

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 26 JANUARY 2023

**COUNCIL CHAMBER - TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON, E14 2BG**

Members Present in Person:

Councillor Jahed Choudhury
Councillor Ahmodur Khan
Councillor Saied Ahmed
Councillor Ohid Ahmed
Councillor Kabir Hussain
Councillor Mufeedah Bustin
Councillor Asma Islam
Councillor James King

Apologies:

Councillor Rachel Blake
Charlotte Webster Independent Person

Others Present in Person:

Andrew Cardoza KPMG
Angus Fish Deloitte
Jonathan Gooding Deloitte

Others In Attendance Virtually:

Antony Smith KPMG
Rashpal Khangura KPMG

Officers Present in Person:

Miriam Adams Interim Head of Pensions and Treasury
Kevin Bartle (Financial Consultant- formerly Interim Corporate
Director, Resources & Section 151 Officer)
Jill Bayley (Head of Legal Safeguarding)
Tim Harlock Interim Chief Accountant
Caroline Holland (Interim Corporate Director, Resources)
Will Tuckley (Chief Executive)
Nisar Visram (Director of Finance, Procurement & Audit)
Farhana Zia (Democratic Services Officer, Committees,
Governance)

Officers In Attendance Virtually:

Farhad Ahmed	(Traded and Business Development Manager)
Kay Goodacre	(Head of Strategic Finance, Children & Culture)
Ahsan Khan	(Chief Accountant)
Steve Nyakatawa	(Director of Education)
Jennifer Peters	(Divisional Director, Planning and Building Control, Place)
Karen Swift	(Divisional Director, Housing and Regeneration)

APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rachel Blake and Charlotte Webster, Independent Person of the Audit Committee.

VARIATION IN THE ORDER OF BUSINESS

The Chair, Councillor Jahed Choudhury stated item 4.2, the financial accounts for 2018/19 and 2019/20 and item 4.3, the letter of representation to Deloitte will be taken first. This would then be followed by item 3, the KPMG Audit update for the 2016/17 & 2017/18 accounts and then item 3.1 the management letter of representation to KPMG. Thereafter Deloitte would be presenting their report – Item 4.1, the accounts for 2018/19 and 2019/20.

In respect to the Tower Hamlets Items for consideration, Items 5.4 – Treasury Management Mid-Year Review and Item 5.5, the strategy statements would be taken first before proceeding with the remaining item on the agenda, items 5.1, 5.2 and 5.3.

The Chair apologised for the changes made saying that it was important the Committee dealt with the accounts and treasury management reports first.

1. DECLARATIONS OF INTEREST

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

2. MINUTES OF THE PREVIOUS MEETING(S)

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

3. KPMG AUDIT UPDATE

Mr Andrew Cardoza from KPMG presented the 2016/17 and 2017/18 accounts. He explained the timeline involved and how the prior year

adjustments proposed in the management letter of representation were dealt with.

Mr Cardoza said their opinion for both sets of accounts i.e., 2016/17 and 2017/18 had been issued, with the audit certificates outstanding. Mr Cardoza explained they had been dealing with an objection that required investigation and as such the certificates for those years had not been issued forthwith at the time. He said KPMG contacted the Council in August 2019 asking for the management letters of representation however, there was a lag, and nothing was heard back until late 2020. He said over time staff at KPMG as well as the Council had left and moved on. Mr Cardoza said that he picked up the issue in May 2021 and commenced work in July 2021.

He said the management letter of representation mentioned prior year adjustments for the 2016/17 and 2017/18 accounts. Mr Cardoza said for the 2018/19 accounts, 10 adjustments were suggested, with a further 17 separate adjustments proposed. Mr Cardoza said they did not think all were necessary and for the 2017/18 accounts, 4 changes were made. He said this was detailed on page 5 of the report (page 7 of supplementary agenda 1).

Mr Cardoza said that for the 2016/17 accounts and the 2017/18 accounts the draft certificates were including in the appendices. He said on receipt of the management letters of representation, KPMG would close off the audits and issue the audit certificates.

