

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 13 JULY 2010

**MEETING ROOM M72, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Chair)

Councillor Abdul Asad

Councillor Mizan Chaudhury

Councillor Stephanie Eaton

Councillor Rabina Khan (Vice-Chair)

(Leader, Liberal Democrat Group)

(Scrutiny Lead Member, Prosperous
Communities)

Councillor David Snowdon

Other Councillors Present:

Officers Present:

Alan Finch

– (Service Head, Corporate Finance, Resources)

Minesh Jani

– (Service Head, Risk Management)

Jill Bell

– Head of Legal Services (Environment), Legal
Services

Jon Hayes

– (District Auditor, Audit Commission)

Steve Vinall

– (Service Manager, Deloitte & Touche)

Les Warren

– (Director of Finance and Resources, Tower
Hamlets Homes)

Sayeed Kadir

– (Directors of Tower Hamlets Homes)

Zoe Folley

– (Committee Officer, Democratic Services Chief
Executive's)

–

1. APPOINTMENT OF VICE - CHAIR

RESOLVED

That Councillor Rabina Khan be elected Vice – Chair of the Audit Committee
for the Municipal Year 2010/11 .

2. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillor Lutfa Begum and Councillor Craig Aston. Councillor David Snowdon would be deputising for Councillor Aston.

3. **DECLARATIONS OF INTEREST**

Councillor Abdul Asad declared a personal interest in agenda item (7.1) (Internal Audit Annual Report 2009/10). The declaration was made on the basis that the report contained references to schools and Councillor Asad was an employee of the Bishop Challoner School.

Councillor Rabina Khan declared a personal interest in the agenda item (7.1) (Internal Audit Annual Report 2009/10). The declaration was made on the basis that the report contained references to schools and the Councillor was a school governor.

Noted.

4. **UNRESTRICTED MINUTES**

RESOLVED that the unrestricted minutes of the meeting held on 30th March 2010 be approved subject to the following amendments:

Page 1 of minutes - Members Present, Councillor Helal Abbas - removal of the title 'Leader of the Council' and be replaced by Chair to reflect designation at the time of the Audit Committee meeting.

Page 5 - amended to state that 'Mr John Hayes highlighted leases and IFRIC as the most significant risks for 2009/10'

Page 9 - word credential be changed to prudential.

Matters Arising

In reply to questions, Mr Minesh Jani (Service Head Risk Management) reported that the Annual Statement of Accounts for 2008/09 were due to be signed off by the Committee on 29th June 2010, but this meeting was declared inquorate. As a result, the Accounts would now have to be submitted to Full Council on 14th July 2010 for approval in accordance with International Financial Reporting Standards (IFRS). The regulations stated that the Accounts must be approved before or on 30th June 2010.

Members requested that they be given more time to considered the accounts ahead of the Audit Committee meeting. It was considered that the documents should be made available a week before the meeting to give Members a chance to scrutinise the accounts. It was **Agreed** that in future the Annual Accounts be circulated to Members one week before the Audit Committee meeting where they were due to be considered.

Action: Alan Finch (Service Head Corporate Finance)

In relation to the audit of parking permits, (page 8 of minutes) Mr Jani referred to the findings of the last Audit of the area completed in 2007, and the reasons for the limited assurance score. Audit Services would be undertaking a review of this whole area to address any risks and would be reporting back to the Committee.

5. **AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP**

The Committee considered the report.

A Member felt that the Majority Labour Group should be invited to nominate more than one deputy to the Committee in the interests of securing a quorum especially as the last meeting on the 29th June 2010 was inquorate. The Chair, Councillor Gibbs, **undertook** to put this request to his group.

It was also **Agreed** that the start time of the future meetings of the Audit Committee be brought forward to 7pm from 7:30pm.

Action: Zoe Folley (Democratic Services)

Members also discussed whether the Committee should meet on a more regularly basis to enable it to conduct more in depth investigations given its wide ranging remit. For example an additional 2/3 meeting could be programmed in over the year. Consideration was given to the type of issues the Committee may wish to discuss at such extra meeting. Officers welcomed Members to submit topics for consideration by the Committee.

