

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON TUESDAY, 8 DECEMBER 2015

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

Members Present:

Councillor Candida Ronald (Chair)
Councillor Sabina Akhtar
Councillor Clare Harrisson
Councillor Andrew Wood

Others Present:

Alan Bryce – (Chair of The European Institute for
Combating Corruption and Fraud)
Graeme Thomson – (Programme Manager Counter Fraud
and Error, Cabinet Office)
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Officers Present:

Dr Somen Banerjee – (Director of Public Health, LBTH)
Simon Baxter – (Acting Service Head, Public Realm,
Communities Localities & Culture)
Kate Bingham – (Service Head, Children's and Adults
Resources)
Minesh Jani – (Head of Audit and Risk
Management, Resources)
Kevin Miles – (Chief Accountant, Resources)
Sajeed Patni – Children's and Adults Finance
Business Partner
Tony Qayum – (Anti-Fraud Manager, Risk
Management, Resources)
Keith Williams – (Head of Health Borough
Programme)
Liz Nelson – (Interim Head of Clean Green and
Highways)
Andrew Smith – (Auditor)
Antonella Burgio – (Democratic Services)

Apologies:

Councillor Amina Ali
Councillor Shahed Ali

Apologies from Zena Cooke, Director of Resources were also noted.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Sabina Akhtar declared an interest in respect of agenda item 4.1 in that she was the Council's appointee to the board of Tower Hamlets homes.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of meetings held on 17 July and 23rd of September were presented.

The minutes of the meeting held 21st July 2016 were approved subject to the following revision at the third page 3 of these minutes "Many of issues that have resulted in the adverse opinion proposed in the ISA260 report before the Committee relating to 2013/14 would likely still be present into 2014/15 while organisational change was being implemented"

The minutes of the meeting held on 23 September 2015 were approved as a correct record of proceedings.

3. PRESENTATIONS

3.1 Household Composition

A presentation was given by Graeme Thomson, Programme Manager, Counter-Fraud and Error at the Cabinet Office.

Mr Thomson informed Members:

- That initiatives at the Cabinet Office (which was now responsible for National Fraud Initiative (NFI)) were being delivered to support a cross-issuing (??) across local authorities.
- Forthcoming initiatives would improve access to anti-fraud funding via new legislation, improving access to static data, improving new public services and improving funding.
- The Cabinet Office in its NFI, role aimed to open up access to data sets across local authorities and a consultation would be undertaken in January 2016 with the subsequent intention of placing a Bill before Parliament for approval.
- Mr Thomson had a two-fold role: to encourage more cross sharing across DWP and local authorities and concerning the banking sector.
- It is intended to implement Enhanced Payment Data which permitted certain additional data around payments to be shared with agencies for data-matching purposes.

Household Composition Work:

The Committee was informed that:

- Government wished to better use the large quantities of data held by local authorities.
- Tower Hamlets was involved in a project which enabled access to 140 new sets of data to achieve better data-matching and use for NFI purposes.
- Work was being done with Camden Council to bring datasets together to form a “golden dataset”. This would be employed with other datasets held by other agencies to improve fraud detection.
- Forthcoming primary legislation would enable local authorities to request data that was hitherto unavailable for data matching and corroboration across the whole landscape in order to better identify frauds.
- Local authorities would be able to determine how they wished to use these datasets and which types of data they wished to target.

Responding to Members’ questions, the following information was provided:

- A number of firms presently converted the data provided to local authorities and were looking at how to tailor data to suit the users’ requirements.
- The maturity of applications were the driver of development timescales.
- The DCLG was presently developing toolkits and working on how these can develop datasets for local authorities’ desired priorities. Once developed the applications would be widely available.
- Access to datasets was permissive; an agency could not be forced to share its data.
- The degree of mutual data exchange between DWP and local authorities, from a legislative viewpoint, depended on authorities and the DWP evaluations of working cooperatively. The platform was designed to work mutually.

The Chair thanked Mr Thomson for his comprehensive presentation.

3.2 Protecting the London Purse

The Committee received a presentation from Alan Bryce, Non-executive Chair of the European Institute for Combating Corruption and Fraud (TEICCAF)

The Committee noted:

- Tower Hamlets Council participated in the fraud detection scheme “Protecting the London Purse” which was administered through TEICCAF.
- The Council was able to use the outcomes of this benchmarking exercise to determine where it wished to target its resources to achieve the most effective antifraud activity.

