

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.04 P.M. ON THURSDAY, 16 NOVEMBER 2017**

**C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,  
LONDON, E14 2BG**

**Members Present:**

Councillor Candida Ronald (Chair)  
Councillor Danny Hassell  
Councillor Ayas Miah  
Councillor Ohid Ahmed  
Councillor Andrew Wood

**Apologies:**

Councillor Rabina Khan

**Officers Present:**

Neville Murton	Divisional Director, Finance, Procurement & Audit
Holly Bell	Trainee Solicitor
Paul Greeno	Senior Corporate and Governance Lawyer, Legal Services
Asmat Hussain	Corporate Director, Governance and Monitoring Officer
Minesh Jani	Head of Audit and Risk Management, Resources
Tony Qayum	Anti-Fraud Manager, Risk Management , Resources
Farhana Zia	Committee Services Officer

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interest were disclosed by the Members.

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

The minutes from the 27<sup>th</sup> September 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

**3. KPMG ITEMS FOR CONSIDERATION**

**3.1 Annual Audit Letter 2015-16 and 2016-17**

*This item was a late edition of the agenda and was numbered as item 4.7 in the supplement agenda however as this is the KPMG item this was taken at this point in the meeting.*

Neville Murton, Divisional Director for Finance, Procurement and Audit stated that it was a requirement under the Accounts and Audit regulations (2015) (s20) for the Committee to consider and approve the Annual Audit letter as soon as practically possible after its completion and then to publish it on the website and make it available for interested parties.

He apologised for the late edition of the item to the agenda and stated that the Audit Letters were received in early November and whilst it had missed the publication deadline for the November Committee meeting, it was important to seek approval of the letters in order to meet the statutory publication guidance.

Neville Murton informed Members they had seen the draft letters at the previous meeting and as such was seeking the Committee's approval.

Members of the Committee made the following comments:

- What was the reason for the late edition? Members need time to read and grasp the content before approving it.
- Have the Audited accounts been signed off and published?  
*Neville Murton responded stating the accounts had been signed off; the Audited Letters need to be approved before the Audit certificate could be issued. There are remaining outstanding objections to the accounts in relation to PFI schemes and parking, both of which are issues wider than just Tower Hamlets. The objection in respect to LOBO loans has been resolved.*

Members of the Audit Committee

1. Considered and **APPROVED** the Annual Audit Letters for 2015-16 and 2016-17.

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

##### **4.1 Review of Internal Audit, Counter Fraud & Risk Management**

Robert Patterson, Head of Internal Audit and Counter Fraud at Kent County Council provided feedback on the quality assessment he had undertaken of Tower Hamlets Internal Audit, Counter Fraud and Risk Management function.

Mr Patterson stated the quality assessment had been conducted in August 2017 and the service was assessed against the 57 standards as identified by the Public Sector Internal Audit Standards (PSIAS) requirements. He said an external quality assessment was required once every 5 years and the deadline for the assessment was March 2018.

He said the Counter Fraud function was reviewed against the relevant CIPFA code of practice and the Risk Management operation was also reviewed.

The presentation covered in detail the findings under each heading and Mr Patterson's recommendations. The main points to note were:

- Tower Hamlets currently spends a net £1.3m on the entire audit, counter fraud and risk management function,
- The largest element – nearly £850K – is on internal audit.
- There is a disparity between what Officers think should be on the risk register and the recommendations arising from this.
- The Audit Committee is a statutory function and Internal Audit requires a higher profile within the organisation.
- The satisfaction surveys sent to services to complete are not always sent back to Internal Audit.
- Consideration should be given to having a combined Internal Audit and Counter Fraud function.
- The internal audit assurance of “Satisfactory” “Limited” or “No Assurance” provides appropriate challenge and scrutiny and it is good senior officers attend the Audit Committee. However the meaning of ‘what is satisfactory’ needs to be clearly defined.
- Mr Patterson recommended a re-launch of the Service. The Service needs a higher profile and needs to engage more strategically with the council's decision making processes. e.g. mechanisms to raise concerns/risk to the Corporate and Directorate Leadership teams as well as to the Audit Committee, the Mayor, Cabinet and Mayors Advisory Board.
- With respect to Counter Fraud, Mr Patterson praised the work being done but recommended the team develops a counter fraud plan and raises awareness to build an anti-fraud culture within the organisation.

