

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.30 P.M. ON TUESDAY, 29 SEPTEMBER 2009**

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

**Members Present:**

Councillor Fazlul Haque (Chair)  
Councillor Stephanie Eaton (Leader Liberal Democrat Group)  
Councillor Clair Hawkins  
Councillor Denise Jones (Scrutiny Lead Member: A Safe and Supportive Community)  
Councillor David Snowdon

**Other Councillors Present:**

**Officers Present:**

Chris Naylor – (Corporate Director, Resources)  
Alan Finch – (Service Head, Corporate Finance, Resources)  
Minesh Jani – (Service Head, Risk Management)  
Jon Hayes – (District Auditor, Audit Commission)  
Sharon Martin – (Senior Audit Manager, Audit Commission)  
Tony Qayum – (Head of Audit Services, Internal Audit)  
Mike Clarkson – (General Manager, Deloitte and Touche)  
David Williams – (Development Manager, Development & Renewal)  
Anne-Marie Berni – (Team Leader Development Implementation Team Development and Renewal)  
Jamie Blake – (Service Head of Public Realm, Communities Localities and Culture)  
Toks Osibogun – (Head of Asset Management, Corporate Property Services)  
Kate Bingham – (Acting Service Head (Resources) Children Schools and Families)  
Kayren White – (Interim Head of Human Resources Adults Health and Wellbeing)  
Claire Symonds – (Service Head, Customer Access, Communities Localities Culture)  
Zoe Folley – (Committee Officer, Democratic Services Chief Executive's)

Please note that the order of business was varied by resolution of the Cabinet, however for ease of reference the decisions taken are set out below in the order detailed in the agenda.

### 1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Abjol Miah.

### 2. DECLARATIONS OF INTEREST

Councillor Fazlul Haque (Chair) declared a personal interest in agenda item (7.3) Revised Statement of Accounts 2008-09. The declaration was made on the basis that the report contained references to Tower Hamlets Homes and Councillor Haque was a member of the Tower Hamlets Homes Board.

Councillor Denise Jones declared a personal interest in the agenda item (7.3) Revised Statement of Accounts 2008-09. The declaration was made on the basis that the report contained references to:

- the Tower Hamlets Primary Care Trust (PCT) and
- Tower Hamlets Homes

And Councillor Jones was a non Executive Delegate for the Council on the PCT and a member of the Tower Hamlets Homes Board.

### 3. UNRESTRICTED MINUTES

**RESOLVED** that the unrestricted minutes of the meeting held on 29<sup>th</sup> June 2009 be approved.

### 4. DEPUTATIONS AND PETITIONS

None received.

At this point in the proceedings, Ms Zoe Folley (Committee Officer) read out a statement on behalf of the Council's Monitoring Officer regarding Agenda Item 6.1 (Tower Hamlets Annual Governance Reports 2008/09) as set out below:

"In respect of the Annual Governance Report of the District Auditor and the comments in relation to the departure of the former Chief Executive, I must remind Members that this is a public meeting and therefore discussion around the use of resources and general handling of the affair must be tempered by the obligations of the Code of Conduct and Confidentiality Rules as set out in the Constitution. Officers names must not be mentioned and neither must there be discussion about any payments made to officers or any confidential issues of a personal nature. In addition Members are required to keep confidential information they may have had at other restricted meetings. If the Committee are not minded to do this then they would have to move a resolution to go into a Part 2 meeting and exclude the members of the public and allow the District Auditor to remain for questioning but not for the debate".

## **5. MATTERS ARISING FROM PREVIOUS MEETINGS**

### **5.1 Feedback Presentations - Nil/Limited Assurance**

Mr David Williams (Development Manager, Development and Renewal) presented a feedback report on S. 106 Planning Obligations. Mr Williams reported that during the past 18 months, all of the outstanding recommendations made during the March 2008 Audit of the service had been addressed. The service had been audited again in May 2009 and the findings of this were awaited. Mr Williams reported on the sums currently held in the S. 106 account against a range of headings and projected spend for this year and that officers were working to secure further funding.

In reply to a question from Councillor Eaton regarding the role of the Planning Contributions Overview Panel (PCOP), Mr Williams reported on the steps being taken to strengthen its governance structure. A new Terms of Reference for the Panel had been approved at PCOP. The Panel had also started to receive reports as per the Audit recommendations that clearly linked mitigation with the development proposals. In relation to the Primary Care Trust, the majority of the planning proposals which triggered s106 contributions for the PCT were from residential development and the Council mainly negotiates for capital contributions towards the provision of the infrastructure. There was current funding set aside in the S. 106 account for health infrastructure that was now being allocated to projects.

