



Meeting of the

AUDIT COMMITTEE

Tuesday, 26 March 2013 at 7.00 p.m.

A G E N D A

VENUE

ROOM C1, FIRST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair: Councillor Anwar Khan	
Councillor Craig Aston Councillor Stephanie Eaton Councillor David Edgar Councillor Abdal Ullah 1 Vacancy	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Motin Uz-Zaman, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah) Councillor Marc Francis, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah,) Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah)
[Note: The quorum for this body is 3 Members].	

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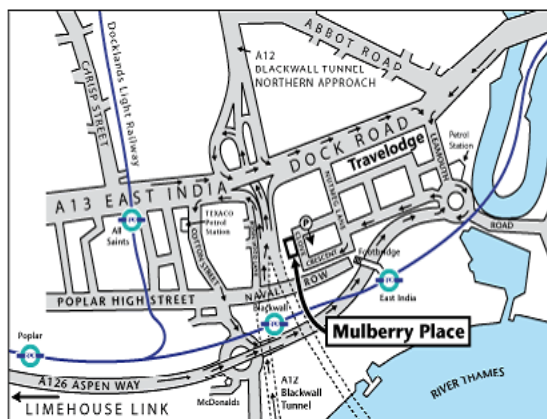
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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 26 March 2013

7.00 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Chief Executive.

	PAGE NUMBER	WARD(S) AFFECTED
3. UNRESTRICTED MINUTES	3 - 12	

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 14 January 2013.

4. UNRESTRICTED TOWER HAMLETS REPORT

4.1 Presentation from SECTOR

4.2 Treasury Management Activity for Period Ending 28th February 2013

13 - 24

To note the contents of the treasury management activity report for period ending 28 February 2013.

5. UNRESTRICTED KPMG REPORTS FOR CONSIDERATION

5.1 External Audit Plan (KPMG)

25 - 50

To consider the Audit Plan submitted by KPMG

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6 .1	Quarterly Internal Audit Assurance Report	51 - 86
	To note the report and to take account of the assurance opinion assigned to the systems reviewed during the period.	
6 .2	Internal Audit Plan 2013/14	87 - 136
	To endorse the Annual Internal Audit Plan for 2013/14 printed at Appendix 1.	
6 .3	Progress on National Fraud Initiative 2010 and New Initiative 2012	137 - 162
	To note the report.	
6 .4	Social Housing Update	163 - 166
	To note the report.	
7.	ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT	

Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

What constitutes a prejudicial interest? - Please refer to paragraph 6 of the adopted Code of Conduct.

Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.03 P.M. ON MONDAY, 14 JANUARY 2013

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Anwar Khan (Vice-Chair)
Councillor Stephanie Eaton
Councillor David Edgar
Councillor Abdal Ullah

Officers Present:

Jill Bell – (Head of Legal Services (Environment), Legal Services, Chief Executive's)
Alan Finch – (Interim S151 Officer, Service Head Financial Services, Risk & Accountability, Resources)
Minesh Jani – (Head of Audit and Risk Management , Resources)
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)
Les Warren – (Director of Finance and Resources, Tower Hamlets Homes)

Antonella Burgio – (Democratic Services)

Others In Attendance

Daniel Hellary – Deloitte Touch
Shona Milton – Audit Manager KPMG
Andrew Sayers – Audit Partner KPMG

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

1.1 Introductions

At the Chair's invitation, all parties in attendance introduced themselves.

The Chair welcomed Andrew Sayers and Shona Milton of KPMG and advised that, in respect of Council business, KPMG would carry out the audit role formerly undertaken by the Audit Commission. The Chair also welcomed Daniel Hellary of Deloitte UK who had replaced Steve Vinall.

Alan Finch advised the Committee that, following the departure of the Director of Resources, he had been assigned the role of Interim Section 151 Officer on behalf of the Council.

At the Chair's invitation, all parties in attendance introduced themselves.

The Chair welcomed Andrew Sayers and Shona Milton of KPMG and advised that, in respect of Council business, KPMG would carry out the audit role formerly undertaken by the Audit Commission. The Chair also welcomed Daniel Hellary of Deloitte UK who had replaced Steve Vinall.

2. DECLARATIONS OF INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The minutes of the Audit Committee meeting held on 25th September 2012, were approved as a correct record of proceedings.

4. UNRESTRICTED KPMG REPORTS FOR CONSIDERATION

4.1 Certification of Claims and Returns Annual Report LBTH Audit 2011/12

Mr Sayers of KPMG advised the committee that KPMG would in future undertake the role previously performed by the Audit Commission and would be responsible for undertaking the audit of the council's accounts. He advised that the style of audit may differ from that undertaken by the Audit Commission but the annual report will be the same as that hitherto provided.

Mr Sayers presented the report circulated at agenda item 4.1, the annual audit of Certification of Claims and Returns. He advised that the certification of grants and returns 2011-12 had been prepared by the audit commission and the report produced by KPMG.

Regarding the certification of claims and returns, Mr Sayers advised that there were six certified claims reported, 70 of the qualifications have been reduced. He noted the technical qualification against housing audit resulting from a DCLG error. This qualification although not originating the Council had nevertheless been reported.

Mr Sayers noted the need for consistent rigour in the preparation of returns and that a reduced fee had been levied this year as there had been a general improvement in their preparation.

In response to questions from the Committee, the following matters were discussed:

The origins of the income calculations error relating to housing benefit and council tax benefit subsidy were not clear. The error was traced and was found to originate only to the figure submitted in the return. He noted that

there was no indication that monies had been paid incorrectly. Therefore the consequences of this qualification were reduced.

The Head of Risk Management and Audit informed the Committee that there was close interaction between the Council's Audit Officers and its external auditors because the number of internal audits undertaken had diminished. Because of the close cooperation inconsistencies also could be identified readily.

At internal school audits Council Audit Officers assessed where areas of higher risk existed and where the audit cycle was manipulated by Chairs of Governors.

The Service Head, Finance, Risk and Accountability advised that accounting differences in the certification of benefits claims and returns were caused by delays in the issue of software updates that incorporate changes in benefits rules. Software updates were issued regularly and reflected the changes in benefits rules. However inconsistencies could arise at times because of delays in software release from Government forcing officers to anticipate the impact of benefits changes before the software could be run on the system data. Mr Sayers advised that the updates had been released after the audit work had started on the certification of claims and returns and this had also affected the final sums reported. He also noted that this circumstance did not impact benefits claimants but affected the sum that the Council recovered for each claimant.

The Committee was informed that the single person discount claim was made based on Council Tax Band D. This was £280. The scale of discounts was not given and the figure was not held by KPMG.

Concerning the GLA Single Programme, the Council reported that it had received income of £1,083K. The sum had not been verified and the Service Head, Finance, Risk and Accountability advised that this may have occurred because it was pre-announced and/or the timing of the receipt which took place after a the year end accounts had closed. He advised that this return had not been checked by the Council and therefore this risk was being addressed.

RESOLVED:

That the report to be noted

5. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

5.1 Quarterly Internal Audit Assurance Report

The Head of Risk Management and Audit informed the Committee that the report covered the period September - November 2012 in which time 15 audits were completed. Three of these were assigned limited assurance and 12 substantial assurance. He advised that all priority one recommendations

had been implemented and three priority two recommendations remained outstanding at the time of the follow-up.

In response to questions from the Committee, the following matters were discussed:

It was confirmed that sufficient time had been allowed to complete the plan barring unexpected events because the timings of the audits had been planned in advance. The Council was presently on target to deliver the plan. All preparations were in hand and the participants had been alerted.

The Committee was satisfied to learn that there had been no nil assurances and queried why no full assurances had been achieved. Members were advised that this was because the standard was high and full assurances would be assigned only when systems were considered sufficiently robust to assure delivery of their objectives. The Head of Risk Management and Audit noted that most audits had returned substantial assurances and advised that the Council aimed to perform within this range. Should an audit return a 'fail', an investigation would be considered.

Limited assurance levels had been returned for Tower Hamlets Homes (THH), contractors financial accounts-systems audit. The Director of Finance and Customer Services, THH advised that the audit had indicated some areas of need concerning capital contracts. He advised that membership of the contracts group would be reviewed for conflicts of interest. Also the final account audit would ensure that all sums were reconciled. Following the audit outcome there has been work on the capital manual and a follow-up audit will be undertaken to ensure that all recommendations have been implemented. Tower Hamlets Homes was presently looking into commissioning external auditors to undertake this work. The Director confirmed that he was confident that the recommendations would be implemented as implementation of the measures to remedy the limited assurances identified was ahead of schedule. In considering whether THH lacked risk awareness in the areas that returned limited assurance, the Director advised that the audit was a system audit and therefore officers with who were aware of the issues would be tasked to deal with them and also would be involved in the discussion. He further advised that the issue was not so much around risk awareness but concerned acknowledging conflicts of interests around the group. The Head of Legal Services, Environment also advised that since THH had a small workforce it was necessary to avoid ruling out participation by those with expertise. She therefore suggested that it would be more prudent for those evaluating the audit to declare an interest rather than to remove themselves from the audit.

The Head of Risk Management and Audit advised the Committee that a full confirmed that audits in the following year would explore how the Council managed its final accounts process.

The Head of Risk Management and Audit advised the Committee that that a satisfactory response had not been received from Sir John Cass school in regard to the limited assurance returned following the audit of management and control of school meals income. Therefore the Council had agreed a new

process be followed in the management and control of school meals income and cash handling. Accordingly a follow up audit was due to be undertaken.

It was confirmed that the recommendations around the medium-term financial plan given at appendix 3 had been implemented.

RESOLVED

That the report be noted

5.2 Revised Internal Audit Plan for 2012

The Head of Risk Management and Audit advised the Committee that, at the start of the financial year, an audit plan had been set that identified the key risks for all operations of the Council. The report provided an update of audit activity planned in this year and also advised of changes to be made to the original internal audit plan as a result of changing priorities and available resources.

The Committee was also informed that the data given at paragraph 4.2 of the report had been amended as follows:

Additional audits added to the plan had increased to 225

Number of days per the revised plan had increased to 1435

The revised current internal audit plan 2012 - 13 was printed at Appendix 2 of the report.

In response to questions from the committee the following information was discussed:

It was confirmed that the internal audit plan incorporated audits carried out by Deloitte and KPMG and included an audit of the management of Baishaki Mela contract.

The Head of Risk Management and Audit advised that in June 2012 the Council had written to the Baishaki Mela Trust recommending certain controls. An audit of these has been completed by Deloitte seeking also to verify the expenditure that the Trust claims to have incurred.

At Members' request, The Head of Risk Management and Audit agreed to present a report on the findings of the audit of the Baishaki Mela Trust before the next Mela festival took place. The Head of Legal Services – Environment advised that the event was to take place in Spring and preparations were mostly underway leaving insufficient time for a report and recommendations to be actioned. Members therefore requested that officers ensure that the recommendations of the audit be implemented and were informed that most recommendations were financial and should already be in place. The Head of Risk Management and Audit agreed that an audit would be carried out before

the Mela Festival took place and confirmed that if areas of concern were identified, these matters could be raised at senior officer level. The Head of Legal Services – Environment advised that, if it were found that audit recommendations were not being followed, the event could be halted if necessary. Members considered whether an audit post-event should be carried out and were concerned that such an audit brought exposure to risk into the following Mela Festival preparation cycle. Additionally they were concerned that the present audit had taken six months; and enquired whether the audit controls were sufficient to address previous allegations around human trafficking. They were advised that the audit process had started in October 2012 but had taken longer than expected. It was now advanced although some work remained to be done. The audit emphasis had been to ensure that any claims could be justified before being paid. At present 80% had been paid to the Mela Trust and the remainder would be paid after the audit had been completed.