Members of the Committee made the following comments and asked questions in relation to the presentation received:

- Slide 10 refers to the Areas for development and the opinion that many Directors “did not think the opinion was representative of TH or TH Homes”. You quoted 70%. What does this refer to? That 70% agreed or disagreed?
- £1.3M is spent on the Internal Audit function. Do you think this is a sufficient amount given the volume of work output?
- Members welcomed the report and recommendations and the Chair agreed the service needed a more strategic role in identifying key trends.
- Which type of audit reports go to the Corporate Leadership Team and what happens when service areas are non-compliant?
- Interesting to hear the method used at Kent County Council where services are asked to self-assess and take ownership of their risks. Do you think TH could adopt this approach or there is still work to be done beforehand?

- When services report slippages in meeting the recommendations set out by internal audit, should these be escalated to the Executive?
- What are the processes to capture risk other than the workshops referred to?
- What level/grade are the Risk Champions?
- Should consider having a simpler matrix rather than a numerical score, so Officers can understand it. Need to make it more accessible.
- The Risk Register needs to identify key risks. Why are KPI's not monitored?

The Chair, Councillor Ronald stated the presentation and the recommendations had provided a lot of useful information and **MOVED** to form a small working group of Members to further scrutinise the recommendations before providing Mr Neville Murton and Mr Minesh Jani with the Committee's views.

The Committee Members **AGREED** with the Chair and stated they would agree a date to meet, after the conclusion of the Audit Committee meeting.

It was also suggested the Chief Executive should be invited to the next meeting of the Audit Committee.

The Chair on behalf of the Committee thanked Mr Robert Patterson and Ms Sarah Bubb for their presentation.

#### 4.2 Whistleblowing – New policy and processes

Asmat Hussain, Corporate Director for Governance and Monitoring Officer accompanied by Mr Paul Greeno, Senior Corporate and Governance Lawyer and Holly Bell, Trainee Solicitor presented the Whistleblowing report.

Ms Bell explained that following a review undertaken by Grant Thornton UK LLP the Council had revised its whistleblowing policy and procedure. She asked Members to note the appendices which provided guidance for Managers and Investigators as well as the e-learning module, which members of staff will need to complete.

Ms Bell referred Members to point 3.10 in the report which provided statistical information on the number of Whistleblowing cases dealt with. Of the 105 concerns only 37 had fallen within the framework of the Whistleblowing policy, with 25 cases being investigated and closed and 12 outstanding.

Members of the Committee asked the following questions:

- As the Monitoring Officer, are you confident all concerns raised under whistle blowing are accurately recorded and investigated?
- Page 21, point 3.10 refers to the statistics. Is this benchmarked with other local Authorities?

- Often whistle blowers are scared of reporting incidents. How do we ensure they are protected?
- Need to ensure the whistleblowing policy is promoted throughout the Council. Page 33 makes reference to Councillors and states they can “report and pursue concerns reasonably believed to be in the public interest”. This sentence needs to be clearer as some Members may raise a whistleblowing case via a member enquiry.
- Who does the whistleblowing policy cover? Are sub-contractors and agency staff also included?
- **ACTION:** *Members AGREED to receive a quarterly update report on whistleblowing with anonymised case studies showing the types and nature of whistleblowing cases dealt with.*

The Committee **AGREED** the recommendations in the report and **NOTED**:

1. The revised Whistleblowing Policy, Procedure, Guidance for Managers and Guidance for Investigators at Appendices 1 to 4;
2. The proposed E-learning module at Appendix 5;
3. The Council’s proposed Action Plan for the implementation of a more effective whistleblowing framework and Appendix 6; and
4. That the Audit Committee will be the responsible committee for the oversight of Whistleblowing and will be asked to assess the effectiveness of the Policy as well as monitoring the implementation of the policy.

#### 4.3 Corporate Anti-Fraud Team Outturn 2016-17 report

Tony Qayum, Corporate Anti-Fraud Manager presented his report. He referred Members to page 81 of the agenda and the table which showed the notional savings made. He said 44 properties had been retrieved to a value of £11m. With regard to the Right to Buy Prevention, the team had exceeded the target and had already dealt with more than 12 cases. The overall figures for this year are positive and the team has recruited to most of the vacancies. There is one outstanding vacancy and the post will be re-advertised shortly.

Tony Qayum said he intended to make better use of data and data matching and had been working with the communication team to publicise the work of the Anti-Fraud team. He said there will be a campaign in January 2018 which will focus on Housing relating matters such as properties recovered from sub-letting and Blue Badge recoveries. He said the publicity would not only highlight the work of the team but will also present an opportunity for people to whistle blow and report more cases of fraud.