In reply to further questions from Councillor Eaton and Snowdon about the remit of local S. 106 agreements, Mr Williams clarified that the S. 106 process was a legal process and the money is allocated and spent in accordance with the requirements in the legal agreements. In relation to the Millennium Quarter Agreement, the funding had to be spent in the two local wards it related to. This was a legal obligation.

In relation to agreements specifically on the Isle of Dogs including CrossHarbour developments, these were mainly larger s106 agreements and the funding was mainly but not exclusively restricted to the areas around the development in accordance with the legal agreement. The terms of agreements could be revisited, so long as the principles of mitigation in the original agreement were still met and all parties to the agreements agreed to the deed of variation.

Mr Toks Osibogun (Head of Corporate Property Services) presented a short update on the management of the Commercial Property Portfolio. Mr Osibogun reported that since the Audit of the service last year (January 2009), all the outstanding actions had been addressed and the service had been assigned substantial assurance. Councillor Eaton asked about progress in addressing rent arrears? In response, Mr Osibogun responded that although responsibility for rent areas did not fall under Asset Management, they were working with colleagues in Revenues to instigate a proactive

response by intervening early. Chris Naylor (Corporate, Director Resources) **Agreed** to make available statistics for rent arrears for circulation to Councillor Eaton.

**ACTION** Chris Naylor (Corporate, Director Resources).

**Resolved:** That the feedback presentations be noted.

## 6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

### 6.1 Tower Hamlets Annual Governance Reports 2008/09 - Council's Accounts and Pension Fund

Reasons for special circumstances and urgency **Agreed.**

Mr Jon Hayes (District Auditor) presented the Annual Governance reports. Mr Hayes anticipated that he would be able to give an unqualified opinion on the accounts on 30<sup>th</sup> September 2009.

He stated that in completing the audit work, he had identified two material misstatements. The Council undertook an asset verification exercise which identified that £120m of assets were incorrectly included in the previous year's balance sheet. This prior year error was incorrectly accounted for as an in-year adjustment rather than by re-stating the previous year's balance sheet. A long term debtor of £24.4m relating to PFI deferred consideration was incorrectly classified as a short term debtor. Management agreed to adjust the accounts in relation to these matters.

His work also identified non – trivial misstatements regarding Leaseholder Chargers and HMRC creditors that management had decided not to adjust. Details of these matters were set out in the Addendum tabled. Mr Hayes reported that the letter of representation included specific representations to seek assurance that the Committee was satisfied that the accounts were materially correct with regard to these items. A revised version of the letter including the unadjusted misstatements was attached to the Addendum for approval.

In relation to the Pension Fund Accounts, Mr Hayes reported that the audit had identified a number of misstatements as set out in page 8 of the report. He also reported that in considering the Annual Pension Fund Report, he identified a number of inconsistencies between the Pension Fund Annual Report and the accounts. Management had agreed to adjust the accounts and annual report in relation to these matters.

Mr Alan Finch (Service Head, Corporate Finance) reported that in relation to the unadjusted misstatements, the intention was to give further consideration to the amendments following the closure of the accounts and following this make any adjustments necessary in 2009/10.

**Resolved:** That the Governance Reports on the audit undertaken on the Pension Fund Accounts and the Council's Accounts for 2008/09 be noted.

**ACTION BY:** John Hayes (District Auditor, Audit Commission)

## 7. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

### 7.1 Internal Audit Annual Report 2008/09

Mr Minesh Jani (Service Head Risk Management & Audit) presented the report, drawing attention to the significant issues. The report was deferred at the last meeting of the Committee in June 2009.

The Audit Committee was asked to note the contents of the annual audit report and the summary of the audits undertaken. Overall Mr Jani reported that he was able to award a substantial level of assurance to the systems reviewed over the period.

Mr Jani reported that Audit Services had recently participated in a CIPFA benchmarking exercise and had also participated in a Peer Group Review with the London Borough of Redbridge.

In relation to a question about the Homelessness services audit, Mr Jani reported that this area had been assigned a substantial level of assurance as it was delivering its key objectives. However the issues around the lack of guidance for assessments would be addressed and given further consideration in future audits.

In relation to payroll, the Committee noted the need to ensure the systems of control in payroll were strengthened and that their records were kept up date.

In relation to the schools assigned nil assurance, the Committee questioned whether there were any common problems and whether additional training would help. Mr Jani confirmed that there were a number of generic issues and that a fuller report was being prepared by Audit and Children and Families Services which would capture the key issues and would be brought to the next meeting of the Committee.

Mr Mike Clarkson (Deloitte & Touche) confirmed that the standards for full assurance were very high but the Council's scores compared favourable to those achieved by other Boroughs.