Concerning human trafficking allegations, the Head of Risk Management and Audit advised that the Mela Trust was charged to ensure that artists used at the festival possessed the right credentials. An external company was used to verify credentials and it is believed that some artists have been refused participation after vetting.

The Chair asked that a report on the audit of the Baishaki Mela Trust be prepared for the next meeting

Members queried whether the allocation of 15 days for Oyster Card audits was wise use of staff resources and were advised that the first audit of Oyster Card usage had identified an abuse. Therefore it had had been necessary to re-audit the provision. It was also noted that because of staff reductions, audits generally took longer.

Concerning the audit of right to buy scheme, Councillor Ullah highlighted that two different valuations had been given against one property. He was advised that right buy scheme is planned and valuations were generally made by professional bodies; however the discrepancy in the valuations offered by competitive valuers and the possible implications and costs to the Council were noted. It was agreed that this matter would be pursued outside of the Committee by the Head of Risk Management and Audit.

RESOLVED

That the report be noted

5.3 Annual Risk Management Report

The Head of Risk Management and Audit presented the annual risk management report which highlighted the Council's framework of control, the key risks and what further action the risk officer would take to address key risks identified.

Risk was categorised into low, medium and high categories using a risk matrix. In 2012, the annual risk audit identified 12 risks, grouped into corporate priority themes and directorates and reported in paragraphs 5.6 and 5.7 of the report.

The authority wished to progress in the area of risk management and has been reviewed by Zurich Insurance to identify areas for improvement. A report of the findings of this review will be presented at the next Audit Committee by the Head of Risk Management and Audit.

To raise corporate awareness of risk, the risk management team undertook a programme of lunchtime seminars for staff and have developed a screen saver which is displayed on the Council's computer terminals. The Committee noted that these were positive initiatives.

In response to Members' questions, the following information was provided:

A proprietary software package was used to perform risk audits, actions returned from these would indicate where the Council had more or less control over a risk.

The risk categories operated by the Council provided a good indication of exposure to risk faced by the Council and which of these could and/or could not be controlled. Additionally risk management monitoring a tool to evaluate how risks changed over time and gave an indication of what the Council was able to do about them.

RESOLVED

That the report be noted

5.4 Annual Internal Audit Report for Schools 2011/12

The Committee was advised that an internal audit of schools was undertaken annually to safeguard against financial risks. The key issues returned from this year's audit were governance, schemes of delegation, declarations, financial procedures and inventory control. It was noted that these areas needed to be better embedded in schools procedures.

In response to Members' questions, the following information was provided.

Following recent legislation, the relationship between schools and local authorities was changing. In regard to impacts this change on school audits, Members were advised that the Audit Team always sought to maintain a good relationship with schools but noted that audits created a tension by their very nature; therefore auditors were always cautiously welcomed. Audits were undertaken in an open and objective manner and findings reported to schools management and governors.

Concerning whether there had been a difference in audit prior to schools becoming more independent, members were advised that there had been no change in the approach taken by auditors.

RESOLVED

That the report be noted

5.5 Annual Governance Statement for 2011/12 - Update

The Head of Risk Management and Audit presented the report circulated at agenda item 5.5 which outlined progress made on a governance issue that was identified in the Annual Governance Statement (AGS) presented to Committee on 25 September 2012. The AGS report had highlighted an issue concerned with creditors and year-end cut-off procedures. Progress was reported in the appendix to the report and Committee informed that the Council was to implement a new finance system and exploring how to improve the procurement process

RESOLVED

That the update be noted

5.6 2011/12 Treasury Management Report to 30 November 2012.

The Service Head, Finance, Risk and Accountability presented the report circulated at agenda item 5.6. In noting the treasury activity for the period, he advised the Committee that the continuing adverse global financial situation meant that markets rewards were presently not favourable. Treasury management had been affected by the diminishing availability of safe investments and a fourth year of low interest rates.

In response to Members' questions, the following information was provided.

The difference in the rate of same day borrowing between Royal Bank of Scotland (RBS) and Bank of Scotland (BoS) was due to the maturity dates of each of the investments and also that BoS presently had a better offer.

The Committee noted that the Council had significant exposure to RBS and BoS, was advised that this had come about because fewer secure investments were available. Since these organisations were under the Government's guarantee scheme there was lower risk and assurance therefore the Authority had preferred these investments.

Members were advised that the Council was at liberty to opt to invest in Australian banks but this would depend on rate of return on offer and the date of investment.

The Council's investment strategy aimed to avoid all non secure investments; therefore the council was restricted to a smaller circle of investors. Additionally there was now lending between local authorities indicating that local authorities have lesser trust in banks.

The Committee was advised that Cash Managers were achieving the targets set by the Council. Members would be informed in writing of the portfolio benchmark of the Councils cash management arrangement with Sector.

The Committee was informed that to gain access to the most favourable investments, the Council used Cash Managers who had expertise and a background in these areas of investments. The Committee requested that a Cash Manager be invited to speak at the next meeting and asked officers to undertake all necessary arrangements.

RESOLVED

That the report be noted

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

The Service Head Finance, Risk and Accountability (FSRA) was asked about interim arrangements following the departure of the Corporate Director – Resources. He replied that he had been appointed Interim S151 Officer on a three-month basis pending the appointment of a new Director of Finance. In this regard access had been granted to all necessary decision making mechanisms. Additionally he had met with the Monitoring Officer and Interim Head of Paid Service. The management of Resources Directorate, in the inter-regnum, was divided between the relevant service heads and routine management of the directorate would continue unchanged.

The Service Head, FSRA also reported that levels of organisational risk relating to the numbers of interim staff at senior level had been noted and was being monitored by the Council's auditors.

The meeting ended at 8.30 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

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Agenda Item 4.2

COMMITTEE: Audit Committee	DATE: 26 March 2013	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Acting Chief Finance Officer		TITLE: Treasury Management Activity for Period Ending 28 February 2013		
ORIGINATING OFFICER(S): Alan Finch, Service Head, Finance, Risk & Accountability		Ward(s) affected: N/A		
Oladapo Shonola, Chief Financial Strategy Officer				

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 28 February 2013 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director - Resources, the investment strategy for the current financial year and the projected investment returns.
- 1.3 The current average return on investment stands at 1.25%, and is on target to achieve budgeted cash return on assets of £2.395m.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of the treasury management activity report for period ending 28 February 2013.

3. REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 require that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

4. ALTERNATIVE OPTIONS

- 4.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.

- 4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

5 BACKGROUND

- 5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Service Head, Financial Services, Risk and Accountability, the investment strategy for the current financial year and the projected investment returns.

6. TREASURY MANAGEMENT STRATEGY 2012/13

- 6.1 The revised Treasury Management Strategy was approved on 28 November 2012 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2012-13 and it covered the following:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
 - Prudential and Treasury Indicator;
 - The current treasury position;
 - Prospects for interest rates;
 - The borrowing strategy (including policy on borrowing in advance of need);
 - Debt Rescheduling;
 - The Investment Strategy;
 - Credit Worthiness Policy;
 - Policy on use of external service providers;
 - The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April 2012 to 28 February 2013

- 7.1 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 28 February 2013.

8 MARKET UPDATE

- 8.1 The UK economy is barely growing and remains vulnerable to a prolonged period of high inflation. There is mounting pressure on the Bank of England to take further action to improve the economic outlook, so it is expected that further quantitative easing will be implemented along with 'Funding for Lending Scheme'. Both of these measures should inject credit into the economy.
- 8.2 The general consensus is that the economy is teetering on another dip into recession, and the latest public finance figures suggest that the Chancellor will not meet his deficit reduction target for the financial year 2012/13. Furthermore, the UK's AAA rating that the Chancellor had set out to protect has now been cut by Moody's. Going forward, these issues create challenges for the Investment Strategy around balancing risk and return.
- 8.3 Reignited by the inconclusive outcome of the Italian election, fears and uncertainty about the Eurozone have returned despite assurances given by the ECB president to do whatever it takes to protect the Eurozone economies and the Euro. The economic region as a whole shows no signs of pulling out of recession, with the greater likelihood that the position will worsen before it improves. This is a problem for the UK as Europe is the UK's largest trading partner, and a weak Europe will inevitably impact on the UK economy.
- 8.4 There are also concerns about China, where there has been a slow-down in economic performance. In the USA, there are signs of an improving economy, but on-going difficulties around budget deficit reduction will likely adversely impact on the economy if not resolved.
- 8.5 The implications of this challenging and uncertain global economic outlook on investment returns, is higher counterparty risk and relatively low investment returns.

9 CREDIT CRITERIA

- 9.1 The following credit criteria for investment counterparties were agreed by the Council in November 2012. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating.

Institution	Minimum Credit Criteria	High	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable		In-house	£100m*
Term deposits – Other Local Authorities	Not applicable		In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA		In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating		In-house	£30m
UK Government Gilts	Long Term AAA		In-house	£20m
Institutions with UK Government support.	Sovereign rating		In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating		In-house	Lesser of £70m or 40% of portfolio
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Money Market Funds	AAA rated		In-house	£15m

Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK Government

** The group limit for local authorities has been set at £100m.

9.2 The Council approved the 2013/14 Treasury Management Strategy Statement, Minimum Revenue Provision and Investment Strategy at its meeting on 7 March 2013. Therefore, the new Investment Strategy will take effect from 1 April 2013.

10 INVESTMENT STRATEGY

10.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.

10.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.

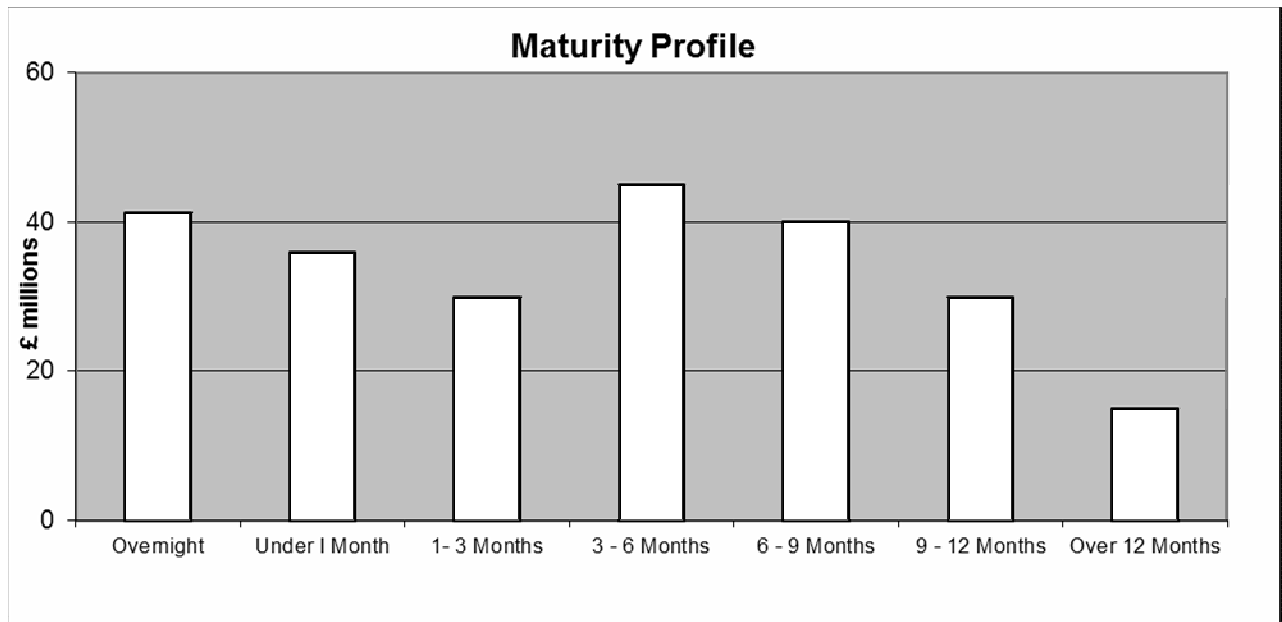
10.3 Sector's current interest rate projections are that base rate will remain static at 0.50% with limited changes in Bank Base Rate before 2015. Although the outlook for interest rate is below expectation, budgeted return on investment is expected to be achieved this financial year due to higher than expected levels of cash balances.

