

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.10 P.M. ON TUESDAY, 22 MARCH 2016**

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

**Members Present:**

Councillor Candida Ronald (Chair)  
Councillor Clare Harrisson  
Councillor Andrew Wood

**Apologies:**

Councillor Sabina Akhtar  
Councillor Amina Ali

**Others Present:**

Andrew Sayers – (Engagement Lead Auditor, KPMG)  
Antony Smith – (Engagement Manager, KPMG)

**Officers Present:**

Kate Bingham – (Service Head, Children's and Adults Resources)  
Zena Cooke – (Corporate Director, Resources)  
Minesh Jani – (Head of Audit and Risk Management, Resources)  
Kevin Miles – (Chief Accountant, Resources)  
Karen Sugars – (Interim Service Head, Commissioning and Health)  
Kathryn Robinson – (Head of Legal Operations, Legal Services, Law Probity and Governance)  
Antonella Burgio – (Democratic Services)

**APOLOGIES**

Apologies for absence were received from Councillors Amina Ali and Sabina Akhtar

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**

No declarations of disclosable pecuniary interests were made.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the meeting held on 8<sup>th</sup> December 2015 were **approved** subject to the following corrections:

That the term “cross issuing” at minute 3.1 be replaced with the term “cross matching” and that the format of the resolution at minute 4.4 be corrected to reflect to 3 resolutions agreed.

### **3. KPMG ITEMS FOR CONSIDERATION**

#### **3.1 Report to Those Charged with Governance - ISA260 2014/15**

At the Chair's invitation, Andrew Sayers, Engagement Partner, KPMG presented the Annual External Auditors Report 2014/15. This summarised the results of the work carried out by KPMG on the Council's 2014/15 grant claims and returns

Mr Sayers highlighted relevant matters from the section “Summary of Certification Work Outcomes”.

The Committee was informed that:

Completion of the audit had been delayed by the investigation carried out under the Secretary of State's instruction by PWC. This audit fieldwork could now be completed and the report signed after the resolution of a complaint from the public regarding LOBO. Mr Sayers:

- submitted that the Committee approved this ISA260 report subject to the resolution of this complaint after which KPMG expected to issue an unqualified auditors statement
- noted that there were no significant adjustments required to the figures but some minor presentational matters had been addressed
- noted that the audit had identified one key risk, this related to plant.
- noted it was necessary to identify grants to be issued through commissioners' and testing done to ensure that payments were properly discharged (there had been one illegal grant payment of a small value)
- noted that value for money (VFM) issues relating to Brady Youth would be kept under audit
- noted that Section 106 arrangements were tested and no issues identified
- noted that the Grant Thornton delay related to the VFM aspects of the Section 106 monies
- noted that KPMG's VFM position continued from 2013/14 therefore the auditors opinion had been made accordingly and was being kept under review
- noted that Section 11 conditions still remained at present; however auditors had noted the actions that had been taken to address these Section 11 notice was issued in November 2015

Responding to Members' questions the following information was provided:

Councillor Woods was dissatisfied with the CIL value that had been set; in his view the CIL values had been underestimated. The rates did not give value

for money causing potential loss to the Council in this area. The Committee noted the complaint and it was agreed that this matter would be pursued outside of the meeting. Mr Sayers noted that the Auditor's remit in this matter was not to consider whether the appropriate values had been achieved, but that the appropriate processes for setting theCIL levels had been carried out.

