LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON TUESDAY, 16 SEPTEMBER 2014

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

Members Present:

Councillor Amina Ali (Chair)
Councillor Ayas Miah (Vice-Chair)
Councillor Rachel Blake
Councillor Andrew Wood

Other Councillors Present:

Councillor Candida Ronald

Apologies:

Councillor Ohid Ahmed
Councillor Alibor Choudhury
Councillor Gulam Robbani

Others Present:

Officers Present:

Chris Holme	(Acting Corporate Director - Resources)
Catriona Hunt	(Head of Corporate Human Resources)
Minesh Jani	(Head of Audit and Risk Management , Resources)
Bharat Mehta	(Audit Manager)
Kevin Miles	(Chief Accountant, Resources)
Tony Qayum	(Anti Fraud Manager, Internal Audit, Resources)
Brian Snary	Financial Accountant - Resources
Nishaat Ismail	(Committee Officer, Democratic Services, Directorate Law Probity and Governance)
Angus Taylor	(Principal Committee Officer, Democratic Services, Law Probity & Governance)

COUNCILLOR AMINA ALI (CHAIR) IN THE CHAIR

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of Disclosable Pecuniary Interest or other declarations of interest were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

Matter arising from minutes of 30 June 2014 Audit Committee (AC)

Referencing page 3/ para 4/ bullet 3 of the minute pertaining to agenda item 5.1 [page 7 of agenda] an AC member noted that the Authority did not benchmark Its accounts against other local authorities, when it did so in other areas eg school services, and accordingly requested that benchmarking was undertaken in 2014/15.

The Chair **Moved** and it was:-

Resolved

That the unrestricted minutes of the ordinary meeting of the Audit Committee, held on 30th June 2014, be agreed as a correct record of the proceedings, and the Chair be authorised to sign them accordingly.

Action by:
Nishaat Ismail (Committee Officer, Democratic Services, LPG)

3. KPMG ITEMS FOR CONSIDERATION

3.1 Interim report to those charged with governance (ISA 260) 2013/14

Andrew Sayers, representing External Auditors KPMG introduced, and highlighted key points, in the report which summarised the key findings arising from:-

- KPMG work to date at LBTH in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administered.
- Work undertaken to support KPMG's 2103/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Points highlighted by Andrew Sayers included:-

- That given the correlation between matters being examined by the Pricewaterhouse Coopers (PwC) inspection, being undertaken for the Secretary of State for Communities and Local Government, and areas in scope for audit by KPMG, the Authority's external auditor, [in relation to the financial statements for 2014/14 and reaching a conclusion on the Authority's financial arrangements in place for securing economy, efficiency and effectiveness in its use of resources for 2013/14], the report before the Audit Committee was interim pending KPMG consideration of the outcome of the PwC Inspection report. In the period leading up to PwC Inspection report, KPMG had focused on undertaking other normal planned audit work and activities to reach a Value for Money conclusion.

- The majority of the planned audit work had been completed and based on this KPMG had not identified any matters that would adversely impact on its opinion of the Authority's financial statements; similarly for the Pension Fund.
- During the KPMG audit the Authority had identified two significant adjustments to the financial statements, which related to the grossing up of debtors and creditors, and the late notification of a creditor by an NHS organisation. The first had no impact on the net worth of the General Fund and the latter was covered off by an ear-marked provision. ????The provision for National Non-Domestic Rates of £3 million required an adjustment, but this was well below the materiality level????
- The KPMG audit had identified a significant risk arising from the implementation of the General Ledger system, however based on the outcome of audit testing a conclusion had been reached that outputs from the GL system could be relied on in auditing the financial statements.
- The audit of property, plant and equipment, which was an inherently risky balance due to the potential for impairment/ valuation changes and required judgement/ estimation uncertainty; the audit had not identified any significant issues; however a recommendation on the future approach to valuations had been made.
- There had been significant changes in the accounting treatment of National Non-Domestic Rates and due to balance sheet variances this area had been an audit focus. No significant issues had been identified and an adjustment had been made for provision.
- Risk had been identified in respect of the triennial valuation of the Pension Fund relating to inaccurate data provided to the actuary impacting on actuarial figures in the accounts. Work completed to test source data and controls on accuracy had not identified any issues???
- The quality of the accounts and supporting papers was good and audit queries were dealt with efficiently.
- The Authority's control environment was effective, however a weakness had been identified in that key reconciliations [bank account and payroll] had not been completed on a regular basis during 2013/14. This was a high risk matter and a recommendation had been made to mitigate this in future.
- Outstanding issues before a final audit opinion could be given were outlined.
- The methodology to reach a Value for Money conclusion was outlined, but until the PwC Inspection report was considered no conclusion could be made. It was noted that savings plans appeared robust and achievable, although there was risk for all local authorities in delivering these.
- AC members were signposted to matters requiring completion before an audit certificate could be issued. It was noted that no formal objection to the Authority's 2013/14 financial statements had been received to date.