10.4 The Council's bankers, the Co-operative Bank Plc. are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.

10.5 The current investment portfolio within the constraints of the Councils credit criteria and liquidity requirement together with the maturity profile of the portfolio is as set out below.

Investment Portfolio at 28 February 2013

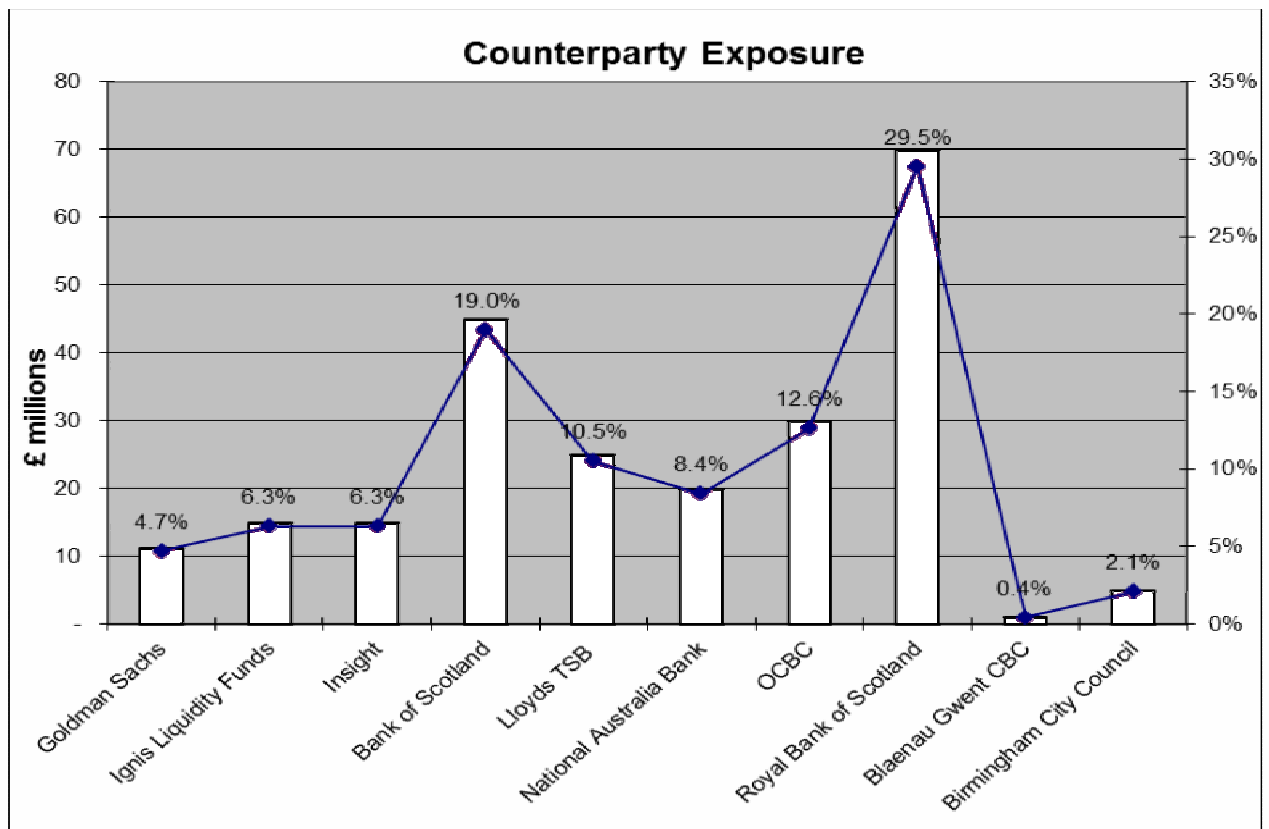
Projection	Actual Deal			
Term	Counterparty	Maturity	Amount £m	Rate
Overnight	Goldman Sachs	MMF	11.200	0.36%
Overnight	Ignis Liquidity Funds	MMF	15.000	0.45%
Overnight	Insight	MMF	15.000	0.41%
	SUB TOTAL		41.200	
< 1 Month	Lloyds TSB	04-Mar-13	5.000	0.80%
	Blaenau Gwent CBC	06-Mar-13	1.000	0.30%
	OCBC	18-Mar-13	30.000	0.35%
1 - 3 Months	Bank of Scotland	11-Apr-13	10.000	3.00%
	Bank of Scotland	11-Apr-13	10.000	3.00%
	Royal Bank of Scotland	11-Apr-13	10.000	2.10%
3 - 6 Months	National Australia Bank	20-May-13	20.000	0.40%
	Lloyds TSB	04-Jun-13	5.000	1.00%
	Royal Bank of Scotland	12-Jun-13	5.000	1.69%
	Bank of Scotland	07-Jul-13	10.000	3.00%
	Royal Bank of Scotland	09-Jul-13	5.000	0.50%
6 - 9 Months	Lloyds TSB	04-Sep-13	5.000	1.15%
	Lloyds TSB	07-Oct-13	5.000	0.95%
	Royal Bank of Scotland	09-Oct-13	10.000	0.67%
	Royal Bank of Scotland	11-Oct-13	5.000	2.00%
	Bank of Scotland	29-Oct-13	5.000	2.25%
	Bank of Scotland	13-Nov-13	5.000	0.95%
	Birmingham City Council	18-Nov-13	5.000	0.50%
9 - 12 Months	Lloyds TSB	04-Dec-13	5.000	1.50%
	Royal Bank of Scotland	12-Dec-13	5.000	2.00%
	Royal Bank of Scotland	09-Jan-14	10.000	0.85%
	Royal Bank of Scotland	13-Jan-14	5.000	0.89%
	Bank of Scotland	13-Feb-14	5.000	1.10%
Over 12 Months	Royal Bank of Scotland	27-Jan-15	5.000	3.35%
	Royal Bank of Scotland	26-Feb-16	10.000	1.90%
	SUB TOTAL		196.000	
	TOTAL		237.200	



10.6 The amount in overnight instruments is money market fund deposits which, though technically classed as overnight investments, are in reality used as longer term investment vehicles. This allows the Council to maintain liquidity whilst still able to secure reasonable returns on its assets.

10.7 The Council's exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 28 February 2013.

Counterparty Exposure



INVESTMENT RETURNS

- 11.1 Investment returns since inception of the cash management arrangement with Sector has been consistently above the portfolio benchmark and the 7 day London Interbank Bid Rate (LIBID). Although performance has been trending downwards recently, year to date performance matches benchmark at 1.25%.
- 11.2 The revised Strategy approved at the 28 November 2012 Council allowed for more flexibility, the challenge of a counterparty list that continues to contract in the face of credit worthiness downgrades by the ratings agencies remains. When combined with falling rates of return on the Money Market Funds (MMFs) and higher rate longer term investments (which have now matured and being replaced with lower rate investments) have resulted in a decline in the rate of return of the fund. Our latest counterparty list is attached at Appendix 2.
- 11.3 Notwithstanding these constraints, the portfolio has outperformed the 7 day LIBID, which currently stands at an average of 0.40% year to date, by 0.85%.
- 11.4 It is expected that the 2012/13 budgeted investment target of £2.395m will be achieved. The table below details performance of investments.

Period	LBTH Performance	7 Day LIBID	(Under)/Over Performance
Full Year 2011/12	1.52%	0.48%	1.04%
Quarter 1 2012/13	1.46%	0.45%	1.01%
Quarter 2 2012/13	1.27%	0.40%	0.87%
Quarter 3 2012/13	1.14%	0.36%	0.78%
January 2013	1.08%	0.36%	0.72%
February 2013	1.07%	0.36%	0.71%
Average for 2012/13	1.25%	0.40%	0.85%

12. DEBT PORTFOLIO

- 12.1 There has been no new borrowing this financial year to date. Current debt portfolio stands at £91m.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 13.1. The comments of the Acting Chief Financial Officer have been incorporated into the report.

14. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 14.1 Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent

with those risks. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

14.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

14.3 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

15. ONE TOWER HAMLETS CONSIDERATIONS

15.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 There are no Sustainable Actions for A Greener Environment implications.

17. RISK MANAGEMENT IMPLICATIONS

17.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

18.1 There are no crime and disorder reduction implications arising from this report.

19. EFFICIENCY STATEMENT

19.1 Monitoring and reporting of treasury management activities ensures the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

February 2013 Investment Portfolio Analysis Report

***Name and telephone number of holder
And address where open to inspection***

*Oladapo Shonola Ext. 4733
Mulberry Place, 4th Floor.*

Definition of Credit Ratings

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	Highest short-term credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair short-term credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Rating Scales

Rating	Current Definition
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.

Country/Financial Institution	Credit Ratings											
	Fitch Rating					Moody's Ratings				S&P Ratings		
	Long Term Status	Long Term	Short Term	Viability	Support	Long Term Status	Long Term	Short Term	FSR	Long Term Status	Long Term	Short Term
Australia	SB	AAA	-	-	-	-	AAA	-	-	-	AAA	-
Australia and New Zealand Banking Group Ltd	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A+
Commonwealth Bank of Australia	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
National Australia Bank Ltd	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
Westpac Banking Corporation	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
Canada	-	AAA	-	-	-	-	AAA	-	-	-	AAA	-
Bank of Montreal	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C+	SB	A+	A-1
Bank of Nova Scotia	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	A+	A-1
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C+	SB	A+	A-1
Royal Bank of Canada	SB	AA	F1+	aa	1	SB	Aa3	P-1	C+	SB	AA-	A-1+
Toronto Dominion Bank	SB	AA	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
Finland	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Nordea Bank AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	NO	AA-	A-1+
Germany	SB	AAA	-	-	-	NO	Aaa	-	-	SB	AAA	-
Landwirtschaftliche Rentenbank	SB	AAA	F1+	-	1	NO	Aaa	P-1	-	SB	AAA	A-1+
NRW BANK	SB	AAA	F1+	-	1	NO	Aa1	P-1	-	SB	AA-	A-1+
Netherlands	NO	AAA	-	-	-	NO	Aaa	-	-	NO	AAA	-
Cooperatieve Centrale Ralffeisen Boerenieenbank BA	SB	AA	F1+	-	1	SB	Aa2	P-1		SB	AA-	A-1+
Singapore	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
DBS Bank Ltd	SB	AA-	F1+	aa-	1	NO	Aa1	P-1	B	SB	AA-	A-1+
Overseas Chinese Banking Corporation Ltd	SB	AA-	F1+	aa-	1	NO	Aa1	P-1	B	SB	AA-	A-1+
United Overseas Bank Ltd	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1
Sweden	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Svenska Handelsbanken AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	NO	AA-	A-1
U.K	NO	AAA	-	-	-	DG SB	Aa1	-	-	NO	AAA	-
Bank of New York Mellon (International) Ltd	SB	AA-	F1+	-	1	-	-	-	-	-	-	-
HSBC Bank plc	SB	AA-	F1+	a+	1	NO	Aa3	P-1	C	NO	AA-	A-1+
Standard Chartered Bank	SB	AA-	F1+	aa-	1	SB	A1	P-1	B-	NO	AA-	A-1+
U.S.A	NO	AAA	-	-	-	NO	Aaa	-	-	NO	AA+	-
Bank of New York Mellon	SB	AA-	F1+	aa-	1	NO	Aa1	P-1	B	NO	AA-	A-1+
HSBC Bank plc	SB	AA-	F1+	a+	1	NO	Aa3	P-1	C	NO	AA-	A-1+
Northern Trust Company	SB	AA-	F1+	aa-	5	SB	Aa3	P-1	B	SB	AA-	A-1+
U.S. Bancorp	SB	AA-	F1+	aa-	5	SB	A1	P-1		SB	A+	A-1
Wells Fargo Bank NA	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C+	NO	AA-	A-1
Collateralised LA Deposits	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Debt Management Office	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Multilateral Development Banks	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Supranationals	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
U.K Gilts	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Lloyds Banking Group plc	SB	A	F1	bbb	1	NO	A3	-	-	NO	A-	A-2
Bank of Scotland Plc	SB	A	F1	-	1	NO	A2	P-1	-	NO	A	A-1
Lloyds TSB Bank Plc	SB	A	F1	bbb	1	NO	A2	P-1	C-	NO	A	A-1
Royal Bank of Scotland Group plc	SB	A	F1	bbb	1	NO	Baa1	P-2	-	SB	A-	A-2
National Westminster Bank Plc	SB	A	F1		1	NO	A3	P-2	D+	SB	A	A-1
The Royal Bank of Scotland Plc	SB	A	F1	bbb	1	NO	A3	P-2	D+	SB	A	A-1
Ulster Bank Ltd	SB	A-	F1	ccc	1	NO	Baa2	P-2	D-	S	BBB+	A-2