In respect to the 2017/18 accounts, 14 prior year adjustments had been suggested. He said 3 adjustments had been accepted, as detailed on page 5 of the report (page 7 of supplementary agenda 1), with 12 adjustments not made. Again, Mr Cardoza said KPMG were happy to issue audit certificates once in receipt of the management letter of representation.

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

- Councillor Saied Ahmed said it was good to hear the accounts for KPMG audit years were ready to be issued with audit certificates. He asked Officers how long it would take to get the letters of representation to KPMG? Mr Bartle responded stating the draft management letters of representation were included as part of supplementary pack 2 (pages 3 -22) and would be sent to KPMG shortly

The Chair, Councillor Jahed Choudhury, thanked Mr Cardoza and KPMG for their work, in reaching a successful conclusion to the 2017/18 and 2018/19 accounts. Mr Cardoza also thanked Deloitte officers and Council Officers for their involvement and their helpfulness in concluding the accounts, in what had certainly been 'unchartered territory' for all involved.

The Audit Committee **RESOVLED** to:

1. Note the audited accounts of 2017/18 and 2018/19 and the conclusion of the said accounts.
2. Members understood audit certificates pertaining to the above years would be issued once in receipt of the management letters of representation.

3.1 Management Letter of Representation to KPMG

Mr Bartle, former Interim Corporate Director for Resources, stated the management letters of representation to KPMG were in supplementary pack 2 (pages 3-22) and asked the Audit Committee to approve them.

The Audit Committee **RESOLVED** to:

1. Delegate to the Chair the authority to sign the management letters of representations to be made to KPMG, as provided in the appendices, subject to any further updates to be reported verbally at the meeting.

4. DELOITTE ITEMS FOR CONSIDERATION

4.1 Deloitte Audit Update

Mr Jonathan Gooding, from Deloitte introduced the reports and said members of the Audit Committee had revised versions of the 2018/19 and 2019/20 accounts in front of them. These were in supplementary pack 1, pages 37 to 130, and pages 131-210 respectively. He said the audits for these years were substantially complete, subject to a few outstanding issues before the audits could be signed off following the management letters of representation.

Mr Gooding then took members through the 2018/19 report and said the key messages summarised the status of their work as well as the key areas of audit judgment. He said for the 2018/19 accounts, Deloitte were issuing a qualified opinion. Mr Gooding stated the key areas of audit judgement related to expenditure, valuation of properties and the decision not to prepare group accounts, to highlight a few areas. He said the report listed the control observations and made recommendations on how to improve these.

In reference to the second report, 2019/20 Mr Gooding said the issues identified were very similar, with similar conclusions reached for this set of accounts. He said that Deloitte would be issuing a qualified opinion for these accounts however it was evident a considerable amount of resources, investment as well as checks and balances had been introduced by the Council through the improvement plan to address the shortcomings.

He said no objections had been received in relation to the accounts and as such once the small number of points raised were clarified, Deloitte would be in a position to issue the audit certificates.

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

- In answer to what assurances Deloitte could give, that more issues would not be raised following the latest presentation of the audits, Mr Gooding stated that in the management letters of representation the Authority agreed that the issues raised by the auditors are not material; and that relevant legal documentation is correct. He said that to satisfy themselves they had asked for an enhanced assurance that members of the Committee had understood the audit processes and said this was what was required before the audits could be signed off.
- Mr Bartle added that in his introduction he had made clear that the receipt of the ISA 260 audit reports was late on Friday 20th January and that these had been issued to members at the earliest opportunity without officer review. He said Officers had not understood the requirement from Deloitte for Members to be taken through representations being made by the Council as part of an enhanced process and he apologised for any oversight in this regard.
- Referring to the 2019/20 accounts, Councillor Saied Ahmed asked if the outstanding information required was provided, what was the timeline to sign off the accounts? Mr Gooding said he was confident the issues could be resolved in the next 2-3 weeks with certificates being issued thereafter.
- Mr Gooding confirmed that the Audits had not identified corruption or fraud as part of its work.
- In respect £20M accounted for incorrectly, Councillor Islam asked if this related to a change in formula for calculating business rates. Mr Bartle responded stating that the sum had been released to the General Fund in error however this had been corrected. It did not relate to any change in the Business Rates formula.
- Mr Bartle stated that the accounts for these years could be re-examined again and again, however the Council needed to draw a line under this and move on with the outstanding accounts for 2020/21 onwards. He said a pragmatic approach was needed.
- Councillor Bustin asked if it was clear what additional information was needed by Deloitte. Mr Gooding stated the information required was bullet pointed in the audit reports and said he hoped this could be provided within the next 2-3 weeks. Mr Tim Harlock, Interim Chief Account confirmed that he'd be able to get the information to Deloitte's in that timeframe.

