

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.30 P.M. ON TUESDAY, 30 MARCH 2010**

**MEETING ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5  
CLOVE CRESCENT, LONDON, E14 2BG**

**Members Present:**

Councillor Helal Abbas (Vice-Chair, in the Chair) (Leader of the Council)  
Councillor Stephanie Eaton (Leader, Liberal Democrat Group)  
Councillor Clair Hawkins  
Councillor David Snowdon

**Other Councillors Present:**

None.

**Officers Present:**

Kate Bingham – (Acting Service Head (Resources) Children Schools and Families)  
Jamie Blake – (Service Head of Public Realm, Communities Localities and Culture)  
Alan Finch – (Service Head, Corporate Finance, Resources)  
Abid Hussain – (Third Sector & External Funding Manager, Strategy and Performance)  
Minesh Jani – (Service Head, Risk Management)  
Chris Naylor – (Corporate Director, Resources)  
Tony Qayum – (Head of Audit Services, Internal Audit, Resources)  
Steve Vinall – (Service Manager, Deloitte & Touche)  
Les Warren – (Director of Finance and Resources, Tower Hamlets Homes)  
Caroline Chalklin – (Committee Officer, Chief Executives')

**COUNCILLOR ABBAS IN THE CHAIR**

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Denise Jones.

**Noted.**

## 2. DECLARATIONS OF INTEREST

Councillors Abbas, Snowdon, Hawkins and Eaton declared a Personal interest in the agenda. The declaration was made on the basis that the agenda contained references to Members' Expenses, and Councillors Abbas, Snowdon, Hawkins and Eaton are affected by this.

## 3. UNRESTRICTED MINUTES

**RESOLVED** that the unrestricted minutes of the meeting held on 15<sup>th</sup> December 2009 be approved.

Mr Abid Hussein gave an update on the Working Neighbourhoods Fund (WNF). The Cabinet had approved approximately £21 million, which are managed through Children, Schools & Families, Adult Health & Wellbeing and the overall management rests with the Chief Executive's Directorates.

The Third Sector Team were scoping an exit strategy for November 2010 and all projects were asked to prepare for the ending of the fund. From these, the projects were grouped into categories:

- One off projects
- Underperforming projects, with insufficient time to improve
- Council run projects that require gap funding.
- 3<sup>rd</sup> Sector projects; a strategy was being developed to work with other London boroughs and the flexible New Deal as well as looking for other funding opportunities.

Evaluations were being procured for business cases for funders of projects in the future to study the 4,000 jobs that were created (in terms of what the jobs were ie full time, part time, sustainable etc).

In response to Councillor Eaton, the mid-term evaluation would take place by mid- June, with the end of year evaluation by March 2011. Mr Naylor said this was a work in progress and would be brought to a future meeting.

In response to Councillor Eaton, there was concern that successful projects might be closed down, when there could be funding in the near future.

**RESOLVED** that the contents of the report be noted.

## 4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION AUDIT OPINION PLAN - LONDON BOROUGH OF TOWER HAMLETS 2009-10

Mr Jon Hayes from the Audit Commission introduced the report, and highlighted leases as the biggest part of the audit and PFIs and the biggest audit risk.

Mr Alan Finch said that he agreed with the risks identified in Table 1 (Specific risks pp 19-20).

In response to Councillor Eaton's question on the risks arising from failure to provide disclosure of senior officer's remuneration, Mr Hayes said there were risks if there was failure to comply with disclosure; he would have to consider if this affected the audit.

The Chair said that sensitivity was required about these matters.

Mr Hayes said that the concern was just around officers pay, as this is a new requirement.

Councillor Snowdon asked if the paper published by the Audit Commission on 15<sup>th</sup> March 2010 on Payoffs for Senior Officers had any effect. Mr Hayes said there was a need to be alert; he had used the example of the senior officer's pay as a contribution to a national report.

In response to Councillor Eaton's question about the fees charged by the Audit Commission, Mr Hayes referred her to the fee letter contained in the Agenda for the June 2009 meeting of the Committee.

In response to Councillor Eaton's question about the most worrying risk, Mr Hayes said that good working papers were most important. Mr Finch said that all the Council accounts are open to all; he will be bringing them to Audit Committee in June 2010.

**RESOLVED:** That a report on the statement of accounts be brought to the next meeting.

**ACTION BY:** Chris Naylor (Corporate Director of Resources)

In response to a question about the accounts for 2008-09, Mr Hayes said that the risks were about par for all Council accounts. Councillor Hawkins asked him to identify the riskiest areas, and Mr Hayes said fixed asset valuations in schools. He stated that the most significant issue identified during the audit had been the accounting treatment of schools. Mr Naylor said that there was now a rigorous accounting timetable, which gives an opportunity to carryout quality assurance on the accounts. The teams are focusing and acquiring discipline.