- Assurance of KPMG independence in relation to the audit of the financial statements was given.

A discussion followed which focused on clarification being sought and given on the following points:-

- The impact on finalisation of the KPMG audit and report of waiting for the PwC Inspection report. *The statutory deadline for finalisation of the Authority's accounts was 30 September and KPMG would not be able to sign these off by then. KPMG needed to consider the findings of the PwC Inspection report and also consider undertaking additional audit work arising from it. KPMG had focused its audit to date on completion of standard audit work prior to the PwC Inspection report.*
- The implications of missing the statutory deadline for finalisation of the accounts. *The final accounts would still be presented to the AC for noting, however there were no formal sanctions beyond adverse publicity.*
- The adjustments amounting to £5 million relating to grossing up of debtors and creditors (£3.7 million) and the late notification of a creditor by an NHS organisation (£1.3 million). *The debtors and creditors should be grossed up not netted off and this had not occurred, however neither matter impacted on the net worth of the General Fund. The latter also accounted for the difference in pre-audit* (£8 million) *and post-audit transfers* (£6.7 million) *to earmarked reserves reported on page 6 of the KPMG Interim report.*
- Referencing Appendix 1/ recommendation 3 relating to Land and Building valuations, how would the recommendation be progressed? Was there evidence of under-valuation? Was the Authority not required to undertake regular valuations, and was infrequent valuation best practice? Given low valuations was there an appropriate link between valuations and house prices? *This issue related to periodic year-end property valuations and the audit had examined impairment and upward trends and a need to tidy up the General Ledger going forward had been highlighted. No under-valuation had been identified, however there was a risk of this. The Authority had undertaken valuations in line with policy and best practice of a valuation every 5 years taking account of material changes in the intervening period. Property valuations were relatively stable although house prices were not. The Audit had identified that the Authority should carry out more effective valuations and how to achieve this.*
- Grave concern expressed that a recurring trend of non-completion of key reconciliations had been identified. This was basic accountancy and, although noting that implementation of the Agresso accounting system had significantly impacted the ability to undertake reconciliations, assurance sought that regular reconciliation of balances would be undertaken going forward. *The problem caused by Agresso was briefly outlined, however processes were now in place for regular reconciliations of the bank account and payroll.*
- The calculation of a materiality level of £23 million for the Authority's financial statements and audit differences of £1.1 million being deemed insignificant.
- The identification by the KPMG audit that not all Budget variances over £250k had an adequate explanation, and AC member consideration that

the threshold for such variances was too high and departments should be examining variances of a lesser scale. *A monthly analysis was undertaken and the Interim Corporate Director Resources expected departments to signpost variances over £100k. Going forward, departments had been asked to provide a much better explanation of variances throughout the year, in response to the audit recommendation. However the corporate variance threshold of 3250k needed to be placed in the context of a £1.2 billion gross spend.* Noting the Officer response an AC member commented that he expected information to be available on £5k variances if the AC wished to dive down that far.

- Referencing Appendix 2/ recommendation 1 relating to the completion of the corporate governance review and expeditious addressing of any findings a progress update was sought. *Some elements of the review, which was currently being undertaken, with the support of the Local Government Association, had been completed, and the Head of Paid Service was leading. A written update would be sought in line with the commitment to keep KPMG and the AC briefed.*
- Requested that **a brief statement summarising the current financial position of the Authority be presented quarterly to the AC**. *Interim Corporate Director Resources undertook to provide this from available benchmarking information.*
- Requested that the **summary statement of accounts**, currently undergoing final checks and intended for presentation with the final set of accounts to the AC, **be circulated to all AC members**.

The Chair **Moved** and it was:-

Resolved

That the contents of the Interim report to those charged with governance (ISA 260) 2013/14, be noted.

Action by:
Chris Holme (Acting Corporate Director Resources)

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

Minesh Jani (Service Head Risk Management) introduced, and highlighted key points, in the report which:-

- Summarised the work undertaken in the period June to August 2014.
- Set out the assurance rating of each audit finalised in the period together with an overall assurance rating. He also reported the following audit performance:
- Informed the AC that the report informed the annual internal audit opinion given at the end of each financial year.

