

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 22 MARCH 2011

**ROOM M71 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Craig Aston
Councillor Mizan Chaudhury (Chair of Council)
Councillor Stephanie Eaton (Vice-Chair)
Councillor David Edgar

Other Councillors Present:

None.

Officers Present:

Minesh Jani	– (Head of Audit and Risk, Financial Services Risk & Accountability, Resources)
Jill Bell	– Head of Legal Services (Environment), Legal Services
Kevin Miles	– (Chief Accountant, Resources)
Oladapo Shonola	– (Chief Financial Strategy Officer, Resources)
Sally – Anne Eldridge	– (Senior Audit Manager, Audit Commission)
Mike Clarkson	– (General Manager, Deloitte and Touche)
Simon Kilbey	– (Service Head, Human Resources and Workforce Development)
Zoe Folley	– (Committee Officer, Democratic Services Chief Executive's)
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1. APOLOGIES FOR ABSENCE

Apologies were received on behalf of Councillor Abdul Asad.

Apologies for lateness were received from Councillors Carlo Gibbs and David Edgar.

COUNCILLOR STEPHANIE EATON (VICE – CHAIR) IN THE CHAIR

2. DECLARATIONS OF INTEREST

Councillor Mizan Chaudhury declared a personal interest in agenda item 6.2 (Internal Audit Plan for 2011/12 Financial Year). The declaration was made on the basis that the report contained references to Tower Hamlets Homes and Councillor Chaudhury was a member of the Tower Hamlets Homes Board.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 14th December 2010 be approved subject to the inclusion of Councillor Craig Aston in the apologies for absence.

4. DEPUTATIONS AND PETITIONS

Nil

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

5.1 Annual Audit Plan

Ms Sally – Anne Eldridge (Senior Audit Manager, Audit Commission), presented the report highlighting the key points.

Members considered the key risks and the Auditor's responses. This was the first time the accounts have had to be produced in accordance with the International Financial Reporting Standards (IFRS) and the new Audit standards. This was a key challenge. Members also noted the new Value for Money approach focusing on a number of key areas.

In relation to the Audit fee, it was reported that since the estimate was agreed in April 2010, the Audit Commission had awarded two rebates regarding the Value for Money work and the work in supporting the IFRS. The Committee noted the revised fee.

In reply to questions, Mr Minesh Jani (Service Head, Risk Management and Audit) clarified the scope of the governance review. Audit would be comparing the framework against CIPFRA standards for good practice. Audit would also be conducting an overarching review, wider than just the Council's Constitution, looking at such areas as the key Officer/Member Protocols, Partnership working etc.

A Member also commented that the Mayor would be carrying out a review of the ALMO. They stressed the need for the Audit of this area to take into account the Mayor's review.

The Committee noted the concerns around the late submission of reports. However Officers were confident that in future papers would be submitted within the required time scales to avoid delays and additional costs.

Councillor Carlo Gibbs (Chair) arrived at the meeting at 7:25.

COUNCILLOR CARLO GIBBS (CHAIR) IN THE CHAIR**RESOLVED**

That the Annual Audit Plan be noted.

5.2 Pension Fund Annual Audit Plan 2010/11

Ms Sally – Anne Eldridge presented the report.

The Committee considered the audit fee, the action to reduce fees, the list of risks and responses, the testing strategy, and the timetable.

RESOLVED

That the Pension Fund Annual Audit Plan 2010/11 be noted.

5.3 Certifications of Claims and Returns - Annual Report

Ms Sally – Anne Eldridge presented the report. The report summarised the findings of the certification of 2009/10 claims

Ms Eldridge explained the significant findings. The assessment looked at eleven claims and resulted in amendments being made to four. Of which three had been given an unqualified opinion. The one outstanding claim related to New Deal for Communities. However all of the work on this claim had now been carried out. It was just awaiting sign off and submission for certification.

