

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT TIME NOT SPECIFIED ON THURSDAY, 14 NOVEMBER 2019

C3 - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Val Whitehead (Chair)

Councillor Marc Francis

Councillor Ayas Miah

Councillor Kyrsten Perry

Councillor Andrew Wood

Councillor Bex White – Substituting for Councillor Mufeedah Bustin

Other Councillors Present:

Councillor Candida Ronald – Cabinet Member for Resources and the Voluntary Sector.

Apologies:

Councillor Abdal Ullah (Vice Chair)

Councillor Mufeedah Bustin

Councillor Ehtasham Haque

Others Present:

Angus Fish

– Deloitte

Jonathan Gooding

– Deloitte

Officers Present:

Kevin Bartle

– Interim Divisional Director of Finance, Procurement and Audit

Runa Basit

– (Head of School Governance & Information)

Tim Harlock

– Interim Chief Accountant

Roger Jones

– (Head of Revenues)

Bharat Mehta

– (Audit Manager)

Neville Murton

– Corporate Director of Resources

Tony Qayum

– (Anti-Fraud Manager, Risk Management, Resources)

Paul Rock

– (Head of Internal Audit, Anti-Fraud and Risk)

Brian Snary

– Financial Accountant - Resources

Anthony Sotande-Peters

– (Interim Strategic Risk Advisor, Risk Management and Audit)

Farhana Zia

– Senior Committee Services Officer

1. **DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Councillor Bex White declared she is a trustee for a charity in Tower Hamlets which receives grant money but she had no pecuniary benefit from it.

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.

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

The minutes from the 23rd April 2019 meeting were agreed and approved to be an accurate record of the meeting.

3. **DELOITTE ITEMS FOR CONSIDERATION**

There were no items for consideration from Deloitte's, who were present at the meeting.

They were invited by the Chair to comment upon the progress report presented to Committee Members in relation to item 4.8.

4. **TOWER HAMLETS ITEMS FOR CONSIDERATION**

4.1 **Updated Terms of Reference - Audit Committee**

Ms Farhana Zia, Senior Committee Officer stated the terms of reference for the Audit Committee had been updated to show the Committee may choose to appoint an Independent Person (IP) to advice and support the Committee.

Members were asked to note the updated terms of reference for the Committee.

Members of the Committee **RESOLVED** to:

1. Note the updated Terms of Reference as set out in appendix 1 of the report.

4.2 **Internal Audit and Anti-Fraud Progress Report**

Mr Paul Rock, Head of Internal Audit, Fraud and Risk introduced this report stating that the report provided an update on the progress made against the delivery of the 2019/20 Annual Internal Audit Plan, as well as the current counter fraud performance and audits which have received limited assurance ratings.

Mr Rock said written responses had been obtained from Service Heads who were unable to attend the meeting and these had been circulated to members. Ms Runa Basit, was present to answer questions in relation to the limited assurance attained by the Guardian Angels School and Mr Roger Jones was present for questions relating to the Debtors Systems Audit.

Mr Rock referred Members to paragraph 3.18 and said the recruitment of an independent person was underway with shortlisting and interviews occurring in November 2019. Mr Rock said he hoped the independent person would be in place by the Committee's January meeting.

In response to questions from Members the following was noted:

- **Guardian Angels School** - The executive headteacher appointed to the Guardian Angels School, is the headteacher of St Anne's school. This is the school proposed to merge with Guardian Angels. Members questioned if the merger was appropriate given the financial circumstances of the school and the possible risk of debt to St Anne's. Ms Basit responded stating the Diocese of Westminster had been consulted and the proposed amalgamation was not the sole decision of the Local Authority. The matter was out for consultation and any merger would be dependent on the findings of the consultation. The Council had reviewed the recommendations in the audit report with the Tower Hamlets Education Partnership to identify learning for the wider system. There were triggers in place to ensure financial standards were robust and adhered to by all schools but this was an exceptional case.
- **Client Monitoring of Fire Safety in Residential Dwellings** – a written response had been provided by Ms Karen Swift, Divisional Director for Housing and Regeneration, with a promise a further update would be given to the Committee at the next meeting.
- **Management and Control of Electronic Parking Income** – a written response had been provided by Mr Dan Jones, Divisional Director for Public Realm, with a promise a further update would be given to the Committee at the next meeting.
- **Request for Quotation (RFQ) system** – Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit stated that the Procurement team had achieved a substantial rating in terms of procedure and process however the issue lie with the Directorates and their management of tendering contracts. Mr Bartle said the Procurement Board was meeting next week and he would ask that this matter be raised with Corporate and Divisional Directors. The Chair requested the Chief Executive should reinforce the message of using the RFQ system.
- **Debtors Systems Audit** - Mr Roger Jones, Head of Revenue Services said the disparity between the value of invoices raised and the collection rate was an issue his department had been working hard to rectify. The hope was to centralise the income system and replace Agresso, but no decision had been made regarding which system to replace it with. Work was on-going to consolidate the Adult Social Care system to align with the current system and to reduce the amount of mismatched invoices and raise collection rates. Members queried why an overpayment was written off as 'unenforceable' and were informed this was a coding error.

- **Right to Work Compliance** - a written response had been provided by Mr Steven Tinkler, Interim Head of Business Support. In response to questions from Members, Mr Neville Murton, Corporate Director for Resources clarified the responsibility of this check was now with the Business Support Hub which had been set up approximately a year ago.

The Committee **RESOLVED** to:

1. Note the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. Note the outcome of the self-assessment against the Public Sector Internal Audit Standards and the associated action plan.
3. Approve the Council's revised and prioritised internal audit plan for 2019/20.

4.3 Revised Head of Internal Audit Annual Report 2018/19

Mr Paul Rock, Head of Internal Audit, Fraud and Risk introduced the revised Head of Internal Audit Annual Report 2018/19. Mr Rock stated the revised report gave an updated opinion on the governance processes within the Council and internal controls.

Mr Rock referred Members to paragraph 3.7 and 3.8 which stated the changes he had made to his initial report.

Members had no questions in relation to this report.

The Committee **RESOLVED** to:

1. Note the content and opinion of the Head of Internal Audit as outlined within the Head of Internal Audit Annual Report which includes a summary of the work undertaken during 2018/19.

4.4 Annual Review of Anti-Bribery Policy

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Annual Review of Anti-Bribery Policy. Mr Rock informed Members the Audit Committee were required to annually review the Council's Anti-Bribery policy which had been updated. Minor changes to reflect the ownership, contact details and web links to external sites had been made.

In response to questions from Members the following was noted:

- Members requested the policy should explicitly state when fraud should be reported to the Police. Mr Rock responded stating that the policy informs on how anti-bribery should be tackled however he would look at benchmarking and amending the over-arching fraud strategy, to ensure this was robust.

The Committee **RESOLVED** to:

1. Review and Approve the updated Anti-Bribery Policy.

4.5 Q2 Risk Management Update 2019/20

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 second quarter 2019/20 and appended at Appendix 1 was the Corporate Risk Register. Appendix 2 referred to the Risk Management Strategy for 2015-2020 and Appendix 3 was the detailed summary of the corporate risks

Mr Sotande-Peters referred members to page 169 and said risk CSDSC0014 was being reviewed by the Corporate and Directorate leadership teams.

In response to questions from Members the following was noted:

- Members expressed concern some of the risks required more detail. For example, page 132 and the transfer of the Veolia contract. Members said they'd like to see more detail on this. In response Mr Sotande-Peters said the corporate risk had been reviewed by the Corporate Leadership Team and changes had been made to the register.

The Committee **RESOLVED** to:

1. Note 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 council to be a risk mature, dynamic risk organisation.
4. Note that the Council has in place a formally approved risk management strategy which is subject to annual review. The strategy sets out the corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations in order to ensure opportunities are seized and delivered.

4.6 Annual Risk Management Report 2018/19

Mr Anthony Sotande-Peters stated the Annual Risk Management Report 2018/19 provided an assessment of the key risks facing the Council and its community and showed how the risks were being effectively mitigated.

Members were asked to note the report, in light of discussion taking place under item 4.5.

The Committee **RESOLVED** to:

1. Note the Annual Risk Management Report 2018/19.

4.7 Updated Draft Annual Governance Statement

Mr Paul Rock, Head of Internal Audit, Fraud and Risk introduced the report and said he had reviewed and updated the Annual Governance Statement for 2018/19 in light of the on-going audit of the Council's Statement of Accounts and comments made by Members at the last meeting Audit Committee. He had reflected on the Statement and had undertaken a benchmarking exercise as well as written to the Directorates to ensure the statement was reflective of the governance processes in place at the Council. Mr Rock said the draft Annual Governance Statement would be signed off when the Annual Accounts are approved.

In response to questions for Members the following was noted:

- In reference to pages 250/251 of the agenda, Members were of the view that stakeholder engagement was not strategic in its application. There were examples where consultations had been done badly and suggested stakeholder engagement needed to be strengthened.
- **ACTION:** Members recommended Mr Rock to consult with the Chair of the Overview and Scrutiny Committee, Councillor James King in relation to consultations and strategy formulation.
- Councillor Marc Francis expressed the need to strengthen the governance arrangements in the Council and said these needed to be referenced in the Statement. He referred to the waste contract and said this illustrated there were problems with how the Council manages its contracts with big companies.

The Committee **RESOLVED** to:

1. Review and comment on the draft 2018/19 Annual Governance Statement and Action Plan attached at Appendix 1.

4.8 Statement of Accounts - Progress Update

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit presented the progress report in relation to the external audit of the Council's Statement of Accounts 2018/19.

The order of business was changed to take this item first on the agenda, to allow Deloitte, the external auditors, to also comment upon the accounts.

Mr Bartle stated officers within his team were taking matters very seriously and were working tirelessly in order to assist with queries arising from the audit of accounts, with the external auditors Deloitte. He said the original intention had been to bring the accounts to an extraordinary meeting of the

Committee planned for the end of September, however with significant audit matters outstanding this meeting had to be cancelled.

Mr Bartle said the report detailed the issues outstanding and said until the significant issues had been resolved, Deloitte were not in a position to sign off the accounts. Mr Bartle expressed regret the issues were taking longer than expected to resolve however he hoped to bring a further report and the revised Statement of Accounts to the Audit Committee's January 2020 meeting, although he emphasised this could not be guaranteed.

Mr Bartle said the exercise to resolve queries was resource intensive and there were significant areas of challenge. Mr Bartle referred Members to the information tables at paragraphs 3.2 to 3.8 which provided a detailed breakdown of the significant issues outstanding. Mr Bartle provided an explanation concerning each sub-heading and updated Members in relation to the current position.

- In relation to the valuation of property assets, Mr Bartle said Deloitte were not content with the methodology used by the external valuers and changes would therefore needed to be made to the value of assets on the balance sheet.
- In respect to the Capital expenditure, no outstanding queries were identified other than an under-accrual of expenditure of £3.4m.
- Queries in relation to Pension Liabilities and lump-sum payment to Pension Fund were more of a technicality than a substantive error. There was an inconsistency of treatment and an adjustment may need to be made to this year's accounts.
- Collection Fund Related items – Mr Bartle explained work was required to establish why a number of previous year entries had been made, which now appear to be erroneous. Mr Bartle said the entries should properly have gone through the Collection Fund but instead were treated as general fund balances. As such this anomaly will be corrected and then be reflected in the revised accounts.
- In regard to the low level of provision against Business Rate appeals query, Mr Bartle said the range of appeals provisions across London Boroughs ranged from 2% to 6%, however Tower Hamlets provision had been set at 0.2%. This is clearly too low with the consensus being we should be in the range of 2 - 6%. It is being proposed the rate should be increased to 2% with the expectation this should increase over subsequent years to achieve a 4% level.
- In respect to paragraph 3.7, Mr Bartle said the suggestions put forward by Deloitte had been incorporated in the next version of the accounts.