The Chair, Councillor Jahed Choudhury thanked Mr Gooding and Mr Fish for attending the meeting and said that following the discussion had earlier in the meeting, the Audit Committee would meet again once the minor outstanding queries had been resolved.

The Audit Committee **RESOLVED** to:

1. Note the audit reports presented by Deloitte for years 2018/19 and 2019/20 and acknowledged a further extraordinary meeting of the Audit Committee would be required before the audits could be signed off, with enhanced management letters of representation.

4.2 Financial Accounts for 2018-19 & 2019-20

Mr Kevin Bartle, former Interim Corporate Director for Resources introduced the item. He informed members that whilst the intention was to present and sign off all four years of accounts, it was late on the afternoon of the Audit Committee meeting, namely the 26th January, that it was discovered this may not be possible.

Mr Bartle explained that for the 2018/19 and 2019/20 accounts further issues had arisen which he hoped were not significant or material. He said Deloitte would update members in this regard, however what was clear was another extraordinary meeting of the Audit Committee would be required to sign off the 2018/19 and 2019/20 accounts.

Referring to the KPMG accounts for 2016/17 and 2017/18, Mr Bartle hoped these were now ready to be presented and signed off at the meeting together with the management letter of representation appended to item 3.1. Mr Bartle said members would be hearing from Mr Andrew Cardoza in relation to the KPMG accounts.

Mr Bartle explained it was usual practice for the external auditors to present their accounts and for the Council to respond with a management letter of representation. He said the letter provided assurances to the auditors, with caveats that the underlying processes used in the production of the accounts, could be evaluated as credible and robust enough for the purpose of compiling the accounts.

Mr Bartle said that notwithstanding this, Deloitte had asked for an enhanced level of due diligence for the two years of accounts, they had been involved in. Mr Bartle said the Council was now being asked to provide a memo or report giving assurances that the Audit Committee members had fully understood the issues with the accounts and were fully appraised of them. Mr Bartle said Deloitte were expecting the enhanced report to be part of the agenda at this meeting, whereas Officers of the Council had not fully grasped this, owing the audit report where this was mentioned being provided late on Friday 20th January, with a late supplement being issued to Members, without Officers having had a chance to go through the documentation.

Therefore, the recommendation to the Audit Committee, was for members to have an informal meeting with officers by late February, with an extraordinary meeting of the Committee to follow soon after.

The Chair, Councillor Jahed Choudhury put forward this proposal of an informal meeting followed by an extraordinary meeting to members of the Committee, who **AGREED** to this.

The Audit Committee **RESOLVED** to:

1. Meet informally with officers of the Council to go through the accounts of 2018/19 and 2019/20, to understand the underlying issues before an extraordinary meeting of the Audit Committee.

4.3 Management Letter of Representation to Deloitte

As explained by Mr Bartle, former Interim Corporate Director for Resources, this item will be considered at the extraordinary meeting of the Committee.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5.1 Internal Audit and Anti-Fraud Progress Quarterly Reports (22-23) Q3

Mr Nisar Visram, Director of Finance, Procurement and Audit stated the report provided an update on the progress against the delivery of the 2022/23 Annual Internal Audit Plan as well as an update on the fraud prevention and anti-fraud work. Mr Visram said the report highlighted any significant issues since the last report to the Audit Committee in November 2022.