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cutting through complexity™

External Audit Plan 2012/13

London Borough of Tower Hamlets

March 2013

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Page

Report sections

- Introduction 2
- Headlines 3
- Our audit approach 4
- Key financial statements audit risks 10
- VFM audit approach 12
- Pension fund 16
- Audit team, deliverables, timeline and fees 17

Appendices

2. Independence and objectivity requirements 20
3. Quality assurance and technical capacity 21

This report is addressed to the Council and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This document describes how we will deliver our audit work for the London Borough of Tower Hamlets.

Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* sent to the Council in August 2012. It describes how we will deliver our financial statements audit work for the London Borough of Tower Hamlets ('the Authority'). It also sets out our approach to value for money (VFM) work for 2012/13.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Pension Fund audit

We will issue an Accounts audit protocol that will give the timetable for our audit, and a list of documents that we will require in order to complete our audit.

We will follow this up with a meeting with the Pensions Finance Manager to discuss our requirements and any other queries.

Our only formal report is the report to those charged with governance which we will present to the Audit Committee in September 2013.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10 to 12.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

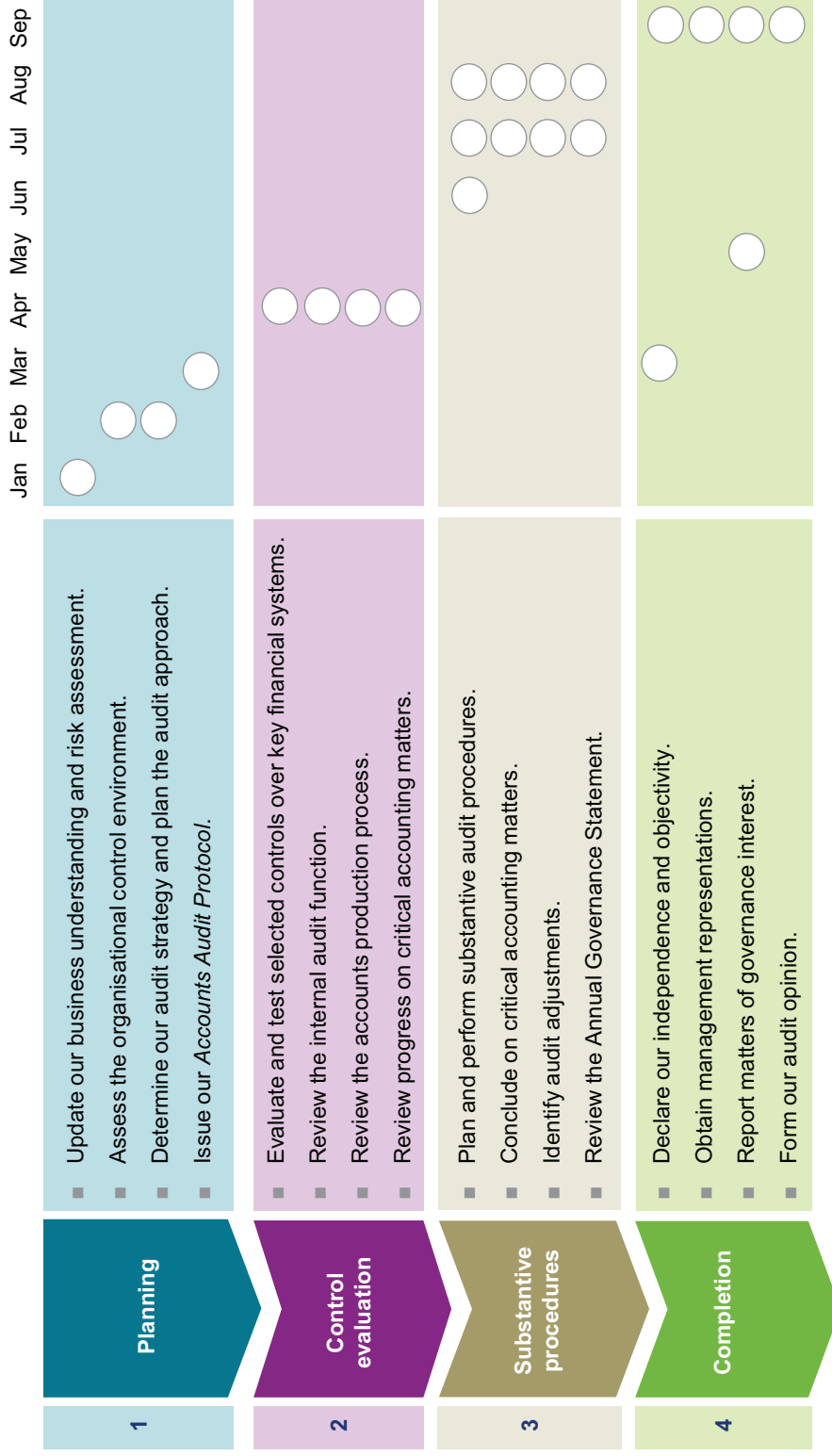
Area	Risk	Audit work
Savings plans	<p>The Council currently estimates that it will need to deliver £26.029m in savings during 2013/14 to address further reductions to local Council funding and continued cost pressures.</p> <p>The Council will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</p>	<p>In conjunction with our VFM work we will critically assess the controls the Council has in place to ensure a sound financial standing and managing how the Council is planning and managing its savings plans.</p> <p>We will also review the Authority's assessment of potential liabilities and any provisions in its 2012/13 financial statements.</p>
Property Plant and Equipment (PPE)	<p>The Council is required under IFRS to value PPE at fair value (with a few exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the size and diverse nature of the Authority's estate.</p> <p>The Council will need to ensure that its Fixed Asset Register is complete and that the Terms of Reference issued to the valuer are comprehensive and cover all the IFRS requirements.</p>	<p>We will review the Terms of Reference issued to the valuer and complete substantive testing procedures on sample valuations and associated depreciation calculations.</p>
Actuarial Present Value of Retirement Benefits	<p>The Council is required to provide the value of the pension fund asset/liability as at the reporting date, taking into account numerous and complex assumptions. This creates a risk that the financial statements may be materially misstated.</p> <p>Small changes to these assumptions can have a large effect on the reported value and the Council should ensure that the information provided to the actuary is up to date and complete to ensure the values reported in the accounts take into account all requisite information.</p>	<p>We will review the instructions provided to the actuary and the information supplied to the actuary to come to their conclusions.</p> <p>We will also undertake tests of detail on the accounting entries performed as a result of the information returned from the actuary and ensure they are compliant with IAS 19.</p>
Accounts receivable and accounts payable	<p>Your previous auditors identified a potential £12m uncertainty in your accounts relating to the treatment of accounts receivable and accounts payable in 2011/12. They also noted that the Council was unable to separately identify its year end accrual balance.</p> <p>If the Council does not address these issues there is a risk that the 2012/13 accounts could be materially misstated.</p>	<p>We will review the work completed by the Council to address the issues identified in 2011/12.</p> <p>We will undertake detailed substantive testing over the accounts receivables, accounts payable and accruals balances.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- Planning
January to February.
- Control Evaluation
April.
- Substantive Procedures
July to August.
- Completion
September.

We have summarised the four key stages of our financial statements audit process for you below:



Section three

Our audit approach - planning

During January and February 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Council to support the financial statements.

Our planning work takes place in January and February 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Council staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Council to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT and controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Group audit

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of the KPMG team who are the auditors to Tower Hamlets Homes. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide during our interim and final accounts visits.

Your previous auditors met with the Corporate Director of Resources to discuss learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We revisit progress against areas identified for development as the audit progresses.

During April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will present our *Interim Report* to the Audit Committee in June.

Our interim visit on site will be completed during the first three weeks of April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

Your previous auditors raised a number of recommendations in their *Report to Those Charged with Governance (ISA 260 Report) 2011/12* relating to the accounts production process. The most significant of these were to ensure that a thorough review of the draft statements and supporting working papers is completed ahead of then being submitted for audit.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in June 2013.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2012/13.

Our audit approach – substantive procedures

During July to August 2013 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee in September 2013.*

Our final accounts visit on site has been provisionally scheduled for the period mid July to mid August. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with the Director of Finance in September 2013, prior to reporting to the Audit Committee on 17 September 2013.

Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

Our findings

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit Committee in September 2013.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electoral challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, and in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 1. We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Non-audit work

Our IT advisory team has been asked to undertake an IT systems implementation review. We have considered the scope of the work in the context of the Auditing Practices Board's (APB) Ethical Standards and Audit Commission requirements and concluded it does not impair our independence.