In reference to the previous item, Tony stated wider analysis was required to identify poor practice and highlight the work of the Anti-Fraud Team. His team would be working closely with the legal team to investigate whistleblowing in relation to anti-fraud.

Members of the Committee made the following comments and asked questions relating to the report:

- Can a breakdown be provided of Directorates, band and pay brackets showing the types and nature of whistle-blowing reported in relation to anti-fraud.

Members of the Committee **NOTED** the report.

#### **4.4 National Fraud Initiative 2016 Progress**

Tony Qayum, Corporate Anti-Fraud Manager stated the report provided an update on the National Fraud Initiative. He informed members the National Fraud Initiative was a bi-annual data matching exercise whereby all Local Authorities and some other government agencies match their data to prevent and detect fraud and error in their systems.

He referred members to page 86 of the agenda pack and point 5.5 and said the recovery of 26 blue badges was a positive outcome for the Council. He said his team were pursuing the 51 others identified and this would result in the Council recovering approximately £8k a year.

Members of the Committee made the following comments:

- Excellent to see the positive contribution made by the Anti-fraud team – Wholeheartedly agree the message needs to 'get out there' and the work being done with the Communications team. It is important to deter others from committing fraud, if we can.

#### **4.5 Treasury Management Mid-Year Report 2017/18**

Neville Murton, Divisional Director for Finance, Procurement and Audit presented the Treasury Management quarterly update report stating the report updated Members on the Council's borrowing and investment opportunities from 1<sup>st</sup> April 2017 to 30<sup>th</sup> September 2017. It provided a summary of the Prudential and Treasury indicators as well as information on the projected investment returns.

He said the Council had earned an average return of 0.53% on its lending, outperforming the rolling average 7 day LIBID rate of 0.11%.

Neville Murton referred Members to tables 2 and 3 on page 93 of the agenda pack and said the Corporate Finance team was working closely with Arlingclose – the Council's Treasury Management Consultant's to consider ways to improve investment returns taking into account risk appetite in addition to how the increase in the interest base rate will affect investments in the long term.

Mr Murton referred to the 'opt out' status under the MiFID process and referred Members to Appendix 4. Treasury Management was working closely with their advisors before continuing with investments.

Members of the Committee asked the following questions:

- In reference to LOBO's, what has been done to reduce the cost of these investments?  
*The interest rate on these products are 'fixed' unless the lender exercises their option to increase at which point the Council has the option to repay without penalty. However, in the current climate that is not expected to happen. The premia costs of redemption, in the absence of the lender option being exercised, was currently prohibitively expensive amounting to around 98% of original capital loan value. Increases in interest rate does improve the position but the recent modest rise will not have a significant impact. This is kept under review with the Council's advisers.*
- Are we achieving a good return for our investments?  
*The Council is meeting our advisers in the next week to look specifically at ways to improve our investment returns as part of the Council's MTFS.*
- In reference to lending to other Authorities - to whom are we lending money to?  
*The Council lends to other local authorities to support their cashflow needs; inter authority lending is relatively common as there is a clear understanding of the counterparty risk from those transactions.*
- In reference to page 108 – Canada seems a favourable country to invest. Is there a particular reason for this?  
*We will look into that aspect and report back to a future meeting of the Committee.*

Members of the Committee **NOTED**:

1. The contents of the treasury management activities and performance against targets for half year ending 30<sup>th</sup> September 2017;
2. The Council's outstanding investments which amount to £447.1m at 30<sup>th</sup> September 2017 (Appendix 2)
3. The potential impact on the Council of becoming a retail clients with effect from 3<sup>rd</sup> January 2018 as set out at section 3.7; and
4. The protections available to retail clients that the Council will forgo as a result of opting up to professional client (Appendix 4)

#### 4.6 Audit Forward Plan

Minesh Jani, Service Head for Risk Management referred Members to the forward plan and asked them to note the report.

He said at the next meeting the Committee would receive reports on the following topics:

- Quarterly Internal Audit Assurance report
- Updated Annual Internal Audit Plan -2017/18

- Anti-Fraud Update report
- KPMG Report
- Review of accounting policies
- Treasury Management Strategy and
- A risk presentation on Children's services

Members of the Committee **NOTED** the forward plan.

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

The meeting ended at 8.53 p.m.

Chair, Councillor Candida Ronald  
Audit Committee