Referring to paragraph 3.2, Mr Visram said BDO had been selected to provide third party accountancy support to the internal audit function however a delay in appointment had led to some of the audits in the audit plan lagging. Mr Visram continued stating the tables at paragraphs 3.9 and 3.10 showed the progress made against the Internal audit plan and the recommencement of the schools' audit programme.

Mr Steve Nyakatawa, Director of Education was also present for the meeting and said several schools had achieved a 'limited assurance', since the recommencement of the schools' audit programme. He said steps were in place to ensure Headteachers and Governing Bodies were aware of the shortcomings and had improvement plans in place to rectify the weaknesses. Ms Kay Goodarce, Head of Strategic Finance - Children & Culture added that the information from the early audits was being used to inform other schools. She said schools had not been audited since the pandemic and as such there was significant learning for all schools to recognise and implement.

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

- Members had no questions for the Officers relating to this report.

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.

5.2 Corporate/Directorate Risks Register Report 22/23 Q3

Mr Nisar Visram, Director of Finance, Procurement and Audit stated this was a regular report received by the Audit Committee, which set out the corporate risk register. He said Directors from the Place Directorate were also in attendance to answer questions relating to the Place Risk Register.

Ms Karen Swift, Director for Housing and Ms Jennifer Peters Director of Planning and Building Control took members through their risk register. Ms Swift provided an update in relation to risk PLC0013 (page 183 of the main agenda pack) and said good progress had been made, with more funding being provided by the Government. She said there was a better flow of information and improved ICT to ensure the database of high-rise buildings was up to date. In reference to risk PLC0023 (page 201 of the main agenda pack) Ms Swift said the Building Safety Act came into force in April 2022 and they had appointed a much-needed Building Safety Lead, who had previous fire Brigade experience.

Ms Peters concurred the Directorate had made good progress in relation to the Building Safety Act and referred members to risk PPRMM0003 (Page 236 of the main agenda pack) and said that following the limited assurance report further investment had been made to the management of markets.

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

- Councillor Bustin commented that the presentation of the risk registers was confusing and not easy to follow. She asked if Officers could clearly define the corporate risk register from that of the directorate risk register.
- **ACTION:** Mr Visram agreed to look at how the registers are presented to the Committee.
- Referring to SR0056 on the Corporate Risk register (Page 57 of the main agenda), Mr Visram reassured members that any overspend was carefully monitored through controls within the budget and regular meetings with the risk/budget holder. Mr Visram said the biggest area of overspend was the Adult Social Care budget and there were key pressures across the organisation.
- In reference to the Place Risk register, SDBCD0005 (Page 240 of the main agenda) Ms Peters stated that the risk register had not been updated in relation to the South Dock Bridge as this had only recently been approved for development by the Development Committee. She said the decision was not an issue but there remained risks attached to the scheme.
- In reference to PLC0013 (Page 183 of the main agenda) Ms Swift acknowledged the control measure column required updating with the control and target dates. She said this would be done with a target date of six months.
- Referring to risk EPGGS0019 (Page 218 of the main agenda) Councillor King enquired how risks were being measured against the current economic climate. He asked what steps had been taken to ensure capital programmes, in general were not at risk from high

inflation and the tough economic climate. Mr Visram responded stating that the capital programme had been refreshed with more accurate costings, which was part of the budget report going to Council for approval. He said they were keeping a close eye on projects and were working with project managers in relation to managing costs.

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 those risks including impact on the corporate objectives at the next Audit Committee meeting (or separately before the meeting, if urgent).
2. Note the Place 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 risks including impact on the directorate's objectives at the next Audit Committee meeting (or separately before the meeting if urgent).

5.3 Internal Audit & Anti-Bribery Policy January 2023

Mr Nisar Visram, Director of Finance, Procurement and Audit stated that the Public Sector Internal Audit Standards required the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter which required approval by the Audit Committee.

Mr Visram said the report was appended at Appendix A and this was an opportunity for members to review and comment upon the internal audit charter. Likewise, he said the Anti-Bribery policy, appended at Appendix B required annual review and update and required approval by the Committee.