Ms Eldridge also explained the testing process. There was scope for improving the control environment to reduce future audit work.

The Committee sought ideas for addressing the issues. In reply, it was considered that this could be achieved through more detailed quality reviews prior to submission and continuity in Officer support as this lead to good knowledge and improved planning. The recommendations were set out in the report.

Attention was then drawn to the following areas -

Housing and Council Tax Benefit Subsidy Return. (BEN01). This was very complex area and the largest area of assessment. Overall the area was well managed with Audit only having to carryout extended testing on four areas. The number of errors were in line with other Authorities.

Housing Subsidy Base Data return (HOU02). The Committee noted the need to reopen the electronic system, used by the government department, to amend the returns. They asked what could be done to prevent this in the

future. In response, Ms Eldridge stressed the need for early action and better planning to ensure they were submitted within the required timeframe.

RESOLVED

That the Certifications of Claims and Returns - Annual Report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 Quarterly Internal Audit Assurance Report

Mr Minesh Jani (Service Head, Audit and Risk Management) presented the Quarterly Internal Audit Assurance report. Mr Jani report that the plan was generally on target. 95% of the follow up recommendations had been implemented at the six monthly stage. The minority still to be implemented had been escalated to Corporate Directors for immediate attention.

Of the 17 audits reviewed, only 2 had been assigned a limited assurance as set out below.

- Establishment Control

Accordingly Mr Simon Kilbey (Service Head Human Resources and Workforce Development) was in attendance to reply to the issues. Mr Kilbey advised that an extensive data cleansing exercise was underway to ensure staffing information was up to date and accurately reflected the Authority's structure. There would be a new Peoples' Panel chaired by the Chief Executive to oversee the establishment of new posts. The issues would also be reported to the Recruitment and Retention Panel for consideration. There would also be regular reports to the Corporate Management Team who monitored the process.

It was intended that the issues around the establishment list would be rectified within the next month.

It was also explained that the documents attached to posts (Job Descriptions etc) and personal data would be checked. Members were reassured that the Trade Unions would be kept informed where necessary. Councillor Eaton asked for further information regarding salary overpayments which Mr Jani undertook to provide to the Councillor.

- Payment by CHAPS

The second report ascribed a limited assurance level concerned payment by CHAPS. Oladapo Shonola (Chief Financial Strategy Officer, Resources) addressed the issues. The key issues lay around overuse of the CHAPS system for quick payments.

Mr Shonola reported that the procedures had been re - issued and would be submitted to the relevant Council forum comprising Heads of Finance. More staff were now responsible for reconciliations. Journals were now completed twice a week due to greater Officer delegation. In respect of the Vouchers system, the form had been redesigned. The procedures were robustly enforced. The BACs system was reconciled very regularly

Mr Shonola expressed confidence that his service could address these issues alongside any other pressing priority.

Members stressed the need for better planning to avoid unnecessary use of the CHAPS system.

Mr Jani also commented that communication was key. Thus, Officers were actively promoting proper use of the payment methods. Officers were also looking at streamlining the systems to ensure the correct processes were used across the Council.

- Management and Control of Leavers

Mr Kilbey reported that a new system was in place for removing leavers from the IT system promptly. There was also an escalation procedure to ensure Management were informed of the issues promptly and could take timely action.

RESOLVED

That the contents of this report be noted and the assurance opinion assigned to the systems reviewed during the period be noted.

6.2 Internal Audit Plan for 2011/12 Financial Year

Mr Minesh Jani presented the Internal Audit Plan for 2011/12.

Mr Jani outlined the contents and the methodology for developing the plan based on consultation with stakeholders and the Authority's Risk register. Mr Jani drew attention to the number of planned audit days across all directorates which included a provision of 200 days for proactive work.

Members asked about the reduction in days for the Children's Services Audits and the VFM/ proactive fraud work. They sought assurances that the audits could be undertaken in this reduced time frame. They commented that the changes were reliant upon improved planning. However Officers would now have more pressures on their time.