The Committee was informed of the results of a range of benchmarking exercises relating to antifraud activities undertaken by London Councils and noted the following:

- Council Tax Fraud - typically comprised around 4-6% of claimants. Mr Bryce recommended that the council consider what deterrents are appropriate in terms of its Council Tax Fraud strategy. He suggested that the strategy be re-examined for this purpose and noted this was not the largest area of loss for the Council.
- Tenancy Fraud (sub-letting Council properties for profit). - This was the second largest area of financial loss to Councils and the most common type of fraud in London, accounting for around 4% of social housing fraud. Tower Hamlets was performing below benchmark in this area and encouraged the Council to continue to pursue this antifraud detection.
- Right to Buy Fraud. - Right-to-buy discounts had recently increased. In London boroughs the potential discount was up to £100,000 and therefore this type of fraud was attractive. Discounting was expected in the forthcoming two months and therefore more right-to-buy fraud headlines were also anticipated. Mr Bryce advised that the Council had taken the appropriate action of reconfiguring its attention towards right to buy fraud in the present circumstances relating to public sector housing. On average, around 3% of right to buy applications in London were fraudulent. Mr Bryce also advised that the Council take account that most housing associations had no facilities to tackle tenancy or right to buy fraud and noted that council's resources and expertise could be advantageous therefore.
- Blue Badge Fraud. – Tower Hamlets had the highest detection rate amongst London Boroughs in 2014-15. The average value per case was £500, however the value to the public in addressing this kind of fraud was at the heart of community values.
- Procurement Fraud -This was the largest single area loss to local authorities. Mr Bryce recommended that the council should continue to pursue detection of this type of fraud.
- No Recourse to Public Funds Frauds - This type of fraud related to migrants in specific circumstances and was the second largest area of fraud in London. In addition it was an area open to abuse by individuals and by organised crime. The average value of fraud was £25,000 per family and funds were sourced directly from local authorities' resources.

Mr Bryce recommended investigation of the following types of fraud to assess the significance of monies lost in the public purse:

- Social Care fraud
- Insurance fraud
- Grants fraud (economic and the third sector grants)
- Internal fraud (Mr Bryce recommended that this area should be investigated as the average value of these frauds represented around 12%, therefore potentially amounting to significant sums)

The Committee made the following comments:

- The deterrent fraud work carried out by councils should be advertised prominently and also the sums recovered publicised
- That fines are properly levied against frauds detected.

VARY ORDER OF BUSINESS

The Chair **moved** and it was resolved that the order of business be varied. Accordingly agenda item 4.5 was considered by the Committee after agenda item 4.3. Following this, Members returned to consider the remaining agenda items in the order published.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

The Head of Audit and Risk Management introduced the report which summarised the internal audit work undertaken in the period September - November 2015, and reported the assurance rating of each audit finalised in this period.

The Committee noted that:

- 16 audits had been completed, of which four had returned a limited assurance.
- Performance and outcomes of follow-up audits had improved.
- Appendix 3 reported 2 (priority 1) recommendations relating to monitoring mainstream grants for luncheon clubs which remained to be implemented at the date of the meeting. These data were provided in response to Members' requests at the previous meeting (23 September 2015)

Quarterly audits that returned a limited assurance

Monitoring of Public Health Contracts for smoking cessation, healthy start vitamins, and health trainers

The Head of Audit and Risk Management introduced the item informing members that the audit had returned a limited assurance because of the following issues:

- Generic monitoring arrangements were operated
- More focus was needed on outputs and outcomes monitoring
- Some contracts were unsigned
- Risk assessments were required to be better focused

The Director of Public Health responded to the issues raised and informed the Committee that:

- There had been some flux as the directorate was in the process of transitioning from NHS into the Council's processes
- A contracts check list had been developed to ensure compliance with the Council's contract processes
- A risk assessment framework for each contract with deadlines had been introduced. The deadline for responses was January 2016
- A performance scorecard had been introduced which was monitored quarterly
- All except 4 outstanding contracts had been signed

Responding to Members' questions the Director of Public Health also informed the Committee that:

- Quarterly meetings with Contracts Lead Officers were carried out to monitor compliance of contracts and to ensure that contract requirements were met
- Officers were tasked to ensure that contracts were kept up-to-date
- Strategies to ensure that Barts contracts compliant were being investigated
- Quarterly meetings with Contract Leads were used to monitor contracts and ensure that requirements had been met
- A monitoring timetable with deadlines was to be incorporated into the monitoring processes to ensure that expiring contracts were renewed without a need for interim extensions.

Highways Repairs and Maintenance Work

The Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned as:

- Procedures needed to be updated
- There were software issues
- Some audit trails of chargeable works were incomplete
- Some KPI's were incomplete

The Interim Service Head Public Realm informed the Committee that:

- The issues highlighted had been addressed through a root and branch review of systems
- Some flaws in the reporting system remained because there was no integration between the reporting / monitoring systems and invoicing systems. He noted that this remained a risk until new improved software was installed
- Additional highways work was being undertaken to prevent personal accident insurance claims
- Responsive highways works were being undertaken
- Installation of improved audit software was awaited and, once installed; this would better indicate where works were taking place and associated costs.

Responding to Members' questions the Interim Service Head Public Realm informed the Committee that:

- The risk level of the non-integrated system was around 10% of the budget
- The issue of non-integration presently was lodged with the Corporate Directors for Resources and CLC to mitigate further risk
- A new processing system had been identified to oversee the value of jobs and contracts commissioned
- The outcomes of the audit had been utilised to add weight to the arguments and mitigations for the risks identified

Controlling and Monitoring of Cash Income and Disbursements

The Head of Audit and Risk Management introduced the item informing Members that the audit had returned a limited assurance because of the following issues:

- Returns submitted by collecting officers were late or had errors which delayed reconciliation
- There were delays in the allocation of funds to the appropriate ledgers
- There was a lack of means to control and monitor the logs

The Chief Accountant responded to the issues raised informing the Committee that:

- Since the audit, the backlog had been almost cleared
- Differences identified in the processing of incomes had been now escalated to different areas of the Finance Team
- The number of errors recorded was significantly reduced. Should errors recur, these will be escalated to the compliance team
- A streamlined system would be implemented

Responding to Members' questions the Chief Accountant informed the Committee that cash collection took place at across many Council locations therefore it was difficult to centralise cash payments.

Adults and Children Services Petty Cash

The Head of Audit and Risk Management introduced the item informing Members that the audit was a periodic audit of petty cash arrangements in the Council. A limited assurance had been returned because:

- There had been some reimbursements for ultra vires purposes such as travel
- Inconsistencies with the reporting of the petty cash float (unders and overs)
- Records were not reconverted to one value

The Finance Business Partner and Service Heads Children's and Adults' Resources responded to the issues raised informing the Committee that:

- The audit had identified staff training is an area of risk. This was being addressed
- The number of petty cash arrangements throughout the services would be reduced and those tasked to administer them retrained

- Messages around disciplined administration relating to petty cash arrangements would be promulgated.

Responding to their questions officers informed Members:

- That there would be a key contact for each petty cash account
- The number of petty cash accounts would be reduced
- Procedures around the locations of petty cash funds would be reviewed and appropriate security measures introduced
- The key contacts for the petty cash accounts would be instrumental in changing the culture around appropriate use of petty cash by asking those applying why the petty cash was needed.

RESOLVED

1. That the summary of audits undertaken in the actions reported by officers be noted
2. That the opinion assigned to the systems reviewed for the period be noted

4.2 Revised Audit Plan

The Head of Audit and Risk Management introduced the report which provided Members with the updated Internal Audit Plan 2015-16. The plan provides an update on changes from the original audit plan arising from changes in the Council's circumstances and areas of risk are of importance to the function of the Council. The updated plan was larger because of the Council's recent circumstances e.g. the Election Court and crime verification. It was noted that no recourse to public funds had been identified.

RESOLVED

1. That the changes proposed to the audit plan 2015-16 be noted
2. That the revised audit and 2015-16 be endorsed as attached at appendix 2
3. That the resources of the audit plan as detailed in fact paragraph 4.1 of the report be noted

4.3 Annual Schools Report

Auditor, Mr Hellary of Mazars presented the report which summarised in the annual audit work undertaken in relation to schools audits for the financial year 2014-15. The audit revealed three key areas of non-compliance/ risk:

- Governance

- Asset management
- Financial planning

Other areas of poor compliance identified were:

- lack of appropriate employment checks and
- variable clerking arrangements.

To remedy risks identified, the Committee was informed that Mazars would support schools to attain compliance by working with bursars and schools' governing bodies.

Members noted that:

- At present, OFSTED was focussed on governance matters and this offered an opportunity to further promote good governance practices
- Schools' clerks were supplied by the Council therefore the risks identified should be addressed through council training
- Some schools experienced problems accessing certain relevant contract information therefore work should be undertaken to obtain joined up information systems. The Service Head for Resources, Adults' and Children's Services informed Members that there were circumstances around schools that had engaged in PFI contracts which might cause difficulties when accessing contract information.

Responding to Members' questions the Committee was informed that

- Some lack of employment checks incorporated failure to carry out DBS checks in some circumstances and in most cases the checks carried out by the school did not have an audit.
- Since the audit had taken place, all applicants were required to demonstrate that they had a valid DBS check to prospective employers.

RESOLVED

1. That the report be noted
2. That the matters raised by the auditor in each of the 12 areas examined be noted

4.4 Quarter 2 Corporate Risk Register Update 2015/16

The Head of Audit and Risk Management introduced the report which provided the Committee with an update of corporate risks as at 30 November 2015 and a summary of the changes made to the Risk Register during the second Quarter 2015-16.

The report identified what the Council considered its corporate risks to be and invited Members to consider how these were being managed and which risks they wished to scrutinise.

The register currently contained one red-rated risk: the required decant of Mulberry Place by September 2019.

Councillor Woods also identified another significant risk concerning insufficient school places to meet demand for them in the borough. He asked for an assessment to be undertaken of the impact of the Council's schools places budget on the risk register.

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

Councillor Harrison enquired whether there had been increased security risks relating to the Council's general risks and the Mayor's events. She asked for detailed feedback in order to verify whether the Council has completed its insurances.

RESOLVED

1. That the report be noted
3. That the risks around school places and Mayor's events be incorporated into the risk register
4. That relevant risk owners provide at the next audit committee meeting, a detailed update on the treatment and mitigation of identified risks relating to school places and Mayors events including impact on corporate objectives

4.5 Progress on the National Fraud Initiative (NFI) Exercise, 2014

The Anti-Fraud Manager presented the report highlighting the latest work on this initiative. These were:

- That the investigation of benefits fraud had been transferred from the Council to DWP
- A data-matching exercise was currently being undertaken relating to duplicated creditor payments
- Areas of fraud being investigated under the NFI 2014 initiative are:
 - housing benefit related fraud
 - pensions benefit related fraud
 - Council tax single person discount fraud
 - Housing tenancy fraud and
 - Blue Badge (disabled parking permits) frauds.

RESOLVED

1. That the report be noted

4.6 2014/15 Local Government Pension Fund Annual Report

The Chief Accountant presented the report informing Members that the statement of Pension Fund accounts had been prepared under the approved reporting standards. The Committee noted that external auditors KPMG had commended officers for the support given during the audit and for their cooperation to auditors' requests.

RESOLVED

1. That the pension fund annual report 2014-15 be noted
2. That the approved pension fund statement of accounts for this period be noted
3. That the auditors' ISA 260 report for the year 2014-15 be noted

4.7 Treasury Management Activities Report for Quarter Ending 31 October 2015

The Chief Accountant presented the report which informed the Committee of the Council's borrowing and investment activities during the Quarter 1 July 2015 – 31 October 2015. The Committee noted that there had been no new borrowing during this period.

RESOLVED

1. That the treasury management activities on performance against targets for the quarter ending 31 October 2015 be noted
2. That the Council's outstanding investments as set out in appendix 1 to the report be noted
3. That the balance outstanding as that 31st of October 2015 of the £422.7 million also incorporating includes £48.8 million Pension Fund cash awaiting investment be noted

4.8 Mid - Year Review For Treasury Management and Investment Strategy 2015/16

The Chief Accountant presented the report which provided a half-yearly review of the progress of the Council's current treasury management and investment strategy.

The Committee noted that:

- the Government had reduced its ownership share of Lloyds Bank and therefore this would balance the position when the Council's investment matured in 2017
- Lloyds Bank had passed the Government's stress test
- MiFID II arrangements soon to be implemented may limit the types of investment in which the Council will be able to engage in future.

RESOLVED

1. That the treasury management activities and performance against targets for the six months to 30 September 2015 be noted
2. That the current development and update for MiFID II impact on the LGPS and local authorities and also changes in credit rating methodology as set out in Section 4 of the report be noted
3. That the Council's investment balance of £421.3 million as at 30th September 2015 of which £40 million was invested in local authorities as set out in Appendix 1 to the report be noted
4. That the Council's position on prudential indicators as set out in Appendix 6 to the report be noted.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 9.30 p.m.

Chair, Councillor Candida Ronald
Audit Committee