Points highlighted by Minesh Jani included:-

- 18 audit assignments had been undertaken in the last 3 months 13 giving substantial assurance and 5 limited assurance. These had been focused in areas of moderate or extensive significance to the authority as defined in para 3.2 of the report.
- That performance of the Internal Audit Service to July 2014, as measured by the set Performance Indicators, was below target; with the detail set out at para 5.6 of the report summarised for AC members.
- The audits assigned limited assurance were summarised in detail for AC members:

1. Declaration of Staff Interests - Systems Audit
    - Selected for audit because of the onus on staff, under the Employee Code of Conduct, to declare interests which conflicted with their employment by the Authority; and also the introduction of an online self-serve system to record staff Declarations of Interest (DOIs).
    - Assigned limited assurance due to low percentage of staff found to complete DOIs; and also in a sample tested in a separate NFI audit 5 of 10 staff completed a DOI on secondary employment.
    - Arrangements needed to check and monitor declarations and therefore regular HR reports to line managers recommended with an associated responsibility to monitor compliance.

    A brief discussion followed which focused on clarification being sought and given on the following points:-
    - Concerning the location of the 5 staff not declaring secondary employment; also whether staff working in their own time to top up their income should really be viewed as a serious concern. *The staff were located in schools. DOIs were an important matter, and the laborious manual reporting/ monitoring system had been streamlined with the online system; this was now being improved with regular monitoring reports in each directorate*
    - Whether staff had been made aware of their obligation and the new online system and given clear advice as to completing a DOI. Staff received regular reminders via email and the intranet. *A new form was being piloted with a view to going live in October and this was accompanied by clear advice and examples.*

2. Photocopying and Printing Contract Monitoring - Systems Audit
    - Selected for audit because of the Authority's new 3 year rental agreement for supply of Multi-Functional Devices (MFDs) and a managed print Service Level agreement both of which came with high start up costs.
    - Assigned limited assurance because contract monitoring arrangements were found not to be sufficiently robust, the supplier's invoicing system was complex with risk of duplicate payments and errors, and a discrepancy between the number of MFDs on the supplier list and those on the LBTH asset register.
    - Chris Holme (Acting Corporate Director Resources) commented that all the necessary steps to mitigate the risk in this area had been

taken, and there were now regular contract monitoring meetings with Xerox and Agilisys, ???and systems now in place to manage usage and charging???. Were the area audited now he was confident the level of assurance would be substantial.

3. Debtors - Systems Audit
   - Selected for audit to provide assurance that the control systems in this area were robust and assess potential consequences should control weaknesses be identified, in the context of the introduction of the Agresso finance system in April 2013.
   - Assigned limited assurance due to findings relating to the implementation of the new system:-
     - Reconciliations between the general ledger and the debtors system not performed on a timely basis.
     - Reminders for overdue invoices not issued and therefore debt recovery action not taken in 2013/14.
     - Unallocated payments to accounts delaying debt recovery and creating potential for unnecessary debt recovery action.
     - Accurate information not supplied by Agresso system.
   - Chris Holme (Interim Corporate Director Resources) commented that the audit findings were a symptom of the roll out of a brand new element of the new Agresso finance system. All the recommendations had now been implemented and much improved systems were now in place. NNDR collection had not been impacted.

   A brief discussion followed which focused on clarification being sought and given on the following points:-
   - Noting the Officer assurance that measures were now in place to address the weaknesses identified, why had the risks of the new finance system not been factored in before implementation. *Officers had been aware of the risk but there had also been a need to sign off the contract with the ICT provider and not doing so risked litigation.*
   - Concern expressed about slow debt recovery arising from implementation of the Agresso system and that reminders to pay overdue invoices had not been sent. *Recovery rates were very high and higher than the previous year which provided comfort that the weaknesses were being mitigated.*
   - The reason why NNDR and Council Tax had not been similarly impacted as these too were debtors.

4. Pest Control - Systems Audit
   - Selected for audit to provide assurance that the control systems in this important area were robust and assess potential consequences should control weaknesses be identified.
   - Assigned limited assurance because of audit findings:-
     - Pest control services provided free to a number of properties due to inaccurate records as to ownership.
     - SLAs with RSLs out of date and therefore prices too.

- Identified that approximately 50% of jobs undertaken April 2012 to July 2013 remained open on system records.
- Non-retention of supporting documentation for calculation of charges, with potential for under-charging.
- OAP entitlement to a free service open to abuse as no verification of householder OAP status undertaken.

An AC member proposed and it was agreed that **discussion of the audit findings be deferred to the next meeting** to ensure Officers from the service were present to answer questions the AC might have.