A number of objections had been received. Two related to parking on private land. Since these don't give rise to material adjustments to the account, Mr Sayers was happy to sign these off. A third objection related to PCLP charged by DCLG and was not material to the accounts. The objection relating to LOBOS would be material to the accounts; the objection being that such loans were illegal therefore and could not be entered into by local authorities. It was argued that those which had approved the loan on behalf of the authority did not understand the arrangement fully therefore leading to an illegal act. The value of these loans were material to the accounts and if this matter was determined, then KPMG would take action and share the auditors view with the objector. Should this occur, KPMG would also need to consider whether a public interest report was required. If this situation were to come to pass, then the auditors would be unable to issue an opinion and would be required to present the accounts again at a future meeting; therefore the auditors aimed to discharge the complaint as soon as possible. It was noted that Hammersmith and Fulham Council had set a precedent; however the determination for each circumstance was individual and dependent on the pattern of facts. It was noted that there were 250 councils in England and Wales that had entered into LOBOS arrangements.

#### **RESOLVED**

1. That the Auditor's ISA 260 report be approved subject to the satisfactory resolution of the LOBO complaint.
2. That the headline messages in Section 2 of the report be noted
3. That the Auditor's findings and comments in relation to financial statements be noted
4. That the VFM conclusion be noted
5. That the specific VFM risks reported be noted
6. That the follow-up actions of previous year recommendations be noted

### **3.2 Annual Financial Report 2014/15 (Incorporating KPMG's Report to Those Charged With Governance 2014/15)**

Kevin Miles, Chief Accountant introduced the annual financial report which (following completion of the external audit by KPMG) contained the statement of accounts for the financial year ending 31 March 2015. He noted that there were some minor changes to the account; this did not affect the overall

financial position which remained unchanged from the draft circulated to members in July 2015.

Members noted the report presented and did not wish to ask questions, or raise any matters in addition to those that had been discussed when the report had been previously presented.

### **RESOLVED**

That the Annual Financial Report for the financial year ending 31 March 2015 be approved having regard to the Auditor's annual governance report presented and discussed at item 3.1 of the agenda.

### **3.3 Annual Report on Grants and Returns Work - 2014/15**

Antony Smith of KPMG presented the report which summarised the work carried out by the Council's external auditors on the grant claims returns. He noted that a few matters were identified with claims which did not result in adjustments to the amounts of housing benefit subsidy due to the Council or to the amount paid regarding the share of right-to-buy receipts payable to the Government or teacher pension contributions

Members noted the Committee's appreciation for the support that had been given to KPMG auditors in providing the information requested during the audit work

### **RESOLVED**

That the certification work outcomes relating to the annual report on grants and returns work 2014/15 be noted

### **VARY ORDER OF BUSINESS**

The Chair received a request to vary the order of business. The Chair **moved** and it was:

### **RESOLVED**

That the order of business be amended to the following item order for the remainder of the meeting:

- 4.2 Annual Governance Statement 2014/15
- 4.3 Quarterly Assurance Report
- 4.1 Treasury Management Activities Report
- 4.4 Audit Plan 2016/17
- 5. Any Other Urgent Business

#### **4. TOWER HAMLETS ITEMS FOR CONSIDERATION**

##### **4.1 Treasury Management Activities Report for Quarter Ending 31 January 2016**

Kevin Miles, Chief Accountant introduced the report which provided quarterly data on Treasury management and investment performance. He informed Members that

- the report was in compliance with the Treasury Management Strategy
- interest rates in Europe and USA were low and therefore there was little scope for the Council to improve its investment performance at present
- the rate of return reported was 0.78%, an increase from the previous 0.77%
- the Council's share in Lloyds Bank was still under Government authority
- details at page 146 indicated the Council's risk appetite was slightly higher

Cllr Wood noted that the graph at page 156 provided a useful comparator.

#### **RESOLVED**

That the report be noted

##### **4.2 Annual Governance Statement 2014/15**

Minesh Yani, Head of Audit and Risk Management presented the report which summarised the internal audit work in the period December 2015 to February 2016. The report set out the assurance rating of each audit finalised in the period and provided an overall assurance rating of the Council's processes.

Responding to questions from Members, the following information was provided:

Concerning how the annual governance statement was monitored in the organisation, Members were informed that Corporate Directors must put in place mechanisms of control; part of the Council's corporate management system. There must be six monthly updates to Audit Committee in order that members may monitor and scrutinise mechanisms.