RESOLVED

That the Terms of Reference, Membership, Quorum and Dates of future meetings as set out in Appendices 1, 2 and 3 to the report be noted.

6. **UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**

7. **ANNUAL AUDIT LETTER 2008/09**

Mr Jon Hayes (District Auditor Audit Commission) presented the Annual Audit letter initially due to be considered at the March 2010 meeting of the Committee. Mr Hayes explained the purpose of the letter highlighting the key messages and recommendations.

In response, Members raised the following points:

Members discussed the problems with removing leavers from the payroll and the findings in respect of journals (Page 23). Members questioned the consequences of these material weakness and the costs to the Council.

Mr Hayes expressed uncertainty over whether these controls were fully working . As a result he would need to carry out additional work to establish whether they were and has had to increase his audit fee accordingly.

Members expressed concern at the time taken to correct the problems in payroll as this problem was identified two years ago. Mr Minesh Jani (Service Head Risk Management) expressed confidence that the controls had been put

in place, but would check to determine whether the control was operating as intended as part of this year's audit plan . He **Agreed** to come back to the Committee with a summary of leavers showing the work that had been done in this area.

Action: Minesh Jani (Service Head, Risk Management)

In relation to the level 2 use of resources scores, Members considered the recommendations for improvement.

KLOE 2.3 Good Governance (Page 33) - Members drew attention to the actions in the September 2009 Annual Governance Statement (AGS) in particularly those around the departure of the former Chief Executive.

It was **Agreed** that an update on this issues and the AGS requirements should be submitted to the Committee following the Mayoral Election in October 2010, to take into account the new system of governance.

Action: Minesh Jani (Service Head, Risk Management)

The Committee considered the Action Plan (Appendix 2).

Mr Finch reported that Corporate Finance had put in place a revised system for closing the accounts, which worked well. The service did manage to successfully close the accounts on time despite unforeseen staffing changes. It was hoped that the new system would lead to better quality and a more efficient close down process. There had also been discussions with Audit Services exploring ways of achieving this.

Mr Finch reported that Corporate Finance was well on target to complete the transition to IFRS. A new project team had been put in place to support this work. A key challenge now was to produce IFRS versions of the balance sheet.

RESOLVED

That the Annual Audit Letter 2008/09 be noted.

8. PROGRESS REPORT JUNE 2010

Mr John Hayes (District Auditor, Audit Commission) presented the progress report.

Mr Hayes referred to the decision to abolish Comprehensive Area Assessments (CAA). He expressed uncertainty about the implications of this . It could mean that the fee letter might need to be revised and the level of fee reduced to take into account this decision. He indicated that he would need to give further consideration to this issue and would report back to the Committee accordingly.

In relation to the review of Value for Money, (Page 39 paragraph 8) Mr Hayes stated that he would be writing to all Councils this month about this. He

anticipated that he would then be in a position to report back to the Committee.

RESOLVED

That the Progress Report for June 2010 be noted.

9. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

10. INTERNAL AUDIT ANNUAL REPORT 2009/10

Mr Minesh Jani (Service Head Risk Management) introduce the report setting out the annual internal audit opinion. He reported that overall the Authority had a sound system of internal control and was operating effectively in 2009/10.

The report contained a summary of all audit work including the assurance ratings assigned to each area.

The Committee considered a list of the areas assigned a limited assurance including Tower Hamlets Homes Budgetary Control and the Morpeth Secondary School and the recommendations for improvement.

Reference was made to the performance targets for priority one and two recommendations. Mr Jani reported that he had written to the Corporate Directors detailing the outstanding actions to enable CMT and DMTs to quickly respond to them.

Members queried the reasons why some of the recommendations had yet to be implemented. Mr Jani reported that this could be partly due to staffing changes, changing priorities. It was considered that the target of 100% for priority 1 and 2 recommendations was obtainable. The Committee requested that steps be taken across the directorates to deliver them.

Members recommended that e-mail alerts be sent to services two months before follow up audits in addition to the e-mail notifications sent one month beforehand.

It was also **Agreed** that the actual numbers for recommendations be provided as well as percentage figures.

