set out in section 3.5 of the Investment Strategy, Appendix B. This limit has been suitably adjusted.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

5.1 AUDIT COMMITTEE WORK PLAN 2019/20

Members of the Committee were asked to note the Committee's work plan for the last meeting of the municipal year – April 2020.

No changes were suggested to the work plan however the Committee acknowledged the Chair may need to revise the agenda due to the amount of items on the work plan.

The meeting ended at 8.41 p.m.

Chair, Councillor Val Whitehead
Audit Committee