Concerning audit processes to review areas of governance, where outcomes incomplete, in order to ensure that the actions that have been taken are effective, Members were informed that checks and balances exist to review the governance arrangements of the Council were multi-layered throughout the organisation. These knit together to make the overall governance framework.

Members noted that the report was retrospective and did not agree with the data of quarterly insurance report; they were informed that auditors work

retrospectively but because of the delays in issuing the ISA 260 report, synchronisation with the annual governance statement had presently been lost. Notwithstanding, officers were working on the actions and recommendations identified by KPMG and confident that the action plan deadlines would be achieved. Additionally officers were exploring ways to improve the format and make it more accessible. Members noted the proposal and asked that some matters should be reported in a more active rather than once a year. They felt that governance should be mainstreamed in the organisation. The Corporate Director, Resources advised that the annual governance statement would be on track by September 2016.

Referring to para. 3.9 of the draft annual governance statement (appendix 1), Members noted that Audit Committee was not representative of the whole Council as its meetings were not attended by all of the political parties. The Corporate Director, Resources agreed to address this matter through the Political groups.

### **RESOLVED**

1. That the actions taken since July 2015 and the reasons for further work on the statement be noted and
2. That the updated to draft annual governance statement for the financial year 2014/15 as attached at appendix 1 be approved

### **4.3 Quarterly Assurance Report**

Minesh Yani, Head of Audit and Risk Management presented the report. He informed the Committee:

- that 26 audits had been finalised in the period December 2015 to February 2016. Of these five had received limited assurance.
- that auditors were close to delivering 100% of the planned audits in the current schedule of audits.
- that 95% of the priority one recommendations had been implemented at the time of follow-up audits and 80% of priority two recommendations had been implemented.
- that where necessary, escalation actions to the relevant Service Head and Corporate Director had been undertaken.

The following limited assurances were reported:

#### *Framework 1*

Minesh Yani, Head of Audit and Risk Management reported that this audit concerned a database operated by Social Care which interfaces with TRIM. The audit revealed that over all systems of control were good, but there were issues around:

- The timely review of Care Plus
- Delays in payments to adults with care plans
- Some functions had not been reviewed
- Some KPI had not been set

Because of these, a limited assurance had been returned

Karen Sugars, Interim Service Head, Commissioning and Health, informed the committee that:

- the software in use dealt with up to 6000 cases at any one time and all of these concerned vulnerable people
- there had been changes in the way that Social Care was delivered and now the responsibility to take control of cases lay with the social worker
- new quality standards that have been implemented
- in November 2015 a new quality assurance process had been put in place and audited
- a new case management system had been implemented
- responsibility for the management of cases occurred through the service levels
- delays in payment of invoices were caused by invoices in dispute. The system was largely manual and needed monitoring, however new software for home care invoices was expected soon
- although the software was the same, the system and work differently in children social services than adult social services
- Much work was being done to embed the process and learning to use the software appropriately.

The Head of Audit and Risk Management confirmed that the findings revealed that assurance was limited as the operation of I Framework is considered a key risk area. A follow-up audit would be undertaken six months hence to verify that issues had been addressed. The Chair requested that a report back be made after the follow-up audit had been completed.

#### *Youth Offending Team*

Minesh Yani, Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned because one in 10 DBS checks were not current.

Kate Bingham, Service Head, Children's and Adults Resources responded to Members questions and provided the following information

- the audit had returned a limited assurance because it was difficult to distinguish between historic and current information was current
- further to the audit, management had now indicated that the issues had been addressed and could be tested through the follow-up audits
- as at 26 February 2016, all non-compliances revealed by the audit had been remedied.

#### *Contracts*

Minesh Yani, Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned as the processes for signing and sealing contracts were insufficient and there was no method to identifying sources or causes of delay in signing contracts.