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

- Member of the committee had no questions for Mr Visram in relation to this report.

The Audit Committee **RESOLVED** to:

1. Review and approve the Internal Audit Charter – Appendix A
2. Review and approve the Anti-bribery Policy – Appendix B

5.4 Treasury Management Mid-Year Report for 2022-23

Ms Miriam Adams, Interim Head of Pensions and Treasury stated there were two reports on the agenda and that she'd take questions from members once both reports had been presented.

Referring to the Treasury Management mid-year report she informed members the report covered the period 1st April 2022 to 30th September 2022.

Ms Adams took members through the report and the tables at paragraph 3.11 and 3.12 which provided a summary of the balance sheet and a summary of treasury management position. She said at the beginning of the year the total investments were £321.2m however at 30th September 2022, the total investment was £247m. She said one of the key drivers for the balances was the capital programme. Monies received from grants, fees and charges as well as business rate collection do not get used entirely.

She referred to paragraph 3.27 which showed the forecast performance as at 30th September and paragraph 3.31 which set out the borrowing exposure for short and long term borrowing. Ms Adams referred to the table appended at appendix A and said this summarised the investments in detail.

The Audit Committee **RESOLVED** to:

1. Note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2022; and
2. Note the Council's investments as set out in Appendix 1. The balances outstanding at 30 September 2022 was £247.3m.

5.5 Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2023-24

Ms Miriam Adams, Interim Head of Pensions and Treasury referred to the second report and said the Council under the Local Government Act 2003 had a legal obligation to ensure the CIPFA and the DLUHC guidance on Treasury management were fulfilled. Ms Adams said the Council was required to produce three strategy documents which set out the Council's treasury management approach. (1) The Treasury Management Strategy Statement, (2) the Investment Strategy Report and (3) the Capital Strategy Report for 2023-24.

She said the recommendations on page 26 of the 3rd supplementary agenda required approval of the Audit Committee and Full Council. She referred members to the table at paragraph 4.7, page 40 and said the Council was planning to significantly increase its capital expenditure over the next three years. She said the table provided a high-level summary of the costs involved. Referring to paragraph 5.8, page 43 Ms Adams said the table showed the counterparties and limits in which the Council could invest in. The Treasury Management indicators were described at paragraph 6, page 47 onwards. Ms Adams said that due to increased use of reserves, this had an impact on the capital treasury management cash balances and if there was a likelihood of slippage in the capital programme, then there was a likelihood of additional borrowing.

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

- Councillor Bustin enquired if the borrowing element for the capital programme had been factored in for future forecasting for the general

fund and the Council's cashflow. She said it was inevitable that borrowing attracted interest and wondered if this has been given consideration. Mr Visram responded stating consideration had been given to this, but much depended on how the markets behaved and if the interest rate continued to rise. He referred members to page 67 of the supplementary agenda 3, and said the table forecasted financing costs to the net revenue stream.

The Audit Committee **RESOLVED** to recommend to Council to:

1. Approve and adopt the following policy and strategies:
 - 1.1) The Treasury Management Strategy Statement contained in Appendix A;
 - 1.2) Approve the recommended investment counterparties and limits in Appendix A paragraph 5.8;
 - 1.3) The Investment Strategy Report contained in Appendix B;
 - 1.4) The Capital Strategy Report, which includes the Minimum Revenue Provision (MRP) Policy Statement, contained in Appendix C;
 - 1.5) The Prudential and Treasury Management indicators contained in Appendix D; and
 - 1.6) The Treasury Management Policy Statement as set out in Appendix E.

6. AUDIT COMMITTEE WORK PLAN

Ms Caroline Holland, Interim Corporate Director for Resources confirmed that there would be an informal meeting of the Audit Committee, towards the end of February followed by an extraordinary meeting of the Audit Committee to deal with the Accounts.

The next scheduled meeting thereafter was on the 13th April 2023.

7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 8.33 p.m.

Chair, Councillor Jahed Choudhury
Audit Committee