**RESOLVED:** That the report be noted.

**5. AUDIT OPINION PLAN - LONDON BOROUGH OF TOWER HAMLETS PENSION FUND 2009-10**

The report was introduced by Mr Hayes, who said it showed the key topics for this year's audit of the Council's Pension Fund.

Councillor Eaton said that there had been a failure to comply with recommended practice. Mr Hayes said there had been a strengthening of

quality assurance, and the closure programme for the 2009/10 accounts was on target. Mr Naylor said that the errors were more in the Notes to the Accounts, rather than the accounts themselves.

## **6. CERTIFICATION OF CLAIMS AND RETURNS - LONDON BOROUGH OF TOWER HAMLETS 2008-09**

The Certification of Claims and Returns Annual report was introduced by Mr Hayes, who explained that this only covered the claims and returns to Government departments were required to be audited. Attempts were being made to rationalise the process; there were now only 11-12 claims, down from 40. The report highlighted similar numbers of errors and recommendations as other boroughs. The Audit Commission was trying to raise standards across the board.

Mr Finch commented that he had been disappointed that there had been 11 recommendations, but last year the Grants Co-Ordination Officer had been promoted from this role, leaving a vacancy during the audit period. The Council's response was contained in the Action Plan, and the vacant post had been filled.

Mr Naylor said that there had been a major reorganisation in Corporate Finance, and there was now a new team in place.

Councillor Eaton said that Members look for improvement; was the Audit Commission concerned about the NDC funding. Ms Milton explained that the losses were relatively small amounts, such as a few thousand pounds.

Councillor Eaton said that this was a general problem in quality assurance, and asked why mistakes were being made. Mr Finch responded that the preparation of the accounts was a big complicated process. It was important that the accounts were checked. The accounting process was being reviewed for efficiencies and effectiveness.

In response to Councillor Eaton's question about invalid expenditure (page 49, para. 20), Mr Naylor responded that this came back to timetabling, and the interface between the finance community and the other parts of the Council. There was now much greater ownership of accounting practices at corporate management level.

In response to Councillor Snowdon, Mr Hayes confirmed that Recommendation 1 'Respond to all audit queries within three working days, wherever possible.' in the report was best practice. Mr Naylor said it was best to have a single point of contact.

Councillor Hawkins asked what impact the improperly recorded expenditure had. Mr Hayes said that the Government may claw back the funding for that expenditure; further, if expenditure is properly accounted for, there is less work for the Audit Commission and costs the Council less in fees, and makes a contribution to efficiency.

The amount clawed back by the Government was £109,000 out of £220 million in funding. Mr Naylor said that the Housing Benefit Subsidy is enormous, and he was least concerned about this money clawed back. The Housing Benefit Subsidy claim was so complex that most councils make errors. There was a balance to be made between the investment in risk management and the impact of the error rate.

Mr Naylor said that an agency could have provided a temporary member of staff in the Grants Co-ordination role, but it might not have been of much benefit. Mr Naylor anticipated improvement next year.

Councillor Eaton said that she was concerned about detection of fraud, and also why the former Grants Co-ordination officer was not consulted as the person still worked for the Council.

**Noted.**

**7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION  
QUARTERLY INTERNAL AUDIT ASSURANCE REPORT DECEMBER  
2009-10**

The report was introduced by Mr Jani, who said that the Internal Audit team were on target to complete the Audit Plan. Efforts were being made to bring the percentage of Substantial Assurances up, and there had been improvement, but more needed to be done.

Councillor Eaton expressed concern that the Council might be subject to Judicial Review over the legal processes for Child Protection. Mr Jani responded that the audit had been requested by management as Legal Services were setting up something new. Internal Audit had found that the financial infrastructure was there, but some of the administrative areas that were not working, for example, social workers were not signing and dating reports.

Councillor Eaton said that omitting dates and signatures could affect reaching targets, and this is very important.

Councillor Eaton expressed concern about the variations in payments to the Council's contractor for recycling, and this should be Nil Assurance. Mr Jani said that this assessment was based on findings, and Members should also consider the number of recommendations. Councillor Eaton said that the scale of the service meant that it needed to be right; there needed to be a formalised approach to holding contractors to account. Mr Blake said that the contractor, Veolia, had many contracts; but there was now robust contract management. The variations were due to newly built properties, such as a block of flats and newly introduced services.

