

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 6.30 P.M. ON THURSDAY, 11 APRIL 2019**

**COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE**

**Members Present:**

Councillor Val Whitehead (Chair)  
Councillor Tarik Khan  
Councillor James King  
Councillor Victoria Obaze  
Councillor Kyrsten Perry  
Councillor Bex White  
Councillor Andrew Wood

**Other Councillors Present:**

**Apologies:**

Councillor Puru Miah  
Kevin Bartle  
Jonathan Gooding

**Officers Present:**

Kevin Miles	– (Chief Accountant, Resources)
Tony Qayum	– (Anti-Fraud Manager, Risk Management , Resources)
Anthony Sotande-Peters	– (Interim Strategic Risk Advisor, Risk Management and Audit)
Steven Tinkler	– (Interim Head of Business Support)
Christine McInnes	– (Divisional Director, Education and Partnership, Children's)
John O'Shea	– Support and Learning Service, Early Years
Farhana Zia	– Senior Committee Officer

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Councillor Val Whitehead declared she is a trustee and treasurer of Toyhouse libraries, which receives some grant funding from the council. However she does not have any pecuniary benefit from it.

Councillor Bex White declared she is a trustee at the Canaan Project which works with Schools in Tower Hamlets. However she does not have any pecuniary benefit from it.

Councillor Kyrsten Perry declared she works for the East End Community Foundation. She works on the development and fund raising side of the organisation.

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

The minutes from the 31<sup>st</sup> January 2019 meeting were agreed and approved to be an accurate record of the meeting save for one amendment on Page 15 of the agenda pack:

### Item 5.2 – Risk Management Report Q3

The action point should state:

**ACTION:** Members agreed the Committee should continue to receive the Corporate Risk Register and Members should also receive directorate level registers for information outside of the Committee meeting itself.

#### Matters arising

Councillor King queried if the information relating to Christchurch had been shared with the members of the Committee. Mr Sotande-Peters confirmed an email was sent on the 27<sup>th</sup> February 2019 to all members of the Committee.

Councillor Val Whitehead enquired if the information asked for under matters arising at the last meeting, in relation to HR had been resolved. Following discussion, the Chair requested a representative from HR attend the next meeting of the Audit Committee to provide an explanation with regard to the number of consultants employed by the Council.

Mr Qayum updated Members with regard to the action point at 5.1, Page 11 of the agenda pack. He said he had made enquiries with the NFi and that a presentation would be made at a future meeting of the Audit Committee.

## 3. KPMG ITEMS FOR CONSIDERATION

Mr Kevin Miles, Chief Accountant presented this report on behalf of KPMG. He said the report summarised the results of the work KPMG had undertaken looking at the Council's 2017/18 grant claims and returns.

Mr Miles referred Members to pages 24 and 25 of the agenda and said the external auditors had certified one claim under the Housing Benefit Subsidy which had a value of £225.4 million. He said there had been a discrepancy of £78k which did not affect the overall benefit subsidy payable to the Council.

Mr Miles also informed Members the Teachers' Pension Return showed nominal errors amounting to £185 and that the Auditors were comfortable with the receipts. He stated the Auditors did not have any major concerns regarding the Grants return.

In response from questions from Members the following was noted:

- Mr Miles confirmed Deloitte were the Council's external auditors, replacing KPMG.

Members of the Committee **RESOLVED** to **NOTE** the report.

#### **4. DELOITTE ITEMS FOR CONSIDERATION**

##### **4.1 LBTH Audit Planning Report**

Both the Audit Planning Report and the Pensions Fund report from Deloitte were considered together. See below.

##### **4.2 LBTH Pensions Fund**

Mr Angus Fish, from Deloitte's presented the Audit Planning and the Pensions Fund report.

He said both reports set out the scope of the work and the legislation which governed their work. Mr Fish said the Audit Plan set out the significant risks they had identified, and referred Members to pages 29 and 30 of the agenda pack.