Confirmation statement

We confirm that as of February 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
<p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Reserves and balances ■ Provisions 	<p>Risk</p> <p>As at December 2012, the Councils forecasting that it will deliver its 2012/13 budget in overall terms. This includes a savings programme totalling £23.656m.</p> <p>The Council currently estimates that another £26.029m in savings will need to be achieved during 2013/14 and £21.260m in 2015/16 to address the further reductions to local Council funding. Against a backdrop of continued demand pressures in Adult Social Care and Children’s Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the Council has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Council can continue to provide services effectively. We will also review how the Council is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority’s assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority’s provisions, including the methodology, assumptions and calculations.</p>

Key financial statements audit risks (continued)

Key audit risks	Impact on audit
<p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Property plant and equipment ■ Depreciation ■ Reserves 	<p>Risk</p> <p>As at 31 March 2012 the valuation of the Authority's Estate was £1.8 billion split over Council Dwellings, Operational Land and Buildings and Infrastructure Assets. The Council employs a valuer to determine the fair value of these assets. However, there is a risk due to the size and assorted nature of the Authority's estate, that this value will be materially misstated.</p> <p>Our audit work</p> <p>We will assess the instructions provided to the valuer in the Terms of Reference issued by the Council to ensure that they are comprehensive and provide the Council with the information they require to put into their accounts to be compliant with IFRS.</p> <p>We will assess the qualifications and experience of the valuer to determine whether we can place reliance on their work.</p> <p>We will also perform substantive procedures over a sample of valuations and their associated depreciation calculations to obtain assurance that the accounting treatment of such has been applied correctly.</p>

Key financial statements audit risks (continued)

Key audit risks	Impact on audit
<p>Actuarial Present Value of Retirement Benefits</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions liability ■ Actuarial gains or losses 	<p>Risk</p> <p>The Council is required to provide the value of the pension fund asset/liability as at the reporting date, taking into account numerous and complex assumptions. This creates a risk that the financial statements may be materially misstated.</p> <p>Small changes to these assumptions can have a large effect on the reported value and the Council should ensure that the information provided to the actuary is up to date and complete to ensure the values reported in the accounts take into account all requisite information.</p> <p>Our audit work</p> <p>We will review the instructions provided to the actuary and the information supplied to the Actuary to come to their conclusions.</p> <p>We will also undertake tests of detail on the accounting entries performed as a result of the information returned from the actuary and ensure they are compliant with IAS 19.</p>
<p>Accounts receivable and accounts payable</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Accounts receivable ■ Accounts Payable 	<p>Risk</p> <p>Your previous auditors identified a potential £12m uncertainty in your accounts relating to the treatment of accounts receivable and accounts payable in 2011/12. They also noted that the Council was unable to separately identify its year end accrual balance.</p> <p>If the Council does not address these issues there is a risk that the 2012/13 accounts could be materially misstated.</p> <p>Our audit work</p> <p>We will review the work completed by the Council to address the issues identified in 2011/12.</p> <p>We will undertake detailed substantive testing over the accounts receivables, accounts payable and accruals balances.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

- In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:
- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
 - carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p>Linkages with financial statements and other audit work</p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p>Assessment of residual audit risk</p>	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Council may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
<p>Identification of specific VFM audit work</p>	<p>If we identify residual audit risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

We will complete our pension fund audit alongside the main financial accounts audit.

We will complete our work over the pension fund alongside the Council statutory accounts audit. The table below sets out the work that will be completed over the pension fund accounts.

Our responsibility	Risks, proposed work and output
Financial statements and annual governance statement	<p>The main area of audit risk for our work on the Pension Fund is the valuation of investments.</p> <p>Our work will encompass:</p> <ul style="list-style-type: none">■ Review of the controls over the completion of the accounts■ A detailed audit of the financial statements, associated disclosure notes and the annual governance statement.■ Review of the key risk identified, addressed through our detailed audit work and discussions with senior finance officers. <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>

Your audit team has been drawn from our specialist public sector assurance department]. Shona Milton was part of your audit team last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Andy Sayers
Partner

"My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors."



Shona Milton
Manager

"I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Andy to ensure we add value. I will liaise with the Director of Finance and Head of Internal Audit."



Emma Larcombe
Assistant Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the Finance Managers and Internal Audit Managers. I will also supervise the work of our audit assistants."

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Estimated Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. 	March 2013
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details and resolution of control and process issues ■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements. 	September 2013
Completion		
Auditor's report	<ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2013
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2013

We will be in continuous dialogue with you throughout the audit.

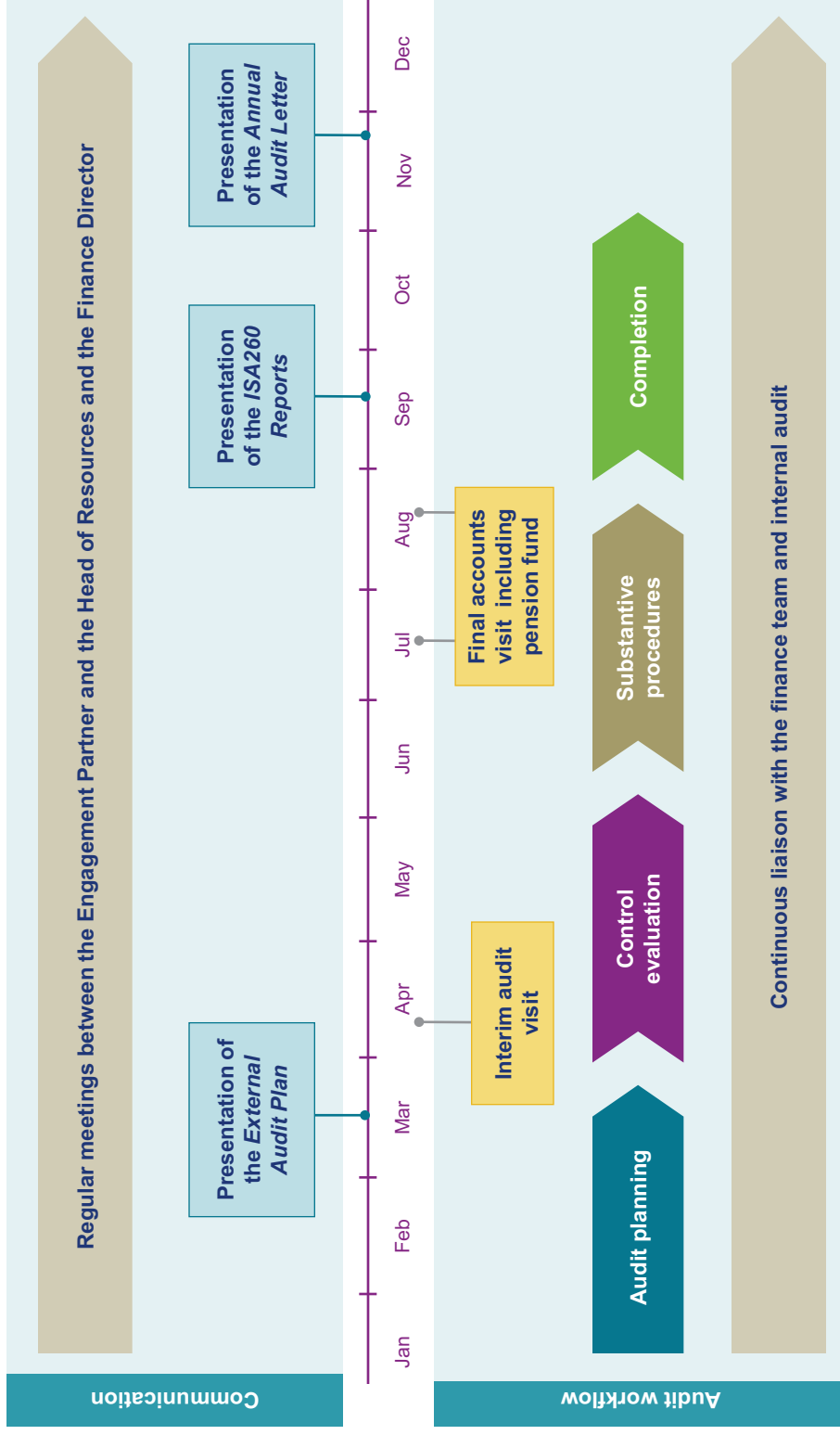
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- May – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Council is £277,290. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2012/13* presented to you in December 2012 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Financial statements	£277,290	£462,150
Pension Fund	£21,000	£35,000
Grant claims	£48,150	£69,206
Gross audit fee	£346,440	£566,356

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £277,290. This is a reduction of 40 percent compared to the 2011/12 fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Council Accounting in the UK 2012/13* within your 2012/13 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;

- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- The Council has taken action to address issues reported by the previous auditor;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors. *We note that we have received some elector queries which we are in the process of considering with the Authority.*

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Council achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.
- If changes to this plan and the audit fee are required, we will discuss and agree these initially with the S151 officer.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality

Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

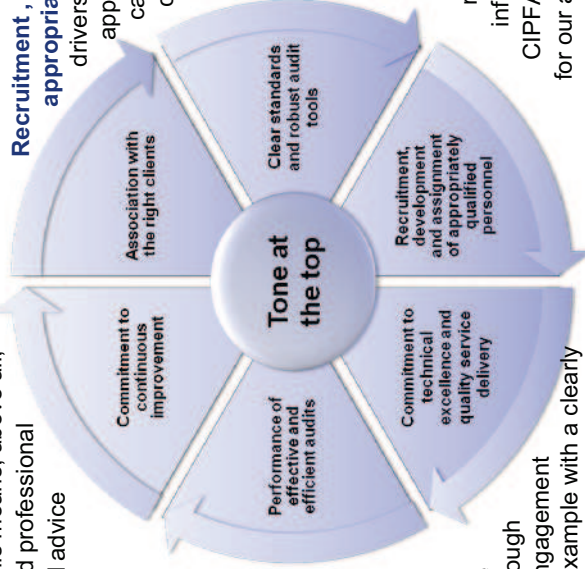
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Andy as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment , development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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Agenda Item 6.1

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	26th March 2013	Unrestricted		
REPORT OF: Corporate Director, Resources	Quarterly Internal Audit Assurance Report			
ORIGINATING OFFICER(S): Head of Risk Management and Audit	Ward(s) Affected: N/A			

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2012 to February 2013.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

Local Government Act, 1972 SECTION 100D (AS AMENDED)
List of "Background Papers" used in the preparation of this report

Brief description of "background papers"

N/A

Contact :

Minesh Jani, 0207 364 0738

3. Background

- 3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

Significance	Definition
Extensive	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
Moderate	Medium impact, key systems and / or Scale of Service £1m- £5m.
Low	Low impact service area, Scale of Service below £1m.

4. Overall Audit Opinion

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in January 2013, twenty two final reports have been issued. The findings of these audits are presented as follows:

The chart below summarises the assurance rating assigned by the level of significance of each report.

Appendix 1 provides a list of the audits organised by assurance rating and significance.

Appendix 2 provides a brief summary of each audit.

5.2. Members are invited to consider the following:

The overall level of assurance provided (para 5.3-5.5).

The findings of individual reports. Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	1	10	1	-	12
	Moderate	1	8	1	-	10
	Low	-	-	-	-	-
Total Numbers		2	18	2	-	22
Total %		9%	82%	9%	-	100%

5.4. From the table above it can be seen that of the twelve finalised audits which focused on high risk or high value areas; one was assigned full assurance, ten were assigned Substantial Assurance and one was assigned Limited assurance. A further ten audits were of moderate significance and of these, one was assigned

full assurance, eight were assigned Substantial Assurance and one, Limited Assurance. The two audits assigned full assurance, were follow up audits, and the assurance provided was around the implementation of the agreed recommendations.

- 5.5. Overall, 91% of audits resulted in an adequate assurance (substantial or full). The remaining 9% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

- 6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period:

Performance measure	Target	Actual
Percentage of Audit Plan completed up to January 2013	80%	80%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	88% 7 out of 8
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	90% 35 out of 39

The table above shows that the proportion of internal audit work completed to January 2013 is 80% against the target of 80%.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 88%, whereas the percentage of priority 2 recommendations was 90%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of all priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Further to the usual actions, meetings are being convened with key officers to seek assurances that agreed recommendations will be implemented promptly.

7. Comments of the Chief Financial Officer

- 7.1. These are contained within the body of this report.

8. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 8.1 The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report.

10. Risk Management Implications

- 10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11. Sustainable Action for a Greener Environment (SAGE)

- 11.1. There are no specific SAGE implications.