Action: Minesh Jani (Service Head, Risk Management)

In reply to questions from Members about the legal planning meetings, Mr Jani reported that this area had since been re - inspected and had been ascribed a satisfactory level of assurance. The findings purely related to administrative rather than child protection issues. Mr Jani reported that the 'to be scheduled audits' would all be allocated a date by September 2010.

Mr Les Warren (Director of Finance and Resources, Tower Hamlets Homes) replied to the limited assurances ascribed to the Tower Hamlets Homes (THH).

THH had implemented a number of additional controls aimed at ensuring staff understood the budget process and managers/budget holders appreciated their budgetary and monitoring responsibilities. THH had simplified and refocused the format for management budgets which was now risk based. THH had also reviewed and strengthened their Financial Regulations which had been approved by the THH Board who robustly scrutinised budgets along with its Finance and Audit Committee. In support of this, THH had held events with officers and face to face meetings to discuss budgets. He also referred to the controls in place to prevent overspend and mitigation measures.

Mr Warren stated that he was satisfied with the new measures, (set out on Page 61) and considered that they would rectify the issues. The findings of the follow up audit were due to be reported in Autumn 2010.

In response to questions from Members, it was reported that officers reviewed the Audit Plan to identify which audits reports should be resourced in house or by external auditors based on expertise and value for money. This judgement was reviewed on a regular bases.

In relation to Morpeth School, it was explained that Audit Services took action with Children's services to ensure the recommendations were implemented. Audit Services had asked colleagues in Children's services to produce an Annual report to establish whether there were any common problems across all schools to rectify the problem. A holistic approach was taken.

Mr Jani **Agreed** to check the Benchmarking Club Results to ascertain whether this covered the whole function not just the in house team.

Action: Minesh Jani (Service Head, Risk Management)

RESOLVED

That the content of the Annual Audit Report and the summary of the Audits undertaken which have not previously been reported to the Audit Committee and the Head of Audit opinion be noted.

11. ANNUAL GOVERNANCE STATEMENT 2009/10

Mr Minesh Jani (Service Head Risk Management) presented the report.

In reply to questions, Mr Jani reported on a pilot scheme recently introduced in one Directorate aimed at improving sickness absence levels which had been successful. As a result, this good practice would be rolled out across all Directorates. It was anticipated that this would bring sickness levels down. Consideration was given to improving Member scrutiny of individual cases of severance payoffs which were confidential as detailed in the Annual Statement of Accounts. Officers undertook to look into this matter.

RESOLVED

1. That the process and findings set out in paragraphs 4.1 – 7.4 of the report be noted; and
2. That the Draft Annual Governance Statement for the financial year 2009/10 at Appendix 3 of the report be agreed.

12. TREASURY MANAGEMENT ACTIVITY FOR PERIOD ENDING 31 MAY 2010

Mr Alan Finch (Service Head Corporate Finance) presented the report highlighting the main issues for consideration.

Members drew attention to the outturn figures for 2009 – 10. In reply Mr Finch reported that in both cases the Council had outperformed the portfolio benchmark . However investment returns were starting to decrease in quarter 2 of 2010.

Officers were reviewing the trade off between investment risk and the need to diversify to secure the right balance. This issue would be discussed with the Council's treasury.

Member questioned whether there were any plans to move away from the 'UK only policy' of investing all money in UK Banks. Mr Finch confirmed that officer were looking at investing a limited amount of funds in the foreign Domicile Institutions at the right rates, rather just small UK banks. However there were limited options for securing favourable returns with the current investment criteria. Consequently consideration was being given to amending the credit criteria/ treasury management strategy to take into account current market conditions. However this decision would need to be taken by Full Council. Officers were satisfied with the balance between overnight and long term investment. However the Council did obtain better rates over the long term.

The fund currently had more overnight deposits than expected, but it was anticipated that this would correct itself over the course of the year.

At the request of Members, Mr Finch **Agreed** to check the figures for Clydesdale PLC Bank in the investment strategy (page 118) and to report back on the reasons for these figures accordingly.

Action: Alan Finch (Service Head Corporate Finance)

RESOLVED That the contents of the Treasury Activity Report for period ending 31 May 2010 be noted.

The meeting ended at 8.35 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee