

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.03 P.M. ON TUESDAY, 17 DECEMBER 2013

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Vice-Chair)
Councillor Stephanie Eaton
Councillor Zenith Rahman (Substitute for
Councillor M. A. Mukit MBE)
Councillor Peter Golds (Substitute for (Leader of the Conservative Group)
Councillor Craig Aston)

Other Councillors Present:

Officers Present:

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| Minesh Jani | – (Head of Audit and Risk Management , Resources) |
| Tony Qayum | – (Anti Fraud Manager, Internal Audit, Resources) |
| Zamil Ahmed | – (Senior Procurement Manager, Category and Contract Management) |
| Simon Baxter | – (Head of Clean and Green, Public Realm, Communities Localities & Culture) |
| Chris Holme | – (Acting Corporate Director - Resources) |
| Paul Thorogood | – (Interim Service Head Finance and HR Development, Resources) |
| David Galpin | – (Service Head, Legal Services, Directorate Law Probity and Governance) |
| Sarah Williams | – (Team Leader Social Care, Legal Services, Chief Executive's) |
| Antonella Burgio | – (Democratic Services) |

Others In Attendance

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| Alan Bryce | – (District Auditor, Audit Commission) |
| Molly Wallis | – Interim Head of Neighbourhoods, THH |
| Daniel Hellary | – Deloitte Touch |

COUNCILLOR CARLO GIBBS IN THE CHAIR

APOLOGIES

Apologies for absence were received from Councillors, Mizan Chaudhury, M.D. Mukit, Haque and Aston.

Councillors Zenith Rahman and Peter Golds substituted for Councillors Mukit and Aston respectively.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 26 September 2013 were approved as a correct record of proceedings.

3. PROTECTING THE PUBLIC PURSE FRAUD BRIEFING 2013

Mr Bryce, Head of Counter Fraud at the Audit Commission presented in his annual fraud briefing. He advised that the focus of his briefing this year would be the antifraud activities of local authorities and that further national data was available via the Audit Commission.

The context of his presentation was "Tower Hamlets' fraud detection performance and its comparison with other local authorities". In his presentation he asked the Committee to consider the returns gained against the resources employed in addressing its priority fraud areas and whether

National Picture - It was estimated that fraud activities caused an annual loss of over £2 billion.

Mr Bryce argued that that fraud was not a victimless crime since its consequence was the availability of fewer resources, in terms of access to financial support and housing, to those in genuine need. Noting that councillors were charged with governance of public funds, he asked the Committee to consider how the Council compared to other authorities in terms of fraud detection (strategy and priorities) and its local priorities. He also challenged the Committee to consider how resources were targeted and whether, in the local context, the best returns were to be gained from addressing high-value fraud or high-volume fraud.

Mr Bryce advised that, nationally, of the fraud cases detected in 2012 - 13 (excluding social housing fraud), the largest proportion concerned housing benefit fraud. He noted that housing benefit fraud was the area where most detection work was directed and asked member to consider whether the focus on other areas would be more efficient to pursue. The Committee noted that the scope of Tower Hamlets' comparative performance against that of other London boroughs was reported within the appendices to the report.

In terms of the total detected cases in 2012 - 13 (1440 cases) and the monies recovered valued at £989,565, Mr Brice challenged the Council to consider which areas of fraud it would be most efficient to address.

The areas of fraud which the Audit Committee monitored and reported were: housing benefit fraud, council tax benefit fraud, council tax discount fraud social housing fraud, right to buy fraud and disabled parking (blue badge) fraud.

Mr Bryce advised that forthcoming changes would be brought about by the establishment of the Single Fraud Investigations Service that would be organised by the DWP and which would take over the authority's caseload in relation to housing benefit fraud. This transition would occur in the forthcoming 18 months and therefore data-matching in relation to this type of fraud would be affected.

Noting that this large area of work would then fall to the DWP, Mr Bryce advised that councils would need to consider where their investigative resources then would best be focused. He challenged the Committee to consider some common areas of fraud such as single person discount fraud and student (Council Tax) discount fraud, whether retrospective sanctions would be appropriate and what principles it wished to pursue in following these.

The Committee was informed that it would receive information concerning how much money had been successfully recovered in regard to student council tax discount and single person council tax discount.

Action by: Minesh Jani, Head of Audit and Risk Management

Mr Bryce advised that successful recovery of frauds gave councils a funding advantage because of the revenue support grant. The following were noted:

- Registered social landlords antifraud work did not fall within the remit of the audit commission
- Because of the high levels of social housing stock within the borough the effects of fraud activity on registered social landlords would be greater. Mr Bryce advised that levels depending on how many were investigated. Additionally the Audit Commission recommended that councils work with registered social landlords to address housing benefit fraud.

It was noted that the Council negotiated with social landlords to recover properties and was receiving cooperation from these organisations to enable properties to be more appropriately utilised by eliminating social housing fraud.

The Anti-Fraud Manager advised that the Council was engaging in high levels of data-matching and therefore, in future years expected to achieve better results. Additionally it was noted that there was some co-funding with Tower Hamlets Homes for the investigation of social housing fraud in the Borough.

In considering which types of fraud were the most appropriate to pursue the members considered the following:

- the Council's housing benefits team was funded by DWP and was focused on housing benefit fraud
- The remaining resources of the antifraud team were employed to undertake a more general investigations.

Presently work was being carried out to assess which frauds the Council should best pursue. It was noted that there were obvious benefits to pursuing frauds, which resulted in income to the Council; however it was necessary not to neglect other areas of fraud as the reputation of the Council might be affected. It was noted that The Proceeds of Crime legislation was to be shortly enacted and this would enable the Council to pursue recovery of money acquired through fraudulent activity and also that pursuit of financial recovery and financial gain needs to be balanced against the levels of harm caused by different types of fraudulent activity

It was noted that right-to-buy fraud was a potentially high frequency and high-value area of fraud activity. The fraud concerned the discount offered to tenants under the right-to-buy scheme and also affected other areas of social benefits.

It was noted that there had been good performance regarding detection of blue badge fraud. Of the frauds detected, it was noted that the largest proportion concerned fraudulent applications for blue badges in other areas. Detection was found to be concentrated around sites of health care delivery in particular the London Hospital, Whitechapel.

Other types of fraud detection performance were in the areas of procurement, insurance, social care, economic, third sector, and internal fraud - including school frauds.

Mr Bryce recommended that the Council focus its anti-fraud work on

- blue badge fraud
- Schools frauds. He also encouraged collaborative engagement with free schools and academies in the borough to address this area of criminal activity
- Social care fraud. This, because of the implementation of the personalisation agenda was an area that was expected to witness increasing levels of fraud activity.
- Internal fraud. This recommendation was based on the fact that while the value per case might be low, there would be high value fraud activities interspersed with these.

In response to questions from the Committee, the following information was provided:

The Audit Commission measured fraud activity. During 2012 – 13 data on activity had been requested with an aim to increase the quantity of benchmark data available and to use this for future data matching exercises.

The Audit Commission supported investigation of rateable assets fraud and activity to promote detection of business rate frauds across the spectrum.

It was noted that fraud of charitable status registrations was an area that might be pursued as there were some suspicion that not all organisations claiming full charitable benefits were operating under wholly charitable principles.

RESOLVED:

1. That the content of the report and presentation be noted
2. That the matters raised by the Audit Commission be noted
3. The recommendations of fraudulent areas of activity which the Council is recommended to pursue be noted

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Internal Audit Assurance Report

The Head of Audit and Risk Management presented the report circulated agenda item 4.1. He offered his audit opinion based on work performed in the year-to-date and gave a substantial level of assurance on the systems and controls in place within the authority. He noted that performance against the indicators formulated at the beginning of the year to monitor the delivery of the internal audit service was lower than target in relation to 'priority one recommendations implemented by auditees at 6-monthly follow up audit stage. He suggested that this had been because of staff absence and competing priorities. Therefore the Head of Service would ask Deloitte to delay its audit. He also advised that most delays had not been accepted, although some had been agreed because of other inspections or project implementations.

He noted the assurance rating of audits finalised in the period and discussed each of the three limited assurances that were returned during the quarter.

Management and Control of Probationary Tenancy - Follow Up Audit

The Interim Head of Neighbourhoods Tower Hamlets Holmes attend for the discussion of this item.

The Committee heard that four main areas of weakness were identified:

- No evidence to verify reported sales income
- Key performance indicators were not measured against targets
- No evidence of monthly complaints reports supplied by Veolia as required by Waste Management contract clause 43.3

- No evidence that the 2012-13 management fee of £717,500 was formally agreed by both parties

The following were also noted:

- A high priority recommendation arising from the first follow-up audit had been fully implemented and there had been some implementation of the remaining four recommendations
- The follow-up audit identified that the controls were not effective because of non-compliance with procedures together with lack of good quality random checks
- Records management was weak
- A number of previous audits had returned a limited assurance therefore the follow-up was escalated and a visit carried out in November 2013. This date coincided with the estimated date when all recommendations were to have been implemented.
- The limited assurance did not relate to social housing frauds but was concerned with administrative processes
- The Service had addressed procedures relating to how documents were evidenced and administrative procedures had been reviewed
- IT had developed a new records management system which captures all controls recommended arising from the audit and there would be supporting documentary evidence
- Some random checks would be carried out personally by the Interim Head of Neighbourhoods Tower Hamlets Holmes
- Records would be fully inspected and training given to ensure that filing was undertaken appropriately.

The Interim Head of Neighbourhoods Tower Hamlets Holmes was confident that all issues would be resolved on schedule. She confirmed that procedures were now in place to ensure that the targets would be met and agreed to monitor these to ensure that future assurance levels were increased.

Management of the Commercial Waste Contract

The Head of Clean and Green attended for the discussion of this item.

The Committee heard that the main weaknesses identified from the audit were:

- There was no evidence to confirm that the Council verified sales income reports provided by Veolia
- Key performance indicators were not measured against targets
- There was no evidence available to confirm Veolia provided the Council with monthly complaints reports as required by clause 43.3 of the waste management contract
- There was no evidence available to confirm that the 2012 management fee of £717,500 was formally agreed by both parties
- The Authority had been unable to confirm what contract fees were paid because the variation in the fee had not been properly evidenced

The following information from the Head of Clean and Green was also noted:

- All uplifts were agreed within the contract terms and there were bimonthly strategy meetings which were now minuted.
- Veolia had earlier agreed that sales could be increased if more resources were given. This had occurred but levels had since been reduced to a lower level.
- Clause 43.3 of the contract was not specific to commercial waste and therefore a new KPI for commercial waste had been introduced
- Collection of commercial waste was collected into one vehicle (co-collection) and therefore the audit had identified a poor control. However since the audit, commercial waste was collected separately and would be better monitored.
- Removal of different waste categories was measured and an enforcement team was tasked to pursue Veolia where there was non-compliance
- Suitable fee levels were set by Veolia in line with RPI.
- Uplift was not performance related and lacked only the formal letter stating uplift
- Concerning control of KPI performance, the Committee was advised that the present waste contract was a number of years old and did not reflect the 2013 position however it would be reviewed in 2017. Members noted that the contract length an unacceptably long term and it was agreed that a written response would be provided on the rationale for this contract period.

Competitive Tendering Systems Audit

The Senior Procurement Manager, Category and Contract Management was present for the discussion of this item.

The Committee was advised that the purpose of the audit was to ensure that there was compliance with European Union regulations. A limited assurance had been returned as the audit trail was not sufficiently robust through the procurement cycle. The following matters were also noted:

- The audit concerned procurements in 2011-12 during which time there was much managerial change.
- The Senior Procurement Manager Category and Contract Management was now in post and processes had been reviewed and improvement made around governance compliance, systems and training.
- Whilst the audit was being undertaken, a new procurement process had been implemented which incorporated tighter controls.
- Much work had been undertaken since the audit and 99% of the recommendations had been implemented.

RESOLVED

That the report be noted

4.2 Revised Internal Audit Plan for 2013/14

The Head of Audit and Risk Management advised that the internal audit plan had been refreshed during which time some audits had been removed and others added as appropriate.

Members' request that, for security reasons, information around the security of children's homes should be remaining exempt was noted.

RESOLVED

That the report be noted

4.3 Treasury Management Activity for Period Ending 31 October 2013

The Acting Corporate Director, Resources and Interim Service Head Finance and HR Development presented the report highlighting the following:

- Treasury activity for the period 1 April to 31 October 2013
- The market update in the context of the economic recovery in the UK
- The current cash balance which was due to capital expenditure during the financial year
- There had been additional deposits into reserves in the financial year
- The composition of the current investment portfolio and graph of investments maturity
- The majority of investments were presently short-term investments
- Although no Lloyds rating had been available at the time of agenda publication, this was the same as that of Barclays.

RESOLVED

That the report be noted

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

East End Life (EEL)

Councillor Golds tabled an issue concerning the Council's EEL publication, noting that the Government Local Audit and Accountability bill which would abolish council-run newspapers was nearing consent. He advised that the new legislation was likely to come into force shortly and the Council had yet to determine how it would address this matter; additionally the District Auditor had referred to out of date advice on the matter. He asked that the Committee require the District Auditor to give an account in relation to this issue. The following discussion was noted

- Council was aware of the impending legislation and taking legal advice relating to the content of EEL publication.
- Once the Bill was enacted, the Secretary of State would make a direction.

- Once the statute was passed, it was expected that a statutory code of practice would be issued which would create a risk to the Council and also have staff implications around the short-term closure of EEL.

RESOLVED

That the discussion be noted

The meeting ended at 8.38 p.m.

Councillor Carlo Gibbs
Vice-Chair, Audit Committee