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APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Resources	Creditors - Systems Audit
	Moderate	Children, Schools and Families	Harry Roberts Nursery School – Probity Audit
FULL	Extensive	Corporate	Management and Control of staff Hospitalitys and Gifts
	Moderate	Communities, Localities and Culture	Case Management of Prosecution Cases - Follow Up audit
SUBSTANTIAL	Extensive	Corporate	Management of Complaints – Systems Audit
	Extensive	Corporate	Asset Management and Disposal Follow Up audit
	Extensive	Resources	HR Payroll – Systems Audit
	Extensive	Resources	Cashiers Systems Audit
	Extensive	Resources	Council Tax Systems Audit
	Extensive	Resources	Tele-Communications – Systems Audit
	Extensive	Development and Renewal	Lettings and Nominations Systems Audit
	Extensive	Communities, Localities and Culture	Control and Monitoring of Penalty Charge Notice Income Systems Audit
	Extensive	Children, Schools and Families	Swanlea Secondary School – Probity Audit

Assurance level	Significance	Directorate	Audit title
	Extensive	Tower Hamlets Homes	Housing Repairs Follow Up Audit
	Moderate	Children, Schools and Families	Seven Mills Primary School – Probity Audit
	Moderate	Children, Schools and Families	Virginia Primary School – Probity Audit
	Moderate	Children, Schools and Families	Marnar Primary School – Probity Audit
	Moderate	Children, Schools and Families	Our Lady Catholic Primary School – Probity Audit
	Moderate	Development and Renewal	Land Charges – Systems Audit
	Moderate	Communities, Localities and Culture	Fees and Charges Including Management for the Delivery of Skills Funding Agency contract - Follow Up Audit
	Moderate	Communities, Localities and Culture	Environmental Protection and Pollution Control - Follow Up Audit
	Moderate	Adults, Health and Wellbeing	Occupational Health Stores – Systems Audit

Summary of Audits Undertaken

APPENDIX 2

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors - Systems Audit	Jan 2013	<p>The main objectives of the audit were to provide assurance to management as to whether the systems of control within the Requisition to Pay (R2P) system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Catering Services have been given special dispensation by Accounts Payable to automatically receipt goods received on the R2P system, as it was felt impractical to acknowledge receipt for all low value high volume items. However, no compensating measures have been put in place to substantiate that all goods ordered have been received. • Two instances were identified where the approval process for invoices was circumvented through the purchase order being automatically mapped with its respective invoice. • Controls around access to the R2P system could be improved. • Staff have expressed concerns over the adequacy of R2P system training available. • Procedure notes are not up to date. • We were unable to evidence that adequate checks were carried out prior to the amendment of suppliers' bank details on the system. • Controls need to be strengthened to prevent duplicate payments being made. <p>All findings and recommendations were agreed with the Payments Manager and reported to the Interim Service Head – Procurement and Programme Management and the Service Head, Corporate Finance.</p>	Extensive	Limited

Management Comments

The creditors system audit is conducted annually in order to support the work by the External Auditors for the closure of accounts to support the Council's Corporate Government Statement.

The creditors system audit for 2011/2012 focussed on the Council's requisition to pay system (R2P) and maintenance of the JD Edwards One World address book which holds all supplier details including those relating to their bank account. The audit did not therefore include all creditor payments as a high volume of these come through by way of an interface, i.e. Framework-1, Team Sigma and SX3.

A small number of recommendations are for consideration for the longer term, for example the development of a duplicate payment tool and these will be developed and where necessary procured post the implementation of Agresso. The other recommendations have now been implemented by the necessary departments. A number were able to be resolved centrally by the R2P Systems team and Central Payments, however a number of recommendations were also the responsibility of individual departments within Directorates, for example Contractor Services in Education, Social Care and Wellbeing.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Roberts Nursery School	Dec. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school had an established Governing Body and a Finance, Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; budget monitoring; collecting and recording of income; payroll management; free school meals; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Scheme of Delegation and Financial Procedures had not been reviewed since 2010. • The terms of reference for the Finance Committee and Personnel Committee had not been reviewed by the Governing Body within the last 12 months. • Financial implications for each of the objectives are not documented within the School Development Plan. The Plan had not been formally approved by the Governing Body within the last 12 months. • Testing of a sample of 10 purchase orders identified purchases where an official order had not been raised. In one other case the order was authorised after the order was placed. • Statutory policies including the Charging Policy, Pay Policy, Whistle Blowing Policy, and Health and Safety Policy had not been reviewed, updated and approved since 2010. • Transfer of school dinner monies is not being signed for by both parties. • Agency timesheets are now always certified by an authorised signatory. • Results of the inventory check had not been presented to the Governing Body during the previous 12 months. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Management Comments

The Children, Schools and Families (CSF) Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by CSF schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by CSF Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities.

Comments:

The school have acted immediately and agreed to complete all actions with a defined timeframe.

The school and the governing body are fully commit to the recommendations made in the Audit report by:

- by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate
- confirming additional steps that the school are planning to take in light of the audit findings
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Schools Finance manager has contacted the school to add any support and review the school in its recommendations.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of staff Hospitalities and Gifts Follow Up Audit	Jan. 2013	<p>This follow up audit assessed the progress made in implementing the recommendations agreed with each of the Corporate Director.</p> <p>Our review showed that out of three priority 1 recommendations and four priority 2 recommendations, all had been progressed and implemented. The Council's hospitality procedures had been updated and placed on the staff intranet. The procedures contained reference to the Bribery Act. A senior officer at Service Head level had been nominated within each Directorate to take the responsibility for reporting and monitoring compliance with the Council's hospitality and anti-bribery procedures. Six-monthly reports were submitted to the each DMT along with the Hospitality Registers which provided details of instances of hospitality and gifts recorded, accepted and declined by officers in the period. Regular reminders about the required procedure were being sent to all staff via e-mail cascading from the DMTs and SMTs, as well as being included within the Managers briefing to ensure that staff members are aware of the procedures to be followed. In all instances, the Hospitality Books were hard backed and bound. Entries made within the Hospitality book had been cross-referenced to the supporting Staff Hospitality Register forms which had been decided upon and approved by Service Heads and Corporate Directors, as appropriate.</p>	Extensive	Full

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Case Management of prosecution Cases</p> <p>Follow Up audit</p>	<p>Dec. 2012</p>	<p>The key objective of this audit was to evaluate the actions taken since the original audit review and to ensure that the recommendations had been implemented as agreed.</p> <p>Our review found that out of the four priority 2 recommendations arising from the finalised audit report, all had been progressed and implemented.</p> <p>Our testing showed that a new structure had been developed for the Licensing Section to address the weaknesses identified in the original report. Additional funding had been obtained from proceeds of crime award to fund out of hours payments to enforcement officers to increase the number of Licensing visits to ensure premises are operating according to the regulations. A legal agreement template had been drafted for use on all prosecution cases. This template outlines the protocols and targets that Legal Services will be following when representing the Council in prosecuting cases. The template is currently going through the legal internal process prior to formal sign off. All sections are now required to use the prosecution template on the flare system and Service Indicators including discontinued cases have been developed from September 2012 and are reported to the DMT. An enforcement report is also produced by Legal Services to take to the CLC DMT. Our review showed that a number of monthly and yearly performance statistics are produced by the service as well as the Key Indicators being included in the CLC Dash Board which is presented to the DMT by the performance strategy group. All prosecutions now have a draft press release that is prepared and issued to the communications team to be advertised within Eastend Life.</p> <p>The report was agreed with the Service Head, Public Safety and final report was issued to the Corporate Director - Communities, Locality and Culture.</p>	<p>Moderate</p>	<p>Full</p>