Kathryn Robinson, Head of Legal Operations, responded to questions from the Committee and provided the following information:

- the Authority had a contracts forward plan which provides the Council has a plan of the forthcoming contract processes
- the Authority also has a Competition Board which assesses the performance of contracts and whether they are likely to be reviewed
- there had been an excess of contracts for renewal which needed a political decision/procurement and therefore it had been necessary to extend these temporarily pending a decision
- work was being carried out to ensure that legal and financial mechanisms were joined-up to produce a more efficient contracts management process.

The Chair recommended that there should be a function at Member level which monitors the management of contracts. The Head of Audit and Risk Management acknowledged the request and advised that officers were working to develop a scheme to improve contracts. Financial levels had been altered to ensure that governance arrangements were improved.

#### *Schools Audits*

Minesh Yani, Head of Audit and Risk Management informed the Committee that two limited assurances had been returned for the following reasons:

- minutes of meetings did not capture decision-making or issues discussed
- there were issues relating to purchase orders
- documents to support the procedures needed for recruitment
- documents were not kept up-to-date

Kate Bingham, Service Head, Children's and Adults Resources responded to Members questions and provided the following information

- support had been given to the schools in question according to the needs identified by the audits
- Kobe School had returned a limited assurance as it had significant HR issues, shortened IEB and had come out of special measures. A new headteacher and Governors could now focus on governance of the school.
- Bonner School had previously been rated outstanding for many years and the causes of the limited assurance were currently being investigated by the Council. There was confidence that the limited assurance was not caused by a systemic issue and can be rectified

The Chair requested that the Council's clerking services should be provided to the schools, where a lack of appropriate skills was revealed.

The Chair, asked:

- that details of audits returning a limited assurance should not only be reported in the appendices but be incorporated into the main report
- that a summary of the headlines concerning the audits undertaken in the period be incorporated into the main report

**RESOLVED**

1. That the quarterly insurance report be noted
2. That the actions requested by the Committee be implemented and outcomes reported back to the Committee

**4.4 Audit Plan for 2016/17**

Minesh Yani, Head of Audit and Risk Management introduced the update report which outlined the plan of audits to be undertaken for the financial year 2016/17 and asked Members to comment on the content of the plan.

The Corporate Director, Resources informed the Committee that in future was proposed to present a paper on the development of internal audit services across East London using a self-assessment tool provided by CIPFA.

The following topics were requested to be added to the plan:

- an item concerning the control processes on the CIL
- oversight of road-works processes
- review S106 arrangements. (It was this suggested that officers from Development and Renewal Directorate be invited to speak to Committee regarding monitoring of S106 arrangements in relation to governance controls)
- audits of processes in school were monitored which were not much represented in the quarterly assurance report
- the Council's ability to meet demand for school places
- risks around the conversion processes of community schools to academy chains (The committee was in informed that the Council was looking at how to develop the Tower Hamlets Education Partnership to ensure that schools were supplied through regulated charges).
- an audit of mother tongue language and foreign-language classes/courses
- an audit of major tourist and crime and disorder risks
- 

The Chair noted:

- that the number of audit days contained in the plan was lower than expected and queried whether this was as a result of the continued Commissioners interventions under directions from the Secretary of State. She was advised that it was possible that there would be some increase in audits and these would be monitored to ensure that necessary audits were undertaken in a cost-effective manner
- governance issues around the Pensions Board and audit support of the structure of the recently established Pensions Board and Pensions Committee. She was informed that is related to work on the financial assistance of these procedures

**RESOLVED**

1. That the report be noted
2. That the areas identified by the Committee be added to the Audit Plan

**5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

The Clerk informed the Committee of the proposed, draft meeting dates for the forthcoming municipal year and noted that it was planned to deliver five meetings during the period. The draft dates were noted.

The meeting ended at 9.20 p.m.

Chair, Councillor Candida Ronald  
Audit Committee