In response to Councillor Snowdon, Mr Jani said he would report back on the last audit of Control and Monitoring of Parking Permits. Mr Jones reported that approximately 220 parking permits had been legitimately acquired by non

Tower Hamlets residents. Mr Naylor said that the Council's Parking Policy had allowed these people to acquire permits, and the Policy had now been changed to prevent this situation in future. Mr Naylor confirmed that there was no connection with car-free developments.

**ACTION: Mr Jani to report date of last audit of Control & Monitoring of Parking Permits to the next meeting of the Committee.**

In response to Councillor Snowdon, Mr Hayes said that he had seen some audits under Full Assurance. Mr Naylor added that there had been some in Tower Hamlets.

Councillor Hawkins said that there were many processes of administration and bureaucracy in the funding and managing of schools. The Councillor expressed concern that the Nil Assurance audit of Langdon Park School might be followed by Nil Assurance audits of other schools, there needed to be training of school governors. Ms Bingham said that the Children, Schools & Families Directorate used Internal Audit to assess the financial probity of schools; schools were encouraged to set up Service Level Agreements with the Council for provision of specialist accounting services, and the external providers used by schools were assessed by the Council to ensure they met the appropriate standards. Forums exist for Governors and administrators, and the Council tried to target those who needed help.

In response to Councillor Eaton's question on the Council's financial support for Tower Hamlets Homes (THH), in terms of the £ 500,000 overspend, Mr Warren said that THH was a wholly owned subsidiary of the Council, but was an arms length management organisation (ALMO). THH has its own 'Finance & Audit Committee'. Members could draw comfort from this. The Ocean Estate is subject to a significant regeneration project with £200 m to be spend on demolition, rebuilding and sale of property. This is not part of THH's remit, so additional funding was required to reimburse THH for additional costs to support the programme, for example, dog patrols etc of empty properties.

Mr Naylor said that all of this needed to be resolved by THH, but as a wholly owned subsidiary, final responsibility ends with the Council. This would be managed through the client side of Development & Renewal (D & R), so scrutiny will not just be through the THH Board. Mr Naylor said he was aware of the problem through the client side arrangement, and had been kept informed. Councillor Eaton said that the ownership of security of the Ocean Estate project rested with D & R and THH, and £500,000 was a sizeable sum of money not to be managed.. Mr Naylor said this had only gone to Strategy & Development Committee in the previous fortnight; he would bring officers to the Committee to report on the situation.

In response to Councillor Eaton's concern about where the £500,000 would come from, Mr Warren said that it was unsatisfactory that THH was going to the Council after the event; this could have been predicted. Internal Audit are working on budget management of the potential overspend; the THH Finance & Audit Committee were also asking why this happened.

Mr Naylor said he had written to the Chief Executive of THH asking for assurances that THH was going to reduce the overspend and ensure this did not happen in future. D & R also needed to assume there were effective processes in place.

**RESOLVED:** That an update on the THH overspend be brought to the next meeting of the Committee.

Councillor Hawkins said that part of the Ocean Estate was now safer to walk through. Mr Naylor said that the reason the cost arose was to protect vacant properties from squatters and vandals. The project was planned to a tight timetable. Questions would need to be asked about risks in a project environment, rather than a day to day environment, as there will be many big projects in future, so that lessons could be learnt.

**Noted.**

## **8. ANNUAL INTERNAL AUDIT PLAN 2010-11**

The report was introduced by Mr Jani, who highlighted the two strands flowing through the report:

- How effective are the controls in place, and
- The audit of the key financial processes

Mr Jani said that the Audit Team were trying to reduce the number of days spent on similar processes, which would mean they could do more work elsewhere, and were working with colleagues across Directorates.

Councillor Eaton asked whether Mr Jani attended the Leaders Advisory Board (LAB) and Cabinet. Mr Jani responded that he attended LAB and Cabinet, but to present reports, not as an observer. Mr Jani would consider if he should attend in the future. Mr Naylor said he was Mr Jani's eyes and ears on LAB and Cabinet, and there is a statutory conflict.

Councillor Snowdon asked Mr Jani if he had sufficient resources to do his job effectively, Mr Jani responded positively but explained that there was always more that could be done, but sometimes additional audit input was not cost effective. Mr Finch said that the effectiveness of Internal Audit was assessed by external audit. Mr Jani added that Tower Hamlets took part in peer reviews with other councils and belonged to a benchmark club. The new financial environment did impact, with strong financial controls, acute contract monitoring and value for money included. Mr Jani said he had stronger links with colleagues on other councils, allowing sharing of ideas. Mr Naylor said that the 2010-11 Financial Year was less of a problem than the 2011-12 Financial Year, when there would be risk management on investment to save: work would be focused on ensuring nothing thwarts the process.