In reply, Mr Jani reported that the proposals stemmed from a number of changes. Firstly, the existing standards regime in schools had been abolished. A new regime was to come into effect from September 2011. The

frequency of school Audits would also be revised from a 3 year to a 5 year cycle. The VFM element had reduced.

Overall Audit would be reviewing there practices to mitigate the impact of the savings. This could involve refocusing work to improve efficiency (reviewing the frequency of reports, raising expectations, ensuring Audits were complete on time).

In reply to further questions, Mr Jani reported that the gifts and hospitality audit was to cover all Directorates, so that's why it had been allocated six days.

Mr Jani also explained the rational for reducing the days allocated to Members Enquiries due work moving to other Directorates.

In relation to Asset Management, Officers were working on the assumption that there would be a smaller Portfolio under review. Moreover a lot of work had already been completed in this area.

Officers were also asked to report back on use of the 200 days.

Councillor Mizan Chaudhury left the meeting at 8:05pm.

RESOLVED

That the Annual Internal Audit Plan for 2011/12 (Appendix 1) and the accompanying internal audit strategy be endorsed.

6.3 Anti Fraud and Corruption Strategy and Proactive Anti Fraud Plan 2011-12

Mr Minesh Jani presented the Strategy.

It was reported that the strategy had been updated to take into account new developments such as the Bribery Act 2010 and the transfer of the Parking Fraud Team to Internal Audit.

Members secured assurances about the measures to protect Whistleblowers and that the Authority went to great lengths to protect them in accordance with the procedures. Officers were also reviewing their approach to anti fraud work to improve efficiency and synergy across the teams.

RESOLVED

That the contents of the report be noted and the anti fraud plan be endorsed.

6.4 Social Housing Fraud Update

Mr Minesh Jani presented the report regarding the work of the Social Housing Fraud Team.

It was noted that the Council had received additional funding from government for the continuation of this initiative due to its success. Mr Jani explained the current work of the team and their aims as detailed in the report. Members noted details of the Teams Case Load (open, closed and recovered cases).

Members welcomed the work of the Social Housing Fraud Team. It was considered that it helped the Council at so many levels.

RESOLVED

That the contents of the report be noted.

6.5 Treasury Management Activity for Period Ending 28th February 2011

Oladapo Shonola, (Chief Financial Strategy Officer, Resources) presented the Treasury Activity report for the period ending 28th February 2011.

Mr Shonola reported that overall performance was broadly in line with previous years. At present market conditions were difficult. Opportunities were restricted. However the fund consistently exceeded the LIBOR/LIBID. Furthermore the credit criteria had been fully meet.

In response to the report, Members welcomed the improvements, yet noted that investment returns still fell below the benchmark. They questioned whether this could be attributed to the current market conditions.

In reply, Officers explained the merits of a cautious approach due to current conditions. Therefore whilst performance could be better, it was considered that the Council was making the best of the situation without taking unnecessary risk.

The current balance was higher than anticipated at this point in the year due to the Housing Finance initiative and the under spend on the Capital Programme.

Officers also clarified for Members the percentage of short term and longer term investments.

It was also confirmed that there was no exposure to Japanese Banks. All investments were restricted to AAA countries.

RESOLVED

That the contents of the report be noted.

6.6 Update on Implementation of International Financial Reporting Standards (IFRS)

Mr Kevin Miles (Chief Accountant Corporate Finance) presented the report highlighting the key points .

The Committee asked whether the draft accounts could be circulated to them in June for consideration. It was requested that this should be given consideration.

RESOLVED

1. That progress towards meeting the International Financial Reporting Standard (IFRS) be noted; and
2. That it be noted that if draft legislation is agreed, the audited Statement of Accounts may be submitted to a September Audit Committee for approval meeting rather submitting the unaudited accounts at the June meeting.

The meeting ended at 9.00 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee