

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 28 JUNE 2011

**ROOM M71, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Khaled Uddin Ahmed
Councillor Craig Aston
Councillor Stephanie Eaton
Councillor David Edgar
Councillor Denise Jones

Other Councillors Present:

None

Officers Present:

John Chilton	– Head of Parking Services
Mike Clarkson	– General Manager, Deloitte and Touche
Peter Hayday	– Interim Service Head - Financial Services Risk & Accountability
Jon Hayes	– District Auditor, Audit Commission
Minesh Jani	– Service Head Risk Management
Kevin Miles	– Chief Accountant, Resources
Chris Naylor	– Corporate Director, Resources
Richard Parsons	– Service Head Procurement and Corporate Programmes
Tony Qayum	– Head of Audit Services
Oladapo Shonola	– Chief Financial Strategy Officer
Les Warren	– Director of Finance and Customer Services, Tower Hamlets Homes
John S. Williams	– Service Head, Democratic Services

Councillor Carlo Gibbs in the Chair

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. APPOINTMENT OF VICE - CHAIR

The Chair nominated Councillor David Edgar to serve as Vice-Chair of the Committee. This was seconded by Councillor Denise Jones.

No other nominations were made and it was:-

RESOLVED

That Councillor David Edgar be appointed as Vice-Chair of the Audit Committee for the remainder of the Municipal Year 2011/12 or until a successor is appointed.

4. UNRESTRICTED MINUTES**RESOLVED**

That the minutes of the meeting of the Audit Committee held on 22nd March 2011 be agreed as a correct record and the Chair be authorised to sign them accordingly.

5. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP

The Committee considered a report of the Assistant Chief Executive, circulated with the agenda papers, which set out the terms of reference, membership, quorum and dates of meetings of the Audit Committee for the municipal year 2011/12.

RESOLVED

That the Committee note its terms of reference, membership, quorum and dates of future meetings as set out in Appendices 1, 2 and 3 to the report.

6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**6.1 Progress report June 2011**

The Committee considered a report of the District Auditor, circulated with the agenda papers, which provided an update on progress in delivering the 2010/11 audit plan and in planning the 2011/12 audit. The report also identified a number of national emerging issues and developments.

Mr Jon Hayes, District Auditor, introduced his report and highlighted a number of key points. Work on the 2010/11 opinion audit was progressing well and

Mr Hayes was confident that the issues that had arisen last year resulting in late publication of the opinion would not recur this year.

The Auditors' initial plans for the 2011/12 audits of the Council and its Pension Fund were set out in letters to the Chief Executive in March 2011 as appended to the report.

Mr Hayes also updated the Committee on the Government's plans regarding the future of the Audit Committee. These would see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money; and the transfer of the existing in-house Audit Practice to the private sector (via a bidding process that would result in either the TUPE transfer of staff to private sector firms or the establishment via an in-house bid of a new employee-owned or mutual organisation) from 2012/13 onwards.

In response to questions from Members of the Committee, Mr Hayes reported further on a number of points:-

- His confidence regarding the timetable for the 2010/11 opinion was based on progress already made and work undertaken by officers as discussed in preparatory meetings last autumn. Information was being passed to the auditors in accordance with the required timetable.
- In relation to the weaknesses identified in the payroll system, Mr Hayes was aware of work that was underway at officer level. In this regard Minesh Jani, Service Head Risk Management, reported that the Corporate Management Team had agreed new procedures to ensure that the payroll and other systems were updated in a timely manner in every case when an employee left the Council, and other 'leaver' procedures followed.

In relation to the recent Audit Commission publication 'Improving value for money in adult social care' mentioned at page 36 of the agenda, the officers undertook to report back on the matters raised in the publication as they related to Tower Hamlets.

RESOLVED

That the report be noted.

7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

7.1 Internal Audit Annual Report 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which set out the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted the key points. Overall the report concluded that the Council has an effective system of internal control which was in operation throughout 2010/11. The basis on which this opinion had been reached was set out in the report which also summarised the audit resources utilised during the year, the range of work undertaken and the performance of the Internal Audit team for 2010/11.

In response to a question from the Chair, Mr Jani acknowledged that the percentage of priority 1 and 2 recommendations followed up that had been implemented by the 6 month review date (93% and 90% respectively) was still below the target figures (100% and 95%) although performance was much improved on last year. Corporate Directors were now informed directly when there were any concerns about speed of implementation and a number of directorates had introduced monitoring systems which Mr Jani felt could be utilised across the Council.

Information was not held on implementation rates after the 6 month review, although if an area was identified as high risk it would be scheduled for further review as part of a future audit plan.

The report also included a summary of each audit report not previously submitted to the Committee. In relation to the five reports that had identified a 'limited' assurance level, officers gave further information and answered questions from Members as follows:-

Creditors and R2P

Richard Parsons, Service Head Procurement and Corporate Programmes, reported that the R2P project had achieved significant efficiencies and improved payment performance. The audit had identified an number of issues particularly around links between R2P and legacy systems. All of the recommendations had been addressed as set out in the report and strengthened arrangements were in place in relation to avoiding incorrect payments and supplier set up, reconciliation and suspense account matching.

Effectiveness of Probationary Tenancies (Tower Hamlets Homes)

The Audit had found that very good procedures had been developed around probationary tenancies but that these were not being fully implemented and monitored in all cases.

Les Warren, Director of Finance and Customer Services, Tower Hamlets Homes (THH), reported that this review had been included in the audit workplan at the request of management. He felt that in the housing sector generally the value of probationary tenancies was not always fully recognised or utilised.

Following the audit review an interim solution had been put in place, utilising a spreadsheet to ensure that key stages in the procedure are adhered to. In the longer term a dedicated ICT solution would be developed.

In response to questions from Members, Mr Warren reported as follows:-

- In relation to the minor breaches of probationary tenancies identified in the report, it was unclear whether the warning letters had not been sent or alternatively had been sent but not recorded. It was important that all actions were documented and the new spreadsheet system would ensure this.
- Regarding the development of a longer term ICT solution, THH officers had obtained information on systems in use by other providers in the sector. The software currently used by THH (Northgate) did not currently support a number of the triggers required for probationary tenancies, reflecting the relatively recent focus on this area of work. Officers would feed back via user groups to promote improvements in this regard.
- There were currently 60-70 new tenancies per month on average. This volume could be managed by the interim spreadsheet solution.
- The timetable for workshops with key personnel had slipped slightly as a result of a number of new Area Housing Manager appointments but would be in place by the end of July.

Members welcomed the report, feeling that probationary tenancies were a valuable initiative and it was important that the procedures worked effectively.

Management of Garages, Sheds and Parking Spaces (Tower Hamlets Homes)

Les Warren, Director of Finance and Customer Services, Tower Hamlets Homes (THH), reported that this was one of a number of detailed areas on which THH was now focussing following the initial work to establish the basics of the service and secure the 2 star status achieved in the last year. The Continuous Improvement Plan would give prominence to this area of work and a team of staff with good knowledge of the relevant systems had recently been TUPE-transferred from the Council to provide more focus to the work.

In response to a Members' question, Mr Warren confirmed that underground parking spaces were included in this project and that a bespoke approach would be required depending on the circumstances and needs of each particular estate or neighbourhood.

Registration Service

John Williams, Service Head Democratic Services reported that a number of the issues identified in the audit, including the weaknesses in the accounting arrangements and the maintenance of four separate cash books, reflected the

historic structure of the service which was fully transferred from the Registrar General to the local authority in 2007. In accordance with the recommendations of the audit report an external consultant (a senior Registrar from a neighbouring local authority that had already modernised its service) was engaged to advise on modernisation and a full restructure of the service had now been completed. This provided for an integrated management structure and addressed the accountability issues identified.

In the longer term the service would seek approval from the Registrar General to move to 'New Governance Arrangements' which would provide greater flexibility to develop services to meet local requirements.

In relation to the budgetary control issues raised in the audit report, these had now been addressed and the income targets for the service revised to a more realistic level taking into account the much increased income generated by the Nationality and Citizenship aspects of the service in recent years.

Control and Management of Blue Badges – follow up report

John Chilton, Head of Parking Services, reported that the 11 unimplemented recommendations of the 28 included in the audit report mainly related to the ICT issues. As set out in the management comments, it had been decided to address the matters raised as part of an overall ICT improvement programme which would now see the introduction of a new system in October 2011.

RESOLVED

That the Committee note the content of the Annual Audit Report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

7.2 Annual Governance Statement 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which set out the framework for reviewing and reporting on the Council's system of internal control and governance arrangements in line with regulation 4 of the Accounts and Audit Regulations 2011. The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and any gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted a number of key points. The draft Annual Governance Statement for 2010/11 was set out at Appendix 3 to the report.

In response to questions from the Committee, Mr Jani reported that the change to an elected Mayoral form of executive had required a number of changes to the Constitution. The main changes were agreed at the Council meeting in October 2010 but a number of ancillary issues were addressed

subsequently as the need arose and this process would continue. In this regard Councillor Eaton referred to her recent enquiry regarding the arrangements for appointing Chief Officers under the new system and the Corporate Director (Resources) reported that the Financial Regulations were also being updated.

Regarding awareness of the Mayoral system across the Council generally, Mr Jani felt that this was being cascaded from CMT through the directorates. A number of Committee members asked whether advice was provided to staff in relation to the Mayor's powers and what to do if they felt under pressure to take a particular decision or action. The Corporate Director (Resources) advised that staff roles and management reporting lines were in the main unaffected by the new system and the Member/Officer protocol and other safeguards remained in place.

RESOLVED

That the Committee note the process and findings as set out in the report, and that the Draft Annual Governance Statement for the financial year 2010/11 be agreed as set out at Appendix 3 to the report.

7.3 Audit Draft Statement of Accounts 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated separately in a supplemental agenda pack, which presented the Authority's draft Statement of Accounts for the financial year ending 31st March 2011, prior to audit.

Peter Hayday, Interim Service Head - Financial Services Risk & Accountability, introduced the report and highlighted a number of key points. He apologised to the Committee for the late circulation of the report, which had arisen because of continuing work to finalise the treatment of items impacted by changes in recommended practice. Despite this the Corporate Director wished the Committee to have the opportunity to comment on the draft Statement of Accounts prior to submission to the auditors, in line with CIPFA best practice.

Members of the Committee welcomed this opportunity and the Corporate Director (Resources) confirmed that the Statement of Accounts would come back to the Committee for further consideration after submission for audit. There would be a five-week period from early July during which the accounts would be published but Members' questions and comments would be welcomed at any point after the meeting and for the coming two months.

In response to questions from Members of the Committee, Mr Hayday provided further information as follows:-

- The information included in the report on the Pensions Liability represented a 'snapshot' at a particular point in time. Members sought further information on the factors influencing the movement of this

liability and the officers undertook to report back on this in more detail. Further information would also be included in the Medium Term Financial Plan report to the August Cabinet meeting.

- In relation to Capital Spending, the contribution from developers through section 106 funds was driven by specific schemes and the balance of funding between grants, contributions and prudential borrowing would vary from year to year. Over recent years substantial Government funding had been provided through the Decent Homes and Building Schools for the Future initiatives.
- The figure for 'provision for bad debts' shown on page 83 related only to the Council Tax/NNDR Collection Fund. Council wide, the provision was approximately £50m. There were a number of factors influencing the level of this provision and officers would provide further information on this. The Council did not readily write off debts but rather sought to pursue collection where possible and economic.
- Decisions regarding earmarked reserves were taken as part of the Budget making process and via Executive decision-making mid-year and as part of this there was a challenge process to ascertain that reserves brought forward from year to year are still required for the purpose indicated.
- Any costs arising from the merger of Children's and Adults' Services were expected to be limited in the current financial year and resources could be available from general reserves if necessary. Once a new Corporate Director was appointed a more fundamental review would be carried out which may require the use of some resources on an 'invest to save' basis.
- The information regarding the Housing Revenue Account was set out in a separate section from page 77 of the report. This would be a key area of attention in the coming year as the Government sought to change the way that Housing provision is financed.
- The Pension Fund accounts would also be reported to the Pensions Committee and would be the subject of separate Audit comments.

RESOLVED

That the Committee note the draft Statement of Accounts for the financial year ending 31st March 2011.

7.4 The Future of Local Audit

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which provided an update on the Government's plans for the future of local external audit and the potential

impact of this on Tower Hamlets; and set out a proposed response to the Government consultation on this matter.

Peter Hayday, Interim Service Head - Financial Services Risk & Accountability, introduced the report and highlighted a number of key points. The three main areas covered by the consultation were:-

- Regulation of local public audit;
- Commissioning local public audit services (including proposals to change the membership arrangements for the Audit Committee, under which the committee might include a majority of Independent (i.e. non-Councillor) members); and
- Scope of audit and the work of auditors

Members expressed initial views on the draft response to the Government consultation included at Appendix A to the report as set out below:-

- A number of Members were not convinced that proposed abolition of the Audit Commission and the move to private sector provision of audit services were likely to be beneficial or result in significant savings and those Members felt that the Government's proposals were therefore misjudged. They felt that the existence of the District Auditor had been beneficial to the market and may also have helped to moderate fee levels.
- In relation to the scope of work of the auditors, all Members who expressed a view felt that the value for money work – including benchmarking and spreading best practice - was a valuable part of the auditor's role currently and that any proposal to entirely remove it would not be beneficial. They therefore favoured option 2 or 3 as set out at page 133 of the report.
- Question 5: The National Audit Office (NAO) would be the most appropriate body to maintain the register of local public auditors.
- Question 6: This would be a matter for the NAO to ensure
- Question 7: Any potential auditors should have to demonstrate knowledge and experience of the public sector and the relevant skills to undertake value for money work in that sector.
- Question 12: The language used in the draft ('... clogged with ...') should be reviewed.
- Question 14: It was noted that some authorities, especially outside London, may experience difficulty in recruiting Independent Members. This was not necessarily be the case in Tower Hamlets but there was a need to consider possible remuneration arrangements.

- Question 24: There would be a need to encourage firms to enter the market but either a seven year maximum term or a maximum of two consecutive 5-year appointments would seem sufficient to achieve this.
- Question 28: Yes, the new framework should put in place provision to prevent auditors from seeking to limit their liability in an unreasonable way.
- Question 38: Although it was desirable to modernise the 'right to object' to the accounts, this right should not be removed or diminished.

Members wished to give further consideration to the draft response and forward any further comments for inclusion after the meeting. The officers undertook to seek an extension to the 30th June deadline for responses to facilitate this.

RESOLVED

That the Committee note the report.

That the Council's response to the DCLG consultation document be amended in the light of the comments listed above and that the officers seek an extension to the deadline for Consultation responses to enable any further Member comments to be incorporated following the meeting;

That the Corporate Director (Resources) be authorised to further amend the Council's response in the light of any additional comments received from Members of the Committee and, following consultation with the Chair, to agree the final version for submission to the DCLG.

7.5 Update on Risk Management

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda, which provided an update on the Council's risk management arrangements and the risks reported to the Corporate Management Team in June 2011.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted a number of key points. He and the Corporate Director (Resources) then responded to Members' questions as follows:-

- The risk referred to at AH005 (Accommodation) related specifically to the Southern Grove site that was currently in use by the Adults Health and Wellbeing service.
- In relation to risk AH0028 (Risk of a significant contractor going into liquidation), control measures were in place to identify contingency measures should this happen.