**Noted.**

## **9. ANNUAL ANTI-FRAUD PLAN 2010-11**

The report was introduced by Mr Qayum, who directed Members' attention to the key drivers (page 158, para. 3.3) and the key messages (page 159, para. 3.4). Mr Qayum said that the Tenants Audit had been done to ensure the systems were robust; and that work was continuing to providing assurance of data quality. Work was also continuing on the National Fraud Initiative, with pre-audits ensuring the system was effective. Mr Qayum was now having monthly meetings with Isabella Freeman, Assistant Chief Executive (Legal Services) and the Corporate Director of Resources.

In response to a question from Councillor Eaton, Mr Qayum said that the Government had given £50,000 to the Council to examine the tenancies of THH and registered social landlords (RSL) for signs of sub-letting. This money will permit the funding of a 3 person team for 100 days, with the objective of minimising abuse. Mr Naylor said that if the team can bring properties back into use, then he will consider continuing the team's funding. The Government was funding a pilot scheme.

#### **10. ANTI--FRAUD AND CORRUPTION STRATEGY**

The report was introduced by Mr Qayum, who commented that it would have been desirable to be fully compliant with the Strategy by the end of the year. Work was being done evaluating the Strategy with Human Resources and Legal Services, and the Enforcement Policy would be ready by June 2010, and it would be necessary to enhance the Sanctions Policy as recommended in the Red Book.

A contractor would be chosen for access profiling.

In response to concerns raised by Councillor Eaton, Mr Jani said that boxes had been ticked when the answer was closer to 'yes' than to 'no'. Mr Jani also said that the assessment had been harsher than necessary; processes were very transparent. Councillor Eaton said that the document appeared unsatisfactory. Mr Naylor suggested that the Strategy be brought to a future meeting as it was a 'work in progress'.

**RESOLVED:** That the Anti-Fraud & Corruption Strategy be on a future meeting and the report be on the agenda.

**ACTION BY:** **Mr Qayum (Head of Audit Services)**  
**Democratic Services**

#### **11. TREASURY ACTIVITY FOR THE PERIOD ENDING 28 FEBRUARY 2010**

The report was introduced by Mr Finch, who said there had been little change from the situation outlined at the December 2009 meeting. Terms had to be balanced against risk, and managing the cash flow to provide for the Council's needs.

Officers were in discussions with the Council's financial advisors to ensure it was ready to take advantage of the rise in interest rates.



**Noted.**

## **12. CHANGES TO LOCAL GOVERNMENT REPORTING STANDARDS**

The report was introduced by Mr Finch, who informed the Committee that the Treasury will require the Council to close its accounts and comply with international reporting standards. This was a compliance issue, and would make little difference to the people of Tower Hamlets.

Councillor Snowdon asked what impact the change in reporting standards would have; Mr Finch said that the level of reported assets and debts would appear higher, but it was more a matter of presentation.

Mr Naylor said that the change had required a great deal of work, for example, every lease has been examined.

In response to Councillor Snowdon, Mr Finch said that credential limits would be higher, but PFI deals would be unaffected.

Mr Naylor said that there would be a report on housing benefits, observing how individual officers process individual claims. Housing benefits work was increasing, and with it the possibility of errors. It was **RESOLVED** that training on housing benefits be incorporated in Members' Induction.

**ACTION BY: Democratic Services**

The Chair thanked all Members and Officers for attending the Committee throughout the year.

## **13. DATE OF NEXT MEETING**

Tuesday 29<sup>th</sup> June 2010.

The meeting ended at 9.20pm.

Chair,  
Audit Committee

This page is intentionally left blank

# Minute Item 12

## IFRS Implementation - Critical Milestones

Milestone Number	Description	Target Date	Completed
1	Balance Sheet at 1st April 2009 restated	26th April 2010	
2	IFRS Compliant Budget Approved	31st March 2010	30 MARCH 2010
3	PFI Accounting policies Adopted for 2009/10 accounts	9th April 2010	
4	Accounting Procedures for 2010/11 in line with IFRS code	30th April 2010	
5	Restated Balance Sheet to be Audited	31st May 2010	
6	2009/10 Accounts comparator accounts produced on an IFRS basis	20th Dec 2010	
7	Comparator Accounts Audited	31st Jan 2011	
8	First full set of IFRS accounts published	30th Jun 2011	

This page is intentionally left blank