5. Kobi Nazrul Primary School
   - Selected for audit to provide assurance that there were effective controls over administration and financial management, and assigned limited assurance because of audit findings set out in Appendix 2 to the report.
   - AC members were informed that audits were underway at a number of schools and an annual report on schools would be received at the AC in December. This audit report had been provided as the audit was complete, however a management response to the audit findings would be provided at that point.???? Minesh is this correct???
   - Clarification was sought and given as to whether Kobi Nazrul School had responded to the audit findings. *The Head Teacher had welcomed the audit findings and agreed the recommendations would be implemented.*

   Treasury Management - Systems Audit
   - Clarification sought and given as to why the audit had been assigned substantial assurance, given that in 9 of 20 transactions examined key information was not available. Commented also that it was difficult to believe the statement that this was due to bank non-retention after 6 months. *Minesh Jani (Service Head Risk Management) responded that he was confident systems were in place for a segregation of duties, so that staff carrying out treasury management transactions could not also approve these. However key information to demonstrate the segregation had been missing, and a follow up audit would be needed to establish whether the segregation had been applied.*

   Budgetary Control - Systems Audit
   - Clarification sought and given as to the proportion of the total number of budget holders comprised by the 96 budget holders not competing budget returns throughout the year, and similarly for the 341 budget holders not completing these for between 9-11 months. Also whether the problem related to a particular department. *There were 1200 budget holders in total and work was being undertaken to improve performance on budget returns. There were currently 38 budget holders not providing a monthly return and these were evenly spread across the 3 main directorates (CLC, D&R and ESCW).*

Tower Hamlets Homes - Key financial systems
Referencing the reporting that all of THH’s funds were invested with one organisation posing a risk for THH should it fail, clarification sought as to the amount invested and the name of the organisation it was invested with. ***Written response to be provided (Action MJ)***

The Chair **Moved** the recommendation as set out in the report and it was:-

Resolved

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

Action by:
Minesh Jani (Service Head Risk Management

4.2 Annual Anti -Fraud Report 2013-14

Tony Qayum (Corporate Fraud and Governance Manager) introduced, and highlighted key points, in the report which:-

- Provided an update of reactive and Anti-Fraud work undertaken during 2013/14.
- Informed AC members of the activity and areas of investigation and work undertaken by Corporate Anti – Fraud Team (CAFT).

Points highlighted by Tony Qayum included:-

- Signposting AC members to:-
  - The staff resources allocated to anti-fraud activities set out in the table at para 3.2 of the report.
  - Appendix A which set out the background to and legal basis for the National Fraud Initiative (NFI); also information about the 2012/13 NFI and going forward.
  - Appendix B which summarised arrangements for the transfer of existing Housing Benefit Fraud (HBF) investigation services to the Department for Work and Pensions (DWP) and briefly outlined the need for future consideration of the resourcing implications for some areas of fraud investigation which were currently bi-products of HBF investigations.
- Key matters arising from the Service Outturn for 2013-14, and in particular that training sessions had been run for staff and external bodies/visitors on Anti- Fraud and Corruption matters (and more were planned for the financial year), together with training exercises with the Risk Management Service and a joint training session for Members. An optional training session on the anti-fraud work undertaken by the authority and the impact of fraud would be run in October, and the role of Members would be covered.
- The success of the NFI for LBTH was summarised including the identification of over £700,000 of fraud and potential error. The initiative had existed for some years and had always yielded significant value.

- The continued provision of monthly governance reports to the Corporate Director of Resources and Monitoring Officer which provided an early warning of issues arising from CAFT activity comfort provided by investigations.
- Good performance from Housing Benefits Investigations with:
  - A large increase in sanctions achieved: 151 in 2013/14 with 160 anticipated in 2014/15.
  - A rise in court convictions from 42 to 48 in 2013/14 with 60 anticipated in 2014/15.
  - A large increase in fraud and potential error from approximately £600k in 2012/13 to £825k in 2013/14. This reflected the level of housing benefit managed by the Authority but also highlighted the need for and added value provided by investigation.
- Good performance on Social Housing recoveries. LBTH had been the first authority to apply for funding to address the abuse of social housing and each year a team of 3 staff successfully identified significant levels of sublets which deprived the homeless of accommodation. A data matching exercise had identified significant numbers of matches that needed investigation and 43 recoveries had been achieved in 2013/14 as well as prevention of 3 illegitimate Right to Buy (RTB) purchases 1n 2013/14 and 12 in 2014/15 with the associated discount savings. There was potential for this area of fraud to double by year end. However Government funding would stop in the near future and the resourcing of this important work needed expeditious consideration.