Ms Kayren White (Interim Head of HR Adults Health and Wellbeing) presented a progress report on the sickness management follow audit which had been assigned a nil assurance rating in January 2009. Ms White reported on progress against the recommendations. Following the Audit, the then Corporate Director for Adults Health and Wellbeing wrote to all staff setting out the policy and monthly sickness absence monitoring reports were submitted to the Corporate Management Team. Ms White reported that her

service now implemented a range of new measures including data cleansing exercises to ensure sickness data was accurately recorded on time. Mr Naylor (Corporate, Director Resources) reported that the recommendations were performance managed and were being escalated to the Directors.

**Resolved:** That the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion be noted.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Minesh Jani (Service Head Risk Management)**

## **7.2 Quarterly Internal Audit Assurance Report April 2009 - August 2009**

Mr Minesh Jani (Service Head Risk Management & Audit) presented the report which summarised the work of Internal Audit for the period April 2009 to August 2009. The Committee was asked to note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.

In relation to the assurances assigned to Children's Services, Councillor Eaton sought assurances on the effectiveness of the measures in place for safeguarding children.

In reply Ms Kate Bingham (Acting Service Head, Resources, Children's and Families Services) reported that OFSTED had assessed the Children Looked After Service and had judged it as outstanding. She expressed certainty that the targets for visits had been met and were communicated to those responsible for carrying out the visits.

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

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Minesh Jani (Service Head Risk Management)**

## **7.3 Revised Statement of Accounts 2008-09**

Reasons for Special Circumstances and Urgency **Agreed.**

Mr Alan Finch (Service Head, Corporate Finance) presented the statement of accounts. He reported that a draft version of the Accounts was approved by the Committee in June 2009. Further minor amendments to Statements of Accounts had been agreed and these would be incorporated into the Final Statement of Accounts. A list of these changes was before the Committee.

**Resolved:** That the amendments to the draft statement of accounts previously approved, and the revised Statement of Accounts presented be noted and signed by the Chair of the Audit Committee.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Alan Finch (Service Head Corporate Finance)**

#### **7.4 Pensions Fund Annual Report 2008-09**

Reasons for Special Circumstances and Urgency **Agreed.**

Mr Alan Finch (Service Head, Corporate Finance) presented the Pension Fund Annual Report for 2008/09.

Councillor Eaton considered that the figure for the reduction in fund value of 18% referred to in the introduction should be revised upwards to 19% given the actual figure was 18.9%. Subject to this amendment, it was **Resolved** that the Pension Fund Annual Report for 2008/09 be noted.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Alan Finch (Service Head Corporate Finance)**

#### **7.5 Annual Anti Fraud Report 2008/09**

Mr Tony Qayum (Head of Audit Services) presented the report. The report provided the Committee with the results of reactive and Anti Fraud Work undertaken during 2008/09.

In relation to recent developments, Mr Qayum reported that Audit Services had developed an anti money laundering policy and a staff training programme which would be rolled out over the course of the year. The policy was also available on the Council's internet.

In response to questions, Mr Jani reported on recent discussions with Parking services aimed at improving performance.

**Resolved:** That the contents of the Annual Fraud Report 2008/09 be noted.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Minesh Jani (Service Head Risk Management)**  
                                  **Tony Qayum (Head of Audit Services)**

#### **7.6 Anti Fraud and Corruption Strategy Red Book 2**

Mr Tony Qayum (Head of Audit Services) presented the report highlighting the key points.

Mr Jani reported that the Council was currently working with Housing Associations and other London Boroughs with the aim of developing a more robust approach to tackling tenancy fraud. An update on this would be provided at the next meeting.

**RESOLVED:** That the contents of the report be noted.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Minesh Jani (Service Head Risk Management)**  
                                  **Tony Qayum (Head of Audit Services)**

**8.    TREASURY ACTIVITY FOR PERIOD ENDING 31ST MAY 2009**

Mr Alan Finch (Service Head, Corporate Finance) presented a report regarding Treasury Activity for the period ending 31<sup>st</sup> May 2009, highlighting the salient points within.

In reply to questions, Mr Finch reported that the aim of the strategy was to optimise returns whilst taking appropriate account of risks. The majority of the Council's funds were invested in UK institutions. The current position was fully compliant with the investment strategy agreed by the Council in March 2009. It was also **Agreed** that the report for Treasury Activity during the latest quarter be circulated to the Committee.

**ACTION: Alan Finch (Service Head Corporate Finance)**

**RESOLVED:** That the contents of the report be noted.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Alan Finch (Service Head Corporate Finance)**

The meeting ended at 9.15 p.m.

Chair, Councillor Fazlul Haque  
Audit Committee