He said the Pensions fund report followed a similar format and formed part of the Statement of Accounts identifying the significant risks.

In response to questions from Members the following was noted:

- In reference to page 31, Mr Fish explained that the 2% rate used for determining materiality was the sector norm. He said for an organisation such as the Council, it had a relatively high capital resource and less varying spend. Councillor Wood disagreed and said £25M for materiality was set too high.
- In reference to page 40, Risk 3 – Management override of controls, the Chair asked Mr Fish to explain how real the risk was. Mr Fish stated this related to management overriding controls, to present a more favoured financial picture. For example the manipulation of journals posted on the accounting system with a manual journal giving a different answer. Mr Fish said that with estimates there was no one answer but a range of answers and management may exert some bias to look at individual estimates rather than a reasonable range.
- Councillor Wood asked if the London CIV (Collective Investment Vehicle) for Pensions was also part of external Audit's remit. Mr Fish stated a separate team would look at the value of the CIV and the methodology behind every different type of investment.
- Mr Fish stated that narrative reports were the norm for Local Government and the reports provided for the Audit Plan and the Pensions Fund and the risks identified would be further examined and reported on as part of the Statement of Account which will be published at the end May. Mr Fish said further comments from the Audit

Committee would be included before the publication of the accounts in July.

Members of the Committee **RESOLVED** to **NOTE** the reports from Deloitte with regard to the Audit Plan and the Pension Fund.

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

### **5.1 Internal Audit and Anti-Fraud Progress Report**

Mr Steven Tinkler, Interim Head of Audit and Risk Management, introduced this report stating that the report provided an update on the progress made against the delivery of the 2018-19 Annual Audit Plan, as well as the current counter fraud performance and audits which have received limited assurance ratings.

Mr Tinkler referred Members to paragraph 4.7 in the report and highlighted BDO, the external audit partner, had completed 13 school audits. In addition he stated PricewaterhouseCoopers had completed a one-off review looking at Tower Hamlets Homes move to Boatmans house.

Paragraphs 5.1 to 5.4 highlighted the work for the counter-fraud team and the successes they had achieved.

In response to questions from Members the following was noted:

- The number of properties recovered under Social Housing Fraud is 54, two more than the previous year. A higher target has been set for the following year. Data sharing within the organisation and other authorities has resulted in a higher number of referrals. Mr Qayum informed Members Tower Hamlets had a high rate of performance in this area. Referrals are triaged and where evidence is found the anti-fraud team investigates further.
- In response to if the Anti-fraud team had sufficient resources to investigate fraud and its timeliness, Steven Tinkler informed Members the investigation timeframe was being looked at. A new case management system was being procured which would allow the team to provide targeted information and performance reports. Mr Qayum informed Members the Council had a dedicated resource of 2FTE to investigate blue badge fraud, which many other local authorities did not.
- Mr Tinkler added that the Blue Badge replacement scheme will mean more people will qualify for a Blue Badge and the outcome of 175 badges seized is the best figure the team had achieved in some years. Tower Hamlets had a zero tolerance policy in relation to Blue Badge fraud.

- In relation to the 60 residents' permits that were cancelled, Mr Qayum explained these were due to people mis-using permits when they do not live in Tower Hamlets.
- Regarding the issue of stolen Blue Badges, Mr Qayum explained a new 'white badge' scheme would be introduced and that discussion was taking place with Parking Enforcement on what this would entail.
- Members congratulated the Anti-Fraud team on the successes they had achieved.

### **Control and Monitoring of Purchase Cards – Follow Up Audit**

Mr Steven Tinkler provided the Committee with an update on behalf of Mr Kevin Bartle who had given his apologies for the meeting.

Mr Tinkler stated the issue with Purchase Cards was due to the lack of organisational discipline which had led to a potential abuse of credit cards. Over time the number of people with access to Purchase Cards had been reduced and the compliance/control function has been absorbed within the procurement team. Mr Tinkler said there would be an improvement in this area and the risk of fraud was low.

In response to questions from Members the following was noted:

- The Purchase Cards had a limit of £500.
- The situation with Purchase Cards was particularly bad about two years ago when the audit of Youth Services showed the abuse of credit cards and the lack of control within the department.
- There will be a follow up audit in six months of this report.

### **Special Education Needs and Disability (SEND) – Follow Up Audit**

Christine McInnes, Service Head for Education and Partnerships stated she welcomed the internal audit report and the recommendations therein. She said the two high priority recommendations had not been implemented due to issues with the migration and testing of the new IT system. She explained the SEND service had undergone a restructure and the budget was stretched. Staff were focussing on increasing the KPI for Education and Health Care Plans. The Council had a low performance rate of 28% when the national average was 65%.

Ms McInnes stated the priority was to improve performance. New procedures and systems had been put in place to ensure the timely completion of the Care Plans. She said her team would continue to implement the recommendations of the audit report.

In response to questions from Members the following was noted:

- The SEND team dealt with approximately 400 assessment requests, with 320 new plans issued in 2018.
- There are 2,900 live plans on the system.
- The migration of data to the IT system had proved challenging however staff training in using the new system is ongoing.

The Chair thanked Ms Christine McInnes and Mr John O'Shea for attending the meeting.

The Committee **RESOLVED** to:

1. **NOTE** the contents of the report and took into account the assurance opinion assigned to the systems reviewed during the period.

## 5.2 Proposed Internal Audit and Counter Fraud and Corruption Strategy / Plan 2019-20

Mr Steven Tinkler, Interim Head of Audit and Risk Management introduced this report stating that the report outlines the combined Internal Audit and Counter Fraud Plan for 2019-10. Mr Tinkler said the plan had been developed in consultation with the Corporate Leadership Team and his knowledge of the organisation. The Plan highlighted five to six areas and had a more strategic outlook. Mr Tinkler said there was a mix of strategic reviews, transformation activities and projects.

One of the key values the strategy wants to embed is Internal Audit's involvement in the design of a project. He said the Audit Team could provide assistance with the board scope of a project and provide risk opinion on projects.

In response to questions from Members the following was noted:

- The counter-fraud strategy follows the 'Enfield' model whereby the London Borough of Enfield were given £30M over two years by government to develop a single investigation service, as some of the functions and monies had moved to the DWP. The Enfield model introduced new innovative ways to counter-fraud measures and is the standard promoted by CiPFA. All fraud risks are scored with and without controls and the work has been standardised.
- In response to how Internal Audit is perceived within the organisation, Mr Tinkler said the peer review by Kent County Council made several recommendations regarding how the Council's Audit process could be improved and the strategy incorporated these recommendations.
- Mr Tinkler gave an example of how Internal Audit had highlighted concerns in relation to Children's Services however the recommendations were ignored until the Ofsted inspection verdict. Since then the profile of the Audit function within the Council had vastly improved. Mr Tinkler stated he had weekly meetings with the Portfolio

Lead for Resources and the Corporate Leadership Team and was working with colleagues across the organisation to embed the strategic values of internal audit.

- **ACTION:** The Kent County Council peer review recommended the appointment of an Independent expert on to the Committee and this should be pursued.
- In reference to page 101, paragraph 7.2.4 Members recommended the referral of counter-fraud to the police should be strengthened to avoid delays in prosecuting.
- In reference to the Internal Audit Plan – pages 107 to 126, Mr Tinkler confirmed the number of days to be spent on each Audit had not been stated, primarily because the scope of the work is more important rather than the number of days it will take,

The Committee **RESOVLED** to

**AGREE** the proposed combined Internal Audit and Counter Fraud Plan for 2019-20 and the Internal Audit Charter.

### 5.3 Q4 Risk Management Update 2018-19

Mr Anthony Sotande-Peters, Interim Strategic Risk Advisor introduced this report stating that the purpose of the report was to inform Members of the ways in which risks are identified and managed. The report provided a summary of risk activities over the fourth quarter 2018/19 and appended at Appendix 1 was Corporate Risk Register.

At the request of the Committee, the risk registers for each Directorate were also included.

In response to questions raised by the Committee the following was noted:

- The risk preparation around Brexit and its impact was dynamic and fluid. The Council had worked to ensure EU workers had settled status and was now preparing for the EU elections which are likely to go ahead on the 23<sup>rd</sup> May. Mr Sotande-Peters reassured Members the short, medium and long term risks for a 'no deal' or 'soft' Brexit had been given consideration. He said colleagues in the Strategic, Policy and Performance team were driving this piece of work, giving consideration to all the different scenarios.
- Councillor Wood expressed concern that issues such as complaints, the removal of asbestos, the infrastructure funding gap and the recycling rate were not on the risk register. He said he was aware the waste management contract was being brought back in house, but this did not appear on the register. Councillor Wood also enquired about the risks concerning the development of the new Town Hall in Whitechapel.

- **ACTION:** Mr Sotande-Peters confirmed there was a separate risk register in relation to the Town Hall Development and said he would circulate this to the Members of the Committee.
- In relation to the Waste Management Contract Mr Sotande-Peters said the Public Realm team had been working on the perceived risks. He said they had an action plan in place to mitigate against the risks. Councillor King suggested the risks identified as part of the current contract with Veolia should be used to future proof risks going forward.

The Committee **RESOLVED** to **NOTE**:

1. The corporate risks and recommend changes and updates as necessary.
2. Request risk owner(s) with risks requiring further scrutiny provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at its next meeting.
3. Ensure that an effective risk management framework is in place within the council and leading the council to be risk mature, dynamic risk organisation.

#### **5.4 Treasury Management Quarterly Update Report (Oct 2018 - Dec 2018)**

Mr Kevin Miles, Chief Accountant Corporate Finance presented the report and stated the report included an update on the treasury management activity for the period 1<sup>st</sup> October 2018 to 31<sup>st</sup> December 2018.

He said the Councils investments were set out in Appendix 1 and the balance outstanding at the end of December was £387.90m, which included £10m pension fund awaiting investment. Mr Miles said that internal investments had outperformed the benchmark, however market uncertainties and negative investment performance of external funds was a concern however these losses had largely reserved in the quarter to March.

Mr Miles said the Corporate Director for Resources, Mr Murton and the Divisional Director for Finance, Mr Bartle had a meeting with Arlingclose, the external investment advisors to discuss the investment strategy. Due to marker uncertainty, only 76m rather than the planned 100m had so far been invested in external funds. The position will be kept under review and subsequently reported upon.

In response to questions the following was noted:

- The £10m pension fund cash balance awaiting investments is held in a money market fund, pending possible investment. It is earning interest.

The Committee **RESOLVED** to **NOTE**



1. The contents of the treasury management activities and performance against targets for quarter ending 31<sup>st</sup> December 2018; and
2. The Council's investments as set out in Appendix 1. The balance outstanding as at 31<sup>st</sup> December 2018 was £387.90m which includes £10m, pension fund cash awaiting investment.

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

The Chair, Councillor Val Whitehead asked Members and Officers to note the Audit Committee dates for the new municipal year. In particular she pointed out the first meeting would be on the **23<sup>rd</sup> July 2019** and not June as previously quoted on the municipal calendar.

Mr Steven Tinkler informed Members that following the Finance restructure, Mr Paul Rock from Kent County Council had been appointed to the Head of Internal Audit and Risk Management post and as such this would be his last meeting.

On behalf of the Committee, the Chair thanked Mr Tinkler for the work he had done and wished him the best for the future.

The meeting ended at 8.23 p.m.

Chair, Councillor Val Whitehead  
Audit Committee