A discussion followed which focused on clarification being sought and given on the following points:-

- Referencing para 8.3, consideration that the small team staff that undertook social housing recovery work provided excellent value for money given their track record of success, and it was obvious that funding needed to be found to continue the work when Government funding stopped. *Minesh Jani (Service Head Risk Management) responded that a funding arrangement with the Homelessness Service was being looked at to ensure the service continued. Chris Holme (Acting Corporate Director Resources) added that 2 funding bids had been submitted to DCLG for anti-fraud work and the Authority had taken a lead on coordinating the work/ data sharing of local authorities in East London. The Social Housing Recovery service would continue to be funded going forward, as preventing criminal offences was a priority for the authority.*
- Clarification was sought and given as to the value of social housing recovery per member of staff to assist AC members in quantifying what might be achieved by an increase in resources in this area. Greater partnership working in this area was also discussed. *Three members of staff would maintain the current service and value derived from it. It was an area that was difficult to quantify for partnership working arrangements partly because in addition to investigation work much legal work followed a successful investigation.*
- Noted that *the area of illegal sub-letting of Council property was fast becoming an a focus for hardened criminals and some authorities such as*

Kensington and Chelsea were devoting significant resources to mitigate this and some RSLs had a full time position devoted to it.

- Concern expressed at the significant increase in attempted illegitimate RTB purchases between last year and this year. *There was an incentive for the authority to prevent these due to up to £100k of discount applying to each RTB.*
- Whether the transfer of existing HBF investigation services and associated funding to the DWP was irreversible. *Yes the service/ staff/ funding would transfer. Data sharing with the DWP had proven difficult in the past and it was in the interest of the DWP for a local team to provide information. However the funding bid to DCLG for partnership working on anti-fraud work by 6 East London Boroughs encompassed this area.*

The Chair **Moved** the recommendation as set out in the report and it was:-

<u>Resolved</u>

That the contents of the report, be noted.

4.3 Treasury Management Activity for Period Ending 31 July 2014

Kevin Miles (Chief Accountant) introduced, and highlighted key points, in the report which:-

- Detailed treasury management activity for the financial year to end of July 2014.
- Advised AC members of that the Treasury Management Strategy (TMS) and Prudential Indicators agreed by full Council in February 2014 continued to be appropriate, and treasury activities had not resulted in breach of the approved limits. However a mid-year review of the TMS would be considered by full Council in November.
- Detailed the current credit criteria adopted by the Corporate Director of Resources, and also the current investment strategy and projected investment returns.

Points highlighted by Kevin Miles included:-

- At the end of July the Authority had investments of approximately £330 million which was approximately £180 million higher than the projected average cash balance of £150 million.
- Officers anticipated that the cash balance would reduce as expenditure on the capital programme picked up through the remainder of the financial year.
- The current strategy was not to have too much money invested in longer term investments, so as to allow the Authority to take advantage of the potential increase in interest rates.
- The current average return on investment stands at 0.69%, and was on target to achieve budgeted cash return on assets of £1.6 million for 2014/15.

A discussion followed which focused on clarification being sought and given on the following points:-
An AC member considered that an average 0.69% return on investments of £330 million appeared low. It was acknowledged that interest rates were low at the moment but, it was understood that 6% interest was offered by Lloyds for a 30 day deposit. Consideration also that the proportion of investments allocated to the various maturity periods was not appropriate and more could be yielded from shorter term investments. Accordingly benchmarking of investment returns with other local authorities (LA's) was needed. *Capita was the Authority's benchmarking partner and it advised that the Authority was achieving as good a return on investment as other LAs and it was slightly lower than institutions were achieving.*
Although the Authority could borrow to repay what it owed, large penalties offset the benefits of that approach. The Authority did have a large loan with Barclays but had the option to repay this if interest rates rose.?????
Clarification also sought as to which organisation the Authority used short term deposits overnight as it was understood that other LAs used Ignis, but it was not mentioned in the report. *It was likely these investments were spread over a number of banks however* ***a written response would be provided****.*
What was the Authority's position in relation to Royal Bank of Scotland (RBS)?. *RBS was part of the Nat West group and it was sensible to take advantage of the interest rates it offered. However the Government might reduce support for RBS in future years, or even sell it back to the private sector, and this must be borne in mind. Although RBS offered a better return than other banks, and the Authority was in a similar position to others in relation to it, it was advisable not to lock money away for too long.*
Assurance sought and given that the Authority was not exposed to fluctuation in Foreign Exchange rates.

The Chair **Moved** the recommendation as set out in the report and it was:-

Resolved

That the contents of the Treasury Management Activity report for the period ending 31 July 2014, be noted.

Action by:
Kevin Miles (Chief Accountant)

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 8.30 p.m.

Chair, Councillor Amina Ali
Audit Committee