- In relation to risk CSD0011 (Child Protection Service), this was a very important area which in the view of the Corporate Director (Resources) was currently adequately funded. He would liaise with the Acting Corporate Director, Children Schools and Families to ascertain the issues and whether it was necessary to report a risk at this time.
- The risks referred to at CEAC0005 (East End Life) were considered and addressed in detail in the report submitted to Cabinet in June 2011 setting out the findings of the review of East End Life and making recommendations for the future of that publication.

RESOLVED

1. That the Committee note the contents of the report; and
2. That the Committee note the actions planned over the next year to embed risk management, as set out in section 7 of the report.

7.6 2010-11 Treasury Management Outturn Report, Update to 31 May 2011

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which advised Members of treasury management activity for the financial year ended on 31st March 2011 as required by the Local Government Act 2003. The report detailed the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by the Council and the investment returns. In accordance with the Code of Practice the report would also be submitted to the full Council meeting on 13th July.

Oladapo Shonola, Chief Financial Strategy Officer, introduced the report and highlighted a number of key points. The Council had complied with its legislative and regulatory requirements. The prudential and treasury management indicators detailing the impact of capital expenditure activities during the year were set out in the report. Borrowing was only undertaken for a capital purpose and the statutory borrowing limit was not breached.

In response to questions from Members the officers provided further information as follows:-

- Some slippage in the Capital Programme had occurred resulting in a lower Capital spend than estimated. The Capital Programme year-end report to be submitted to the Cabinet on 6th July would give further details of this. The forthcoming budget process would ensure that all schemes were subject to scrutiny to ensure that ongoing slippage from year to year was minimised.

In relation to the maturity structure of the debt portfolio as set out in the table at paragraph 8.2 of the report, Members sought further information on the

basis on which the 'limits' shown were set, and how these related to the actual expenditure.

RESOLVED

That the contents of the report be noted.

8. OTHER BUSINESS

(a) References from the Council Meeting

The Chair stated that the Council meeting on 13th April 2011 had agreed to refer to the Committee a Member's question regarding staff and contractors employed in the Mayor's Office. He asked for an update on this matter.

Minesh Jani, Service Head Risk Management, reported that a protocol was being developed to determine how matters referred from the Council meeting would be dealt with and this would be reported to the next meeting alongside the item referred from the April Council meeting. It was important to ensure that items were considered by the relevant body and that the Committee was able to focus on its core duties.

The Chair asked that the draft protocol be circulated to Members of the Committee in the next two weeks, along with a briefing on the matters referred from the 13th April meeting.

(b) Executive decision making

The Chair reported that at the Cabinet meeting on 8th June 2011 it was stated that certain decisions would be taken by the Mayor under his Executive powers. He sought further information on these powers and the process for such decisions.

The Service Head, Democratic Services confirmed that the Mayor had authority to take Executive decisions including Key Decisions either at the Cabinet Meeting or outside the meeting. Any decisions taken under the latter procedure would be subject to publication on the Council's website and potential call-in just as for a decision taken at the Cabinet Meeting. In the case of a Key Decision there was also a requirement for prior publication on the Forward Plan.

In relation to the specific matters mentioned at the Cabinet Meeting. The Corporate Director (Resources) advised that these were subject to ongoing discussions and had not yet been determined.

(c) Membership of the Audit Committee

The Chair asked for an update on the appointment of a Member to fill the vacant position on the Committee.

The Service Head, Democratic Services reported that the vacant position was to be filled by an 'ungrouped' (Independent) Councillor but that so far none of the Independent Councillors had expressed an interest in joining the Committee. He would remind the relevant Members of the vacancy and ask again for expressions of interest.

The meeting ended at 9.40 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee