

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.30 P.M. ON TUESDAY, 28 JUNE 2022

**COMMITTEE ROOM ONE - TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present in Person:

Councillor Jahed Choudhury	Chair for the meeting
Councillor Saied Ahmed	
Councillor Ohid Ahmed	
Councillor Kabir Hussain	
Councillor Ahmodur Khan	Vice-Chair
Councillor Mufeedah Bustin	
Councillor Asma Islam	
Councillor James King	

Members In Attendance Virtually:

Councillor Rachel Blake

Co-optees Present in Person:

Charlotte Webster	Independent Person
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Apologies:

Others In Attendance Virtually:

Angus Fish	Deloitte
Jonathan Gooding	Deloitte
Andrew Cardoza	KPMG
Rashpal Khanura	KPMG
Antony Smith	KPMG

Officers Present in Person:

Agnes Adrien	(Head of Litigation, Legal Services)
Kevin Bartle	(Interim Corporate Director, Resources & Section 151 Officer)
Tim Harlock	(Interim Chief Accountant)
Marion Kelly	(Finance Improvement Team - Programme Director)
Aaron Winter	(Interim Head of Internal Audit, Anti-Fraud and Risk)
Farhana Zia	(Democratic Services Officer, Committees, Governance)

Officers In Attendance Virtually:

Adam Evans	(Risk & Governance Manager - ICT)
Bharat Mehta	(Audit Manager)
Denise Radley	(Corporate Director, Health, Adults & Community)
James Thomas	(Corporate Director, Children and Culture)
Nisar Visram	(Director of Finance, Procurement & Audit)

1. APPOINTMENT OF CHAIR FOR THE MEETING

Committee members were asked to elect a Chair for the meeting, owing to confusion as to who was appointed by Full Council at its meeting of 25th May 2022.

Councillor Saied Ahmed proposed Councillor Jahed Choudhury for the position of the Chair. The nomination was seconded by Councillor Kabir Hussain.

The Audit Committee **RESOLVED** to:

1. Elect Councillor Jahed Choudhury as the Chair of the meeting.

2. DECLARATIONS OF INTEREST

There were no pecuniary declarations of interest declared at the meeting by members.

3. APPOINTMENT OF VICE-CHAIR

Councillor Kabir Hussain proposed Councillor Ahmodur Khan for the position of the vice-chair of the Audit Committee. The nomination was seconded by Councillor Ohid Ahmed

The Audit Committee **RESOLVED** to:

1. Elect Councillor Ahmodur Khan as the vice-chair of the Audit Committee for 2022-23.

Change to the order of Business

The Chair, Councillor Jahed Choudhury stated the order of business would change, with item 7.6 "Update on the Annual Financial Accounts and outstanding audits – 2018/19 and 2019/20", which was a verbal update, would be taken first followed by the remaining items on the agenda.

4. **AUDIT COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS 2022-2023**

Ms Farhana Zia, Democratic Services Officer presented the report, asking members to note the Audit Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2022/23.

She informed members these had been agreed at Full Council on the 25th May 2022.

In response to questions and comments from members the following was noted:

- Councillor Mufeedah Bustin questioned why three members of the Executive were on the Audit Committee and asked for the terms of reference to be reviewed so that the quorum is made up of non-executive members. Ms Zia responded stating she'd relay the Councillors concerns to the Head of Democratic Services who would provide a fuller response.
- **ACTION:** An email response to be provided to the Audit Committee members regarding the point above, by the Head of Democratic Services.

The Audit Committee **RESOLVED** to:

1. Note its Terms of reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1,2 and 3 in the report; and
2. **AGREED** to hold scheduled meetings of the Audit Committee at 6:30 p.m.

5. **UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)**

The unrestricted minutes from the meeting of 24th March 2022 were agreed to be an accurate record of the meeting and were approved by the Committee.

6. **DELOITTE ITEMS FOR CONSIDERATION**

There were no Deloitte items for consideration although their officers would be participating in this meeting.

7. **TOWER HAMLETS ITEMS FOR CONSIDERATION**

7.1 **Final Report on the Finance Improvement Plan**

Ms Marion Kelly, Programme Director for Finance Improvement introduced the report and said the report outlined the progress the Finance Improvement Plan (FIP) had achieved following the Independent Review of the 2018/19 year-end closure of accounts. She said this was the final report on the FIP

which had broader aims than the 60 recommendations made by the independent review.

Ms Kelly referred members to paragraphs 3.3 to 3.33 of the report and said considerable progress had been made to improve the internal governance structures as well as systems, policies and procedures. She said the Corporate and Senior Leadership teams had been on the journey and had received reports and updates on the FIP and its workstreams, as well as the Audit Committee.

Ms Kelly said most actions had been delivered with a small number outstanding, which would report to the Performance Improvement Board, that the Chief Executive chaired.

In response to comments and questions from members the following was noted:

- Internal Audit do have oversight of the FIP. They will be testing the processes put in place in Quarter 4, and this would give the Audit Committee some reassurance. Mr Winter added they had been involved in the design of some of the processes but would go back to test the operational side.
- Regarding training provided to Budget holders, Ms Kelly said this had been future proofed with new budget holders receiving mandatory training. She said training on budgets and the software used was an objective in their annual appraisal. She said every budget holder was expected to complete a self-assessment which was part of their mid-year review to identify areas of weakness and/or additional training required. Ms Kelly said there was also a handbook which set out the expectations of what was required of budget holders as well as practical steps on how to complete journal entries etc.
- Councillor Saied Ahmed commented that he had been reassured that the Council was making good progress in closing the outstanding accounts. He said it was important to obtain the certificates from KPMG.
- Mr Bartle, Interim Corporate Director for Resources and Section 151 Officer stated every effort was being made to attain the outstanding certificates, however it was clear from the exchange with KPMG earlier, that this would not be forthcoming any time soon. Mr Bartle said the council did not have the leverage to speed up this process. He said the fees charged by KPMG could be substantial however the focus of the Council and the FIP now was to ensure change was embedded in the organisation and improvement remained the focus of everyone.
- Mr Nisar Visram, Director of Finance, Procurement and Audit, said a restructure of the finance team was underway. He reassured members the restructure would not be proposing a reduction in staff, more likely an increase. He said the restructure would follow due process and be reported through the normal reporting channels.

The Audit Committee **RESOLVED** to:

1. Note the progress against the actions set out in the Finance Improvement Plan (FIP)
2. Note that only the outstanding 9 actions and their completion will be reported to future Audit Committees

7.2 Treasury Management Outturn Report for 2021-22

Mr Nisar Visram, Director for Finance, Procurement and Audit introduced the report and asked Ms Miriam Adams, Interim Head of Pensions and Treasury Management to explain the Treasury Management Outturn report to the Committee.

Ms Adams stated that at the start of each year, a Treasury Management Strategy report is prepared for Council which sets out how cashflows, investments, debt, banking and control of risks associated with this, will be managed by the Council. Ms Adams said this was presented to Council at its 4th March 2021 meeting. The Outturn report is prepared at the end of the year and assesses the treasury management activity. It includes a summary of the interest earned, which supports the revenue budget and any key changes that have impacted the performance during the year.

Ms Adams said the economic background, at paragraph 4.1 set out how factors like the pandemic, the Russia/Ukraine war as well as inflation and rise in interest rates, had impacted the markets and performance of treasury management. In particular, Ms Adams drew attention to table 1, on page 58 of the agenda as well as table 2 and said this provided a summary of the balance sheet and external borrowing.

Ms Adams provided a detailed explanation of the remainder of the report, taking members through the various tables within the report.

In response to comments and questions from members the following was noted:

- Members of the Committee had no questions for Ms Adams relating to this report.

The Audit Committee **RESOLVED** to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31 March 2022.
2. Note the Council's investments as set out in Appendix 1. The balance as at 31st March 2022 was £321.2m.

7.3 Annual Internal Audit Report for June Audit Committee

Mr Aaron Winter, Interim Head of Internal Audit, Fraud and Risk presented the Annual Internal Audit Report. He said the report stated his opinion as the Head of Internal Audit as per the requirements of the Public Sector Internal Audit standards. Mr Winter said the opinion supported the governance

conclusions included in the Annual Governance Statement, which forms part of the Statement of Accounts required under the Accounts and Audit Regulations 2015.

Mr Winter explained the factors he took into consideration when giving his opinion and referred members to the summary at paragraph 2.1, on page 81 of the agenda. He said the opinion was based on the outcomes of internal audit and anti-fraud activity undertaken during the year as well as taking account of external peer reviews and the conclusions of the external auditors, relating to the accounts and the Governance Statement.

In response to comments and questions from members the following was noted:

- Mr Winter explained the opinion given was not subjective and was based on a methodology, using the outcome of internal audits to form an opinion. He said the scale used to assess the performance was cited at page 82 which provided definitions and thresholds for each opinion category.
- Referring to the minutes of the previous meeting, Councillor Bustin asked how Mr Winter was ensuring there was no conflict of interest, in the work he was undertaking for the Council. Mr Winter reassured the Committee there was a complete separation of work and said he was not involved in any of the work undertaken by BDO. He said the relationship between the Council and BDO was managed by the Audit Manager, Mr Bharat Mehta and he was not involved with this.
- Mr Winter said they were struggling to recruit to vacant posts within the team, however they would continue with the proposed recruitment, which may include looking at alternative solutions such as apprenticeships, to fill these. He said they had a local person who had recently taken up an apprenticeship role within the team. Mr Nisar Visram added that the recent recruitment to the Head of Internal Audit post had been unsuccessful and as such they were considering other approaches such as soft-market testing.
- Mr Winter confirmed the External Quality Audit was scheduled to take place in Quarter 4, this year.
- Mr Winter said the tool used to update the implementation of recommendations was Directorate trackers in Sharepoint. He said this allowed them to identify recommendations that had slipped or were overdue. He said recommendations were classified as high, medium, and low priority, with all high and medium priority recommendations followed up accordingly.

The Audit 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 2021/22.

7.4 Corporate/Directorate Risks Register Report 22/23 Q1

Mr Aaron Winter, Interim Head of Internal Audit, Fraud and Risk presented the Corporate Risk Register and said this was a regular report to the Committee. He said the report provided an update against the Risk plan and how the Council was performing against the key targets. Mr Winter said his team coordinated risk management activity, but the identification, assessment, justification and mitigation of individual risks remained the responsibility of Management.

Mr Winter stated Mr James Thomas, Corporate Directorate for Children and Culture was also present for the meeting, to answer questions relating to the Children and Culture Directorate Risk Register. Mr Winter said resources for the management of risk remained a challenge however they were looking at alternative options and were reviewing this by seeking strategic input to find a way forward.

In response to comments and questions from members the following was noted:

- Referring to the previous minutes and risk CSD0016 and the target date 2023, Mr James Thomas, Corporate Director for Children and Culture stated that the risk remained on the risk log indefinitely, as it was of such importance. He said underneath the risk was a set of mitigation actions that were reviewed on a quarterly basis.
- In reference to CSDLA000, SEN Budgets, particularly transport costs, Mr James Thomas reassured members the Directorate was keeping a close eye on the budget. He said the Transport Demand Board was working on strategies to stay within the budget which included providing travel training to SEN children and families as well as encouraging families to take up personal budgets.

The Audit Committee **RESOLVED** to:

1. Note the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Audit Committee meeting (or separately before the meeting if urgent).
2. Note the Children's and Culture Directorate risks and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the directorate's objectives at the next Audit Committee meeting (or separately before the meeting if urgent).

7.5 Internal Audit and Anti-Fraud Progress Quarterly Reports (22-23) Q1

Mr Aaron Winter, Interim Head of Internal Audit, Fraud and Risk stated the report provided members with an update on the progress against the delivery of the 2022/23 Annual Internal Audit Plan. Mr Winter said an update on anti-fraud work undertaken and any significant issues since the last report to the Audit Committee in March 2022, were also highlighted in the report.

In response to comments and questions from members the following was noted:

- Councillor Blake asked if the Internal Audit Plan was flexible to allow for additional topics and emerging risks to be considered. Mr Winter said the Plan did have flexibility to allow for additional reviews to take place if required.

The Audit Committee **RESOLVED** to:

1. Note the contents of this report and the overall progress and assurance that will be provided for 2022/23.

7.6 Update on the Annual Financial Accounts and outstanding audits - 2018/19 & 2019/20 (Verbal update)

Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 officer presented the verbal update in relation to the Annual Financial Accounts and outstanding audit of 2018/19 and 2019/20.

Mr Bartle provided some background information relating to the accounts and explained how statutory deadlines had been relaxed due to the pandemic. He said that due to significant issues with the accounts for 2018/19 and 2019/20 the deadlines for those years had been missed and ultimately this had had a knock-on effect in relation to the production of the 2020/21 and 2021/22 accounts. Mr Bartle explained there was also an issue with two outstanding certificates for the two previous years for 2016/17 and 2017/18 (although final audit reports had been received). Mr Bartle said he hoped Deloitte's could start work on the 2020/21 accounts from the end of July 2022 onwards.

Commenting on the 2018/19 and 2019/20 accounts, Mr Bartle said these had been restated several times. He said the 2018/19 accounts had been restated six times and, on each occasion, the external auditors, Deloitte's had identified further errors that required correction. Mr Bartle said whilst most of the errors had been rectified, he felt that officers of the Council had to draw a line, as to how far back they can go with corrections. He said Deloitte's had issued their draft opinions in June 2022 and whilst he was hoping to report that the audits for those years had been completed, this was not the case. He reminded the committee that the 2018/19 and 2019/20 accounts had achieved a qualified opinion. In other words, there were matters of serious import that had not allowed for an unqualified opinion. Mr Bartle said that there were 4 matters identified for the 2018/19 and 3 for the 2019/20 accounts; one qualification had been resolved for the 2019/20 accounts. He said these

matters would remain on record as the Council needed to move forward. He said there were some judgements that senior Officers had to make in discussion with Deloitte's.

Referring to the 2016/17 and 2018/19 accounts, Mr Bartle explained that whilst the audits had been completed the Council was in an unusual position where the final certificates had not been issued by the former external auditors KPMG. He said this was 'uncharted territory' and a challenging position to be in. He explained that the certificates had not been issued due to an outstanding objection received by KPMG, which had not been expedited.

Mr Bartle said KPMG were working with Council officers to issue the certificates once the material matters raised, had been resolved. Mr Bartle explained that Deloitte were unable to issue their certificates for 2018/19 and 2019/20 until such time as KPMG had issued certificates for the previous years. This would not impact, however, on Deloitte's ability to conclude their audit work for 2018/19 and 2019/20 or to start their work on later years.

In relation to the 2020/21 accounts, Mr Bartle explained these would need to be restated as one of the objections from the previous years related to group accounts. He said his team were working to consolidate the accounts for Tower Hamlets Homes and King George's Field Charity Trust, (KGFT) accounts into the main Council accounts. Mr Bartle said it was important to get back on track and break this cycle of working on previous years' accounts while trying to produce current year accounts. He said the Committee would hear about the significant improvements the Council has made regarding the production of the accounts and as such he hoped there would be no qualifications to the 2020/21 and 2021/22 accounts.

Mr Bartle said the challenges and significant issues identified in the 2018/19 and 2019/20 accounts were many, which led to an independent review being commissioned. Several recommendations were made which had been incorporated into the Finance Improvement Plan.

In response to comments and questions from members the following was noted:

- Mr Bartle confirmed that a 'qualified opinion' from the external auditors was viewed as negative because the auditors are saying the accounts represent a true and fair view of the financial position except for the items noted in the qualification. As such the council needed to aim for an 'unqualified opinion'. Mr Bartle said they would be aiming for 'unqualified opinions' for future accounts however he could not guarantee this as the external auditors had not started work on these two years' accounts.
- Mr Bartle said a significant amount of work had been undertaken as part of the improvement plan to improve the quality of working papers, with training provided to all budget holders and officers involved in the production of accounts. He said the Finance Team had been strengthened with additional staff employed to assist in the production of the accounts.

- Financial controls were scrutinised by Internal and External Audit. Members would get a sense of improvement via reports to the Committee and the number of 'unlimited' assurance reports.
- Issues relating to schools were in connection to data collection and returns. In some cases, the schools' and Council data did not match. A considerable amount of work had been done to reconcile this, with a new system being introduced for payments made to schools.
- Referring to the KGFT accounts, of which the Council is the sole trustee, the 2019/20 accounts had not been lodged with the Charity Commission as was required and a working group to set about making improvements in procedures to produce the accounts in a short space of time. Mr Bartle said he was pleased the 1st and 2nd set of accounts had been 'unqualified' and had been consolidated with the main accounts.
- Mr Bartle said there were no financial penalties for the Council in relation to the late production of the accounts, save for the potential reputational damage to the Council.

The Chair thanked Mr Bartle for his presentation, before inviting officers from KPMG to comment on the 2017/18 and 2018/19 financial accounts.

KPMG

The Committee heard from Mr Andrew Cardoza, Mr Rashpal Khanura and Mr Antony Smith from KPMG.

Mr Cardoza said an objection had been raised in relation to a PFI initiative, relating to the 2016/17 accounts. He said this was a complex objection raised by a local elector, which they had seen across the county in several different audits. Mr Cardoza said the investigation had taken a considerable amount of senior auditor time as well as legal advice needed to complete the work on the objection.

Mr Cardoza said that at the same time, they completed their work on the 2017/18 audit and issued an unqualified opinion on the financial statements for that year on the 31st July 2018. Mr Cardoza said it still took a lot more work on the objection to determine as to whether the objection ought to be included in the accounts and thus reach a conclusion. Mr Cardoza said they completed the work on the objection in August 2019 at which point they had concluded their audit work. Mr Cardoza said they informed the Council in September 2019 of this and went on to issue financial opinions relating to the 2016/17 and 2017/18 accounts. He said that all that remained was the issue of the certificates once they had heard back from the Director of Finance at the Council.

Mr Cardoza said nothing further was heard back from the Council until such time Mr Bartle contacted them in late 2020 and then in February 2021. He said at this juncture the senior partner who had worked on the audits, had retired and as such this matter was picked up by Mr Cardoza in May 2021. He said there had been a long delay in their response however a meeting took

place in July 2021 to understand what the issues were and what the current auditors, Deloitte's were raising as concerns. He said they would consider the points raised in relation to prior year adjustments but due to the complex nature of the queries and the new information provided, it was taking time to investigate and conclude.

Mr Rashpal Khanura added that in order not to duplicate the work, they were waiting for their internal risk team to approve the 'hold harmless' letter from Deloitte before they began to assess the adjustments required. Mr Khanura said they would reassess the 2018/19 financial statements to satisfy themselves that the opening and closing balances were correct. He said they will then go through their internal consultation and review process before issuing the certificates for years 2017/18 and 2018/19.

Mr Cardoza said there would be an additional fee for the work KPMG is undertaking currently, since July 2021.

In response to comments and questions from members the following was noted:

- Mr Cardoza said KPMG were of the view that 'group accounts' were not necessary however they would consider new information provided by Deloitte's. Mr Cardoza said this was an issue for the current external auditors but at the time they did not feel 'group accounts' were needed.
- The management fee to be charged would be at the Public Sector Audit Authority (PSAA) discounted rates. Mr Cardoza said they would give a full breakdown of the work and time taken to resolve the additional queries.
- Mr Cardoza said they could not commit to a timeline as to when the 'hold harmless' letter would be approved by their internal risk team, as this was uncharted territory. He said it was not in the remit of the three auditors present at the meeting, as the decision would need to be made by more senior staff in KPMG.

The Chair thanked KPMG for their presentation.

Deloitte

The Committee then heard from Mr Jonathan Gooding, Senior Partner at Deloitte. Mr Gooding said much of the background had already been described by Mr Bartle and as such he would only add that a huge amount of work had been undertaken by the Council and Deloitte's to resolve the outstanding queries. Mr Gooding said the difficulties experienced regarding the previous years' accounts related to control weaknesses, but they were to commence work on the 2020/21 and 2021/22 accounts as soon as possible. Mr Gooding said they were in the final stages of resolving the 2018/19 and 2019/20 accounts however could not issue final certificates until KPMG had completed their work.

In response to comments and questions from members the following was noted:

- Mr Gooding said work could be commenced on the 2020/21 audit however final sign off and the issue of certificates for the previous years 2018/19 and 2019/20 could only be issued once KPMG had signed off the 2016/17 and 2017/18 accounts.

The Chair thanked Mr Gooding for his update.

8. AUDIT COMMITTEE WORK PLAN

The Chair, Councillor Jahed Choudhury stated owing to time, he was deferring this item. He said a fuller discussion regarding the work plan and suggestions from members would be taken forward at the next meeting of the Committee.

In response to comment and questions from members the following was noted:

- Councillor Blake stated that she had a few suggestions regarding the workplan, but she would wait until the next meeting to express her view.
- Councillor Bustin asked if the extraordinary meeting scheduled for September 2022 and the training identified would still go ahead. Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 Officer stated he was unable to confirm this at this time but in any event would need to seek the consent of the Committee to agree this, as he hoped to present the 2018/19 & 2019/20 accounts at this meeting.

The Audit Committee **RESOLVED** to:

1. **AGREE** to the extraordinary meeting scheduled to take place on the 21st September 2022 at 6:30 p.m. and the half day briefing scheduled for the 5th September 2022. It should be noted that in the event the 2018/19 & 2019/20 accounts and audits were not completed in time, this meeting would need to be re-arranged.

9. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There were no urgent business to be discussed.

10. EXCLUSION OF PRESS AND PUBLIC

Exclusion of Press and Public

The Chair **MOVED** and it was

RESOLVED

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

10.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The restricted minutes from the meeting of 24th March 2022 were agreed to be an accurate record of the meeting and were approved by the Committee.

The meeting ended at 8.54 p.m.

Chair, Councillor Jahed Choudhury
Audit Committee