- In reference to paragraph 3.8, Mr Bartle informed Members extensive work had been done to look at leaseholder accruals. Work was also being undertaken on bad debt provision as well as grants accounting.

The Chair invited Mr Jonathan Gooding from Deloitte to comment upon Mr Bartle's report and assessment of the current position relating to the financial accounts.

Mr Gooding said he concurred with the assessment Mr Bartle had made and said whilst there were still issues that needed to be resolved, significant progress had been made since the last meeting of the Audit Committee. Mr Gooding said his team would continue to work with the Council to ensure the Accounts could be presented to the Committee at its next meeting.

The Chair, Councillor Val Whitehead then invited Councillor Candida Ronald, Cabinet Member for Resources and the Voluntary Sector, to comment on the Accounts. Councillor Ronald said that she had been in regular meetings with Mr Neville Murton, Corporate Director for Resources and with Mr Kevin Bartle looking in great detail at the issues and how these can be mitigated. Councillor Ronald said she understood the concern of the Audit Committee but was confident the issues would be worked through and a set of accounts would be presented to the Committee at its next meeting.

Mr Bartle answered a number of detailed questions from Members relating to the significant items outstanding. In response to the answers provided Members noted the following:

- Some members expressed their concern regarding the delayed submission of the accounts and the reputational damage to the Council. Others were more positive stating it was good these issues had come to light and the Council was working towards putting them right.
- Councillor Candida Ronald added this was a serious matter and used the analogy of peeling an onion, in terms of the issues found. She said this would have a knock-on effect on budget setting and outturn however it was better for the Council to uncover these issues and thoroughly work through them to close the accounts for 2018/19. Councillor Ronald stated a lessons learnt exercise would be carried out to establish what went wrong.

The Chair, Councillor Val Whitehead thanked everyone involved in resolving the issues with the accounts and said she hoped the accounts would be ready for the next meeting as promised.

The Committee **RESOLVED** to:

1. Note the progress made on the points raised by Deloitte in their report to the Committee on 23rd July 2019; and
2. Note the emerging matters since that last report.

4.9 Treasury Management Mid-year Report for 2019/20

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit presented the Treasury Management Mid-Year report for 2019/20. Mr Bartle said the council's investments were compliant in all areas and referred Members to paragraph 3.7 of the report which gave a breakdown on how the council's investments were compliant with the CIPFA Code of practice and the Council's Treasury Management Strategy Statement.

He said the investments made were reviewed with the Council's advisors Arlingclose and as at the half year stage the investment portfolio had delivered 1.60% return outperforming the average for 12 London Boroughs and Metropolitan Borough return of 1.14%.

In response to questions from Members the following was noted.

- In reference to the table at Appendix 1, page 293, it is difficult to see how the figures have been derived.
- **ACTION:** Members suggested the format of the report should change to include more charts rather than a narrative.

The Committee **RESOLVED** to:

1. Note the contents of the report on treasury management activities and performance against targets for the half year ending 30th September 2019; and
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 30th September 2019 was £307.250m.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Councillor Wood made reference to a recent case of housing fraud and the successful conviction of a former councillor. Mr Neville Murton responded to say the Council would be releasing a press release on the matter.

5.1 AUDIT WORK PLAN 2019/20

Members of the Committee were asked to note the Committee's work plan for the remainder of the year.

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit, pointed out the Deloitte item referring to the Annual Audit letter should be moved to the April meeting, as the Accounts had not been signed off.

Mr Paul Rock, Head of Internal Audit, Fraud and Risk said the Draft Annual Governance Statement would come back to the Committee at its next meeting in January 2020, for approval with the Statement of Accounts for 2018/19, subject to completion of the audit of accounts as outlined earlier.

Mr Paul Rock also informed Members the Anti-Money Laundering Policy report would come to the January meeting.

The Chair, Councillor Val Whitehead asked the changes stated above be noted in the updated work plan for the committee.

The Committee **RESOLVED** to:

1. Note the changes to the Committee's work plan and items scheduled for the remaining meetings in the municipal calendar.

The meeting ended at 8.24 p.m.

Chair, Councillor Val Whitehead
Audit Committee