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Complaints Systems Audit	Jan. 2013	<p>This audit sought to provide assurance over the systems for management of complaints at Corporate level. The Council's view is that aims to provide excellent levels of customer care in all services at all times. However, the Council recognises that things can go wrong sometimes and welcomes complaints as important feedback from service users. The purpose of the system is to deal with complaints, however raised.</p> <p>Our review found that access to information on how to make a complaint has been made available to the public from a number of sources. Target dates had been assigned for all of the complaint stages, which leads to better monitoring of responses to complaints to ensure that complaints are processed within target time framework. Complaints could be tracked in a number of ways from start to conclusion. Good quality and up to date management and performance information was being provided to the Corporate Management Team on a quarterly basis. Each Directorate was found to have a designated Complaints Officer.</p> <p>However, our testing showed that not all complaint acknowledgements had been attached to the complaint held within the Siebel System. Procedures in respect of complaints required to be updated to reflect staffing changes and organisational changes. Any control issues arising from complaints upheld at Directorate and Corporate level, needed to be followed up and checked to provide assurance that controls have improved to prevent / manage further occurrence.</p> <p>All findings and recommendations were agreed with the Service Head, Legal Services (Community) and final report was issued to the Assistance Chief Executive, Legal Services.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Asset Management and Disposal Follow Up audit	Feb 2013	<p>The objective of this audit was to evaluate the actions taken since the original audit review and to ensure that the recommendations had been implemented as agreed.</p> <p>Our testing showed that out of two priority 1 recommendations, one was progressed and one was fully implemented. The one priority 2 recommendation was work in progress. Procedure notes for asset disposal and lettings had been revised, however, some of the key procedures recommended by audit such as marking and numbering of the sealed envelopes and storage of the bids needed to be included. At the time of this review no disposals had been marketed since February 2012, so we have been unable to test the embedding of the above recommendation. Management have stated that in pursuit of achieving best consideration, all offers including late bids would be considered in the future, provided the bids already received have not been opened. The establishment of appropriate benchmarks is work in progress. It was proposed that Asset Management would liaise with other authorities to see what is being measured, and the performance to date. Hackney, Newham, Waltham Forest, and Haringey have been contacted but information has not been forthcoming.</p> <p>All findings and recommendations have been agreed with the Service Head, Asset Management and final copy was issued to the Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
HR Payroll Systems Audit	Feb. 2013	<p>The main objective was to provide assurance as to whether the systems of control within the HR Payroll system were sound and secure.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • New starter forms were not always signed by two authorised signatories; • ResourceLink does not detect the use of duplicate bank details when new starters are added. • Authorised payroll signatory forms were not on file for all relevant officers. • New starters are not always added to the payroll system promptly. • Some leaver forms have been certified by an officer who does not have the appropriate authorisation rights. • Overpayments of salary have occurred due to the late completion of leaver forms. We found one example where a leaver who received an overpayment of salary had subsequently re-joined the payroll, but at the time of the audit this overpayment was if being recovered. • Reconciliations between the payroll system and the general ledger are not always signed and dated by the reviewer to evidence the reconciliation being prepared and independently reviewed. • Performance indicators were not found to be in place for the Payroll function. <p>All findings and recommendations were agreed with the Payroll Manager and reported to the Service Head – Human Resources and Workforce Development and the Service Head, Corporate Finance.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers Systems Audit	Jan 2013	<p>The audit was designed to provide assurance to management as to whether the systems of control around the Cashiers system are sound, secure and adequate and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The areas covered were;</p> <ul style="list-style-type: none"> • Policies and Procedures; • Reliability and Integrity of Transactions and Records; • Receipting and Transaction Processing; • Imprest Accounts; • End of Day Cash Balancing; • Banking and Unpaid Cheques; • Systems Reconciliation; and • IT Systems and Security. <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There was a lack of evidence to confirm that the Cashier Section Procedure Notes had been updated on a regular basis. • From a sample of 20 controlled stationery items issued, testing found five cases where no requisition form had been completed to document the request. • Review of the book used to record discrepancies between monies received and banked, and those included on the cash receipting system established that no reason is recorded as to the reason for the discrepancies. • It was confirmed that the amount of cash retained in the Cashiers Office safe is currently £20,000 which is split between five floats of £100 each for the workstations, one of which is a spare float, and £19,500 in case of emergency need. <p>All findings and recommendations were agreed with the Chief Cashier and reported to the Head of Revenue Service and the Corporate Director – Resources.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax Systems Audit	Jan 2013	<p>The main objectives of the audit were to provide assurance to management on whether the systems of control are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Expired student exemptions have not been identified leading to untaxed properties. • Significant administration error has led to recovery cases being put on hold and not processed through to write off. • Cases of unsigned reconciliations were identified. <p>All findings and recommendations were agreed with the Principal Revenues Officer – Council Tax and Income and reported to the Service Head, Revenues Services and the Service Head, Corporate Finance. The final report was issued to the Corporate Director – Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tele-communications Systems Audit	Jan. 2013	<p>The main objective of the audit was to provide assurance to management as to whether the systems of control within the Telecommunications system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There is no formal approval process in place for changes to the Class of Restriction for users. One user had been allocated excessive permissions for their job role which allowed them to dial international numbers. • The Information Management Strategy, dated June 2011, does not include the current and future requirements for telephony. In addition, since being written, the Council has entered into a new partnership with Agilisys. • User access to the online (command line) service for the telephony system is shared by the telephony administration team. Furthermore, a user's account is locked out after repeated incorrect password attempts or after a break of about 20 minutes. We were unable to identify if user access was logged and if reporting was available to support management in identifying unauthorised access. • Users are not forced to change their initial PIN on the telephone extension which is usually assigned as the same as the extension number. Some extensions had not had the default PIN changed. • There is currently no Telephone Acceptable Usage Policy in place at the Council. • The mobile telephone service was obtained through an OGC framework agreement. However, there is no formal signed contract in place with the service provider, T-Mobile. • Mobile users are responsible for reimbursing the Council for non-business related calls. Invoice managers within each Directorate are responsible for reviewing mobile phone bills. We were unable to obtain evidence of this process being followed. <p>All findings and recommendations were agreed with the Business Solutions Architect reported to the Service Head – Telecommunications and the Section 151 Officer, Resources Directorate.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lettings and Nominations Systems Audit	Jan 2013	<p>The main objectives of the audit was to provide assurance to management that systems and controls have been put into place to effectively manage Lettings to Council dwellings and to properties offered by registered social landlords (RSLs), that systems and controls have been put into place to effectively manage the Council's Nomination Rights to social housing. In addition, the audit was also designed to alert management to any deficiencies in the control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Sample testing found that the current Common Housing Register (CHR) agreement has not been formally signed by seven out of the 10 partner landlords in our sample. • The homeseekers website allows up to six pictures to be uploaded for each property advert, but we found that only one external picture of the property is usually uploaded, with no internal pictures to show potential bidders what the property looks like inside. In addition, sample testing found that four out of the 20 adverts in our sample did not contain any picture of the properties on offer. • The CHR agreement stipulates that the Council should at least once every 24 months send a review notice to each approved applicant who has not made contact with them in the intervening period reminding them that they have been registered from their last known address and reminding the applicant to update details held on-line about them. However, we found that the Council has not sent a review notice to all applicants on the housing list within the last 24 months. <p>All findings and recommendations were agreed with the Lettings Services Manager and reported to the Service Head, Housing Options and the Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Penalty Charge Notice Income Systems Audit	Dec. 2012	<p>This audit examined the systems and procedures currently in operation for issuing and processing Penalty Charge Notices (PCNs) and for controlling and monitoring of PCN income.</p> <p>Our testing showed that PCNs issued had been uploaded to Chipside IT system promptly. The system for regular accounting and monitoring of the PCN income received via various payment channels was adequate. However, we have raised the following issues which required management action:-</p> <ul style="list-style-type: none"> • Policies and procedures needed to be updated following the migration to Chipside, the new parking system. • The control served by the completion of the Daily Monitoring sheets completed by Parking Enforcement Admin Staff needed to be reviewed. • An approach needed to be considered for a formal review of cases which have not progressed further into the appeals and/or recovery process for a pre-determined length of time. • Clear performance indicators and targets needed to be specified within the Bailiff contract for PCN debt recovery and then performance monitored against the agreed targets. • Debtors and bad debt provisions needed to be raised on quarterly basis. <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director – Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Repairs Follow Up Audit	Jan 2013	<p>This audit followed up the agreed recommendations at the conclusion of the original audit. From our review, we could provide assurance that of the two Priority 1, and seven priority 2 recommendations, all had been progressed well.</p> <p>Our review of benchmarking information showed that THH were in the upper quartile for cost per repairs when compared with 17 other ALMO's. Officers had undertaken reconciliation between the costs for the fixed price per property under the 2011/12 agreement and the original schedule of rates (SOR's) and confirmed that there was a cost advantage to continue under the fixed price agreement. All signed copies of variation to contract and all contract variations were recorded on a Variation to Contract Register. This information was held electronically by the Contract Relationship Manager.</p> <p>A new Service Critical Indicator had been introduced for 2012/13 which reports on overdue orders. This is operationally monitored and managed by the contractor at the Neighbourhood Performance Monthly meetings. A new post-inspection process has been introduced which can assist in identifying and targeting any areas of poor performance for improvement to act upon the information in a timely manner. There were examples of a more planned approach by THH to repairs and maintenance as opposed to having repairs carried out on a responsive basis.</p> <p>However, our testing showed that there was a need to investigate further works orders with an overdue target date of three months or more.</p> <p>All findings and recommendations were agreed with the Acting Director of Neighbourhood Services and final report was issued to the Chief Executive, THH.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Swanlea Secondary School	Oct. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an established Governing Body and a Finance Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; procurement of goods and services; personnel and payroll management; managing eligibility for free school meals; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Scheme of Delegation and Finance Policy was inconsistent with the bank mandate. Whilst the Finance Policy states that the school has four authorised signatories, six are included on the bank mandate. The Finance Policy does not actually state who the signatories should be. • The bank mandate included the previous Head Teacher whilst one of the Deputy Head Teachers was not included despite being confirmed as a cheque signatory at the December 2011, Governing Body meeting. • The Pay Policy had not been reviewed, updated and approved since 2009 as there is a pay freeze in place. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Seven Mills Primary School	Feb. 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an established Governing Body and a Finance Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; procurement of goods and services; collecting and recording of income; personnel and payroll management; managing eligibility for free school meals; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Scheme of Delegation had not been reviewed since September 2010. • The Administration Assistant was included as an authorised signatory on the bank mandate, but not listed on the Scheme of Delegation. In addition, supply staff timesheets were being authorised by the Administration Assistant. • The Finance and Premises Committees Terms of References do not provide details on the composition of the Committees, frequency of meetings or the quorum requirements • Meeting minutes were not always signed off as an accurate record of the discussions held. In addition, an opportunity to declare any business interests was not provided for during the June 2011 meetings. • A number of statutory policies had not been reviewed, updated and approved since 2009. The new Head Teacher and Bursar are working to address this. • Records to show how the school journeys had been costed were not retained and presented to the Finance Committee. • The results of the annual inventory check had not been provided to the Governing. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Virginia Primary School	Dec. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an established Governing Body and a Finance, Premises for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; budget monitoring; collecting and recording of income; personnel and payroll management; managing eligibility for free school meals; recording of assets; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Pay Policy and also that a number of personnel policies have not been reviewed / updated within agreed timescales. In addition, the approval of the Charging Policy has not been updated formally minuted. • Up to date declarations of business had not completed for all members. Furthermore the register had not been extended to include all staff with financial responsibilities. • Official orders / requisitions are not always obtained for all orders where it was possible to raise one. • The school inventory check was undertaken by Levett Consultancy in August 2011. However the results of the check have not been presented to the Governing Body. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marner Primary School	Oct. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an established Governing Body and Finance Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; budget monitoring; collecting and recording of income; personnel and payroll management; recording of assets; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Two of the previous 12 months' Monthly Reconciliation Statements had not been signed off by the Head Teacher to confirm that the information was accurate. The copies held centrally by the Council had not been signed either. • The Financial Management Code of Practice requires that three written quotations should be obtained for expenditure above £1,500. Testing of a sample of five purchases above £1,500 identified two cases (totalling approximately £5,100) where the school did not obtain the necessary three written quotations. • Evidence to support the costing figures of the annual school journey is not retained and there was no evidence of agreement by the School Management Team and/or the Finance & Resources Committee. • Testing of a sample of 10 pupils receiving free schools meals identified six cases where the school did not have records of the child's eligibility to free school meals. In four of these cases, we were able to confirm with the Council the child's eligibility. • Sample testing of 15 items recorded on the asset register or located around the school, identified six items that had not been security marked. • The value of cash held within the safe at the time of the audit amounted to £968.47. Cash held in the safe is insured up to £500. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Our Lady Catholic Primary School	Nov. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an established Federated Governing Body with Holy Family Primary School and an Our Lady's Committee which encapsulates the Resources and Standards Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; requisition of goods and services; personnel and payroll management; free school meals; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Examination of the School Development Plan revealed that whilst the plan is comprehensive, the financial implications for each of the objectives are not documented. • Records to show how the school journeys had been costed were not retained and presented to the Our Lady's Committee prior to the journey. • Although the inventory was most recently checked in April 2012, it had not been provided to the Governing Body. The school was unaware of this requirement. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Land Charges Systems Audit	Dec 2012	<p>The audit was designed to provide assurance to management that systems and controls are in place for the administration and management of the service and that adequate systems are in place to enable the provision of accurate, valid and complete information to the public upon receipt of the appropriate fee.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Clear policies or procedures needed to be developed to document the ways in which applications for the chargeable elements of the Land Charges function should be conducted. • Checks needed to be undertaken on the accuracy of additions or amendments to the Land Charges Register. • The target timeframe for turning around chargeable requests to the Land Charges Register has been changed during the year from 10 working days to 30 working days. This change should be approved by an appropriate level of management. • Of the three complaints which had been received and responded to in full during this financial year none had been responded to within the 10 day timeframe targeted. <p>With one exception, all findings and recommendations were agreed with the Team Leader Application Support and reported to the Head of Planning and Building Control and the Corporate Director – Development and Renewal. The recommendation that further consideration should be given to the target for timeliness of responses, including member consultation was rejected as management stated that the increased response times were as a result of a staff restructure and were a temporary phenomenon. It was also stated that response times are now significantly reduced and a strategy is to be developed to further reduce response times to comply with the 10 day target.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Fees and Charges Including Management for the Delivery of Skills Funding Agency contract Follow Up Audit		<p>The objective of this follow up audit was to provide assurance to management that the agreed recommendations at the conclusion of the original Audit had been implemented as agreed.</p> <p>Our review found that out of three priority 2 recommendations, all had been progressed and implemented. As required by the Skills Funding Council's Inspection report, the Workforce and Development Manager had completed the self-assessment and quality improvement plan. The Head of Finance issued guidance and instructions to all Collecting Officers to ensure that valid receipt numbers are recorded on Cash & Deposit returns to improve the tracking and monitoring of income. In connection with the recommendation on fees and charges, the proposed revised fees and charges were presented to Cabinet on 11 January 2012. The report mentioned that the current fees for adult and community courses (not leading to qualifications) are around 50% below that charged for comparable programmes in neighbouring boroughs. It was also noted that if the income level were to be increased through higher fees then the service would be able to increase the number and breadth of courses offered. However it was not considered appropriate to increase the charges at that time, and the proposal to freeze these for 2012/13 was agreed on 11 January 2012.</p> <p>The report was agreed with the Service Head, Culture and final report was issued to the Corporate Director - Communities, Locality and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Environmental Protection and Pollution Control Follow Up Audit	Nov. 2012	<p>This audit assessed the actions taken since the original audit review to ensure that the agreed recommendations had been implemented.</p> <p>From our review, we could provide assurance that of the four priority 2 recommendations, three had been progressed well. Our testing showed that proactive work was undertaken throughout the year to identify polluting activities. Electronic signatures were now available to approve electronic documents on the IT application. The LBTH website had been updated with details of how a member of the public can access the Public Register. However, in connection with the adoption of DEFRA guidance, clear documentation of the adoption needed to be presented to the DMT to ensure that the revised Air Quality Action Plan, makes explicit reference to the adoption of DEFRA guidance.</p> <p>All findings and recommendations were agreed with the Service Head, Community Safety and final report was issued to the Corporate Director - Communities, Locality and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Occupational Health Stores Follow Up Audit	Dec. 2012	<p>This follow up audit assessed the progress of recommendations made at the conclusion of the original audit.</p> <p>Our review showed that out of four priority 1 recommendations, three were implemented and out of eight priority 2 recommendations, six were implemented. Policies and procedures, including those for authorising or orders and for condemning used equipment and store items had been updated and there was a system in place for keeping them current, led by the Community Equipment Store Management Board. Stock Control procedures were in place, with weekly stock counts being recorded. The use of condemning certificates had been taken on, with proper authorisation. An inventory for non-stock items was in place and should reduce risks in terms of adequate insurance cover. However, the following issues were raised:-</p> <ul style="list-style-type: none"> • Market testing for higher value purchases needed to be improved. • Delivery Notes needed to be signed by the person taking custody of the goods/services and not the person raising the order. • A full reconciliation required to be carried out of all items listed on the condemning forms with items recorded as withdrawn from the inventory system <p>All findings and recommendations were agreed with the Service Head, Adult Social Care and final report was issued to the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Follow Up Audits – List of Priority 1 Recommendation still to be Implemented

APPENDIX 3

Audit Subject	Recommendation	Service Head	Officer Name
Occupational Health Stores	It should be ensured that items listed on the condemnation form and authorised by an approved officer, reconcile with items recorded as scrapped on the inventory records. Held on the IT system.	John Rutherford	Bhagat Singh

Follow Up Audits – List of Priority 2 Recommendation still to be Implemented

APPENDIX 3

Audit Subject	Recommendation	Service Head	Officer Name
Environmental Protection and Pollution Control	Ensure that the revised Air Quality Action Plan, to be presented to DMT in October 2012, makes explicit reference to the adoption of DEFRA guidance.	Andy Bamber	Deshni Nadar
Asset Management and Disposal	Appropriate benchmarks and performance targets should continue to be established and used to measure Asset Management performance in order to ensure the Councils corporate objectives, in respect of property management are being achieved. Results of benchmarking should be monitored and reported to DMT.	Ann Sutcliffe	Howard Bramwell
Occupational Health Stores	It should be ensured that delivery notes are signed by the person taking custody of the goods/services and this should differ from the person who raised the official order, to ensure adequate separation of duties exist.	John Rutherford	Bhagat Singh
Occupational Health Stores	Market testing transparency for higher value purchases requires improvement to ensure that evidence of quotes and prices obtained is attached to the official order on the system.	John Rutherford	Bhagat Singh

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Agenda Item 6.2

REPORT TO: Audit Committee	DATE 26th March 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Internal Audit Plan 2013/14		
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A		

1. Introduction

- 1.1 This report presents the proposed Annual Internal Audit Plan for 2013/14. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process.
- 1.2 The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

2. Recommendation

- 2.1 That Audit Committee endorse the Annual Internal Audit Plan for 2013/14 (Appendix 1).

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

N/A

Minesh Jani, 0207 364 0738

3. **Background / Methodology**

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

- 3.3 Following this assessment, those systems with the highest score were added to the audit plan based on the resources available. In addition to the above assessment, auditable areas that have a medium or low score, but in order to support the work of external audit or to provide assurance to key officers, also feature in this audit plan. These include areas such as the reviews of key financial systems, governance arrangements, grant audits, cash income and regularity/probity audits.

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Deloitte through the L.B of Croydon Framework Agreement.

Audit Resources 2013/14		Days	Days
Deloitte	Core Audit	385	
	Computer Audit	90	
			475
In-house	4 auditors @ 195 days	780	
	Management	150	930
PLAN TOTAL			1,405

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the significance of the systems (High, Medium or Low), and where relevant, the source of the auditable area and its link to the authority's corporate priorities.
- 3.6 In summary, for 2013/14, the Internal Audit Plan comprises of 1,405 days across all directorates. In line with the established protocols, all changes to the agreed 2013/14 plan will be reported to the Audit Committee in December 2013.

	Original plan 2012/13	Revised Plan 2012/13	Audit Plan 2013/14
Corporate systems	120	165	60
Chief Executive's	15	-	10
Children, Schools and Families	197	267	-
Education, Social Care and Welfare	-	-	275
Communities, Localities and Culture	99	109	105
Tower Hamlets Homes	135	165	135
Development & Renewal	104	136	115
Adult Health and Wellbeing	76	44	-
Resources	244	234	315
Computer audit	80	80	90
Follow-up, management and reactive fraud provision	255	185	300
Total	1,325	1,385	1,405

4. Comments of the Chief Financial Officer

These are contained within the body of this report.

5. Concurrent Report of the Assistant Chief Executive (Legal Services)

The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

6. One Tower Hamlets

There are no specific one Tower Hamlets considerations.

There are no specific Anti-Poverty issues arising from this report.

7. Risk Management Implications

This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

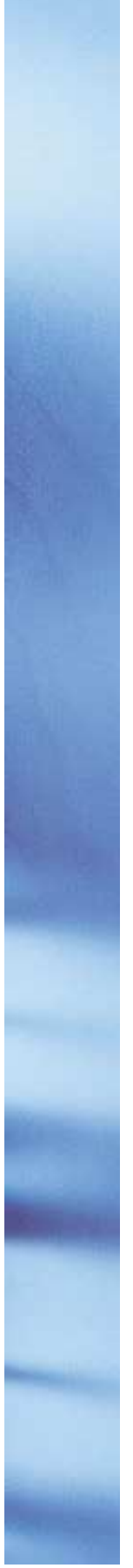
8. Sustainable Action for a Greener Environment (SAGE)

There are no specific SAGE implications.



London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2013/14



Foreword

The role of internal audit is important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2013-14 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani
Head of Risk Management and Audit

Context

Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

The Role of Internal Audit

The role of Internal Audit is to provide an independent 'assurance' to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation's internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 defines internal audit as:

"an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

London Borough of Tower Hamlets 2013/14 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	60	5
Chief Executives'	10	6
Resources	315	7-11
Development and Renewal	115	12-13
Education, Social Care and Wellbeing	275	14-17
Communities, Localities & Culture	105	18-19
Tower Hamlets Homes	135	20-21
Information technology audits	90	22
Follow up, management and reactive fraud provision	300	23
Total Provision	1405	

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate systems and Council-wide reviews</u>					
Management and Control of CRB checks	This audit will examine systems for management and control of CRB checks.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Declaration of Staff Interests	This audit will provide assurance over the Council's systems for declaration of staff interests.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Review of Timesheet Approval	This will be a general review of processing and approval of timesheets.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Management and control of Home Working	We will examine systems and controls over home working arrangements.	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Establishment and Control	The objective is to review the systems for effective management and monitoring of Establishments levels.	H	15	Audit needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2013/14

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Chief Executive's</u>	The objective is to review systems for managing Freedom of Information requests.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.



INTERNAL AUDIT PLAN – 2013/14

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
In-house Temporary Resources Service	This audit will examine systems and controls over the effective operation of the in-house temporary resources service.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Management of Business Rate Retention Scheme	To provide assurance over the soundness and adequacy of the business rate retention scheme.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Implementation testing of the new Financial Information System	We will carry out a series of tests over the effectiveness of the Agresso Financial system.	H	20	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.



Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Post completion review of the new Financial Information System	This will be a complete post-implementation review of the new financial information system.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Management of Council Tax Support Scheme	To provide assurance of the systems for management and control of the new Council Tax Support system.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Bank Reconciliation	We will examine the arrangements for the bank reconciliation of Council's various bank accounts.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Debtors incl. Recovery and write-offs	This audit is a part of a review of key financial systems to provide assurance to management in preparing the annual statement of accounts and to support the authority's "managed" audit approach.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Treasury Management	Review of key financial system.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
HR/payroll	Review of key financial system.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
General Ledger	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Budgetary control	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Creditors/P2P	Review of key financial system.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
NNDR	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Council Tax	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Capital Programme and Accounting	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Management of cash and deposit income	Review of key financial system.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Pensions	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Housing and Council Tax Benefit	Review of key financial system.	H	15	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.
Housing rents	Review of key financial system.	H	10	Annual Audit	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Reconciliation of Feeder systems with GL	Review of key financial system.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
HR Improvement - Systems development and advice	This audit will be part of the systems development review and advice.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Recruitment Processes	We will examine controls over pre-recruitment processes.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Management of Social Fund	This audit will review the soundness of the administration and control of the new hardship payments managed through the Social Fund.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Management and control of Mobile Phones	This review will examine systems and controls for managing mobile phones provided to Council staff.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Management and control of Planning Decisions	The objective is to provide assurance over the soundness of systems and controls in place for planning permissions.	H	15	Risk Register DRP0002	One Tower Hamlets. Working efficiently and effectively as One Council.
Repairs and maintenance of Administrative buildings	This audit will examine the council's arrangements for managing repairs and maintenance of its administrative buildings.	M	15	Risk Register RSE0002	One Tower Hamlets. Working efficiently and effectively as One Council.
Management and Delivery of Homeless Strategy	This audit will examine the council's arrangements for managing and delivering its Homelessness Strategy.	H	15	Risk register DRDH0001	One Tower Hamlets. Great Place to Live Working efficiently and effectively as One Council.
Management of Mainstream Grants	This audit will review systems and controls for managing and monitoring the award of mainstream grants to voluntary organisations.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Development Control	The objective is to provide assurance over the soundness of systems and controls in place for building development control.	H	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Archiving and Retrieval contract	We will examine the arrangements for managing the archiving and retrieval contract.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Building Schools for the Future Programme - Post contract	To review post contract systems and controls for the programme.	H	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Photocopying and Printing contracts	We will examine the arrangements for managing the photocopying and printing contract.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management of HRA account and MTFS	To review the management of the HRA account and its Medium Term Financial plan to ensure that financial risks are managed effectively.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.



Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Education, Social Care and Wellbeing</u>					
Youth Offending team	This will be a review of the management and control around the Youth Offending service.	H	15	Management Request	A Safe and Supportive Community Focus on Early Intervention
Emergency Duty Team (Adults and Children's)	This audit will examine systems in place for planning, controlling and managing the work of the Emergency Duty team for Adults and Children's.	H	15	Management Request	A Safe and Supportive Community Focus on Early Intervention
Budgetary Control	This review will provide assurance over the effective budgetary control of the newly formed Directorate of Education, Social Care and Welfare.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
End of Year School Accounts Reconciliation	This audit will examine systems and controls for end of year reconciliation of school accounts.	H	15	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Excluded Children	We will examine the soundness and adequacy of the Councils' systems and support for excluded children	H	15	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Schools Probity audits	This will be a programme of regularity audits to primary, secondary, special and nursery schools.	H	90	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Management and control of Direct Payments for Adults	This audit will examine systems and controls for managing and monitoring direct payments for social care provision for the Adults.	H	15	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Review of the Commissioning Lifecycle	We will examine the effectiveness of the commissioning lifecycle for a sample of recent social care contracts let out to a range of providers.	H	20	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Panel Decisions	We will examine the effectiveness of the management and control of Panel decisions for Adults social care provision.	H	15	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Electronic Home Care system	This audit will review the controls over the electronic home care system.	H	15	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Data Quality of Framework-i	This audit will provide assurance over the Data quality and integrity within the Framework-I systems applications.	H	10	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Management of Telecare services	This audit will examine systems for effective management of the telecare services.	M	10	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Management of Domiciliary Care Contracts	We will review contract management of the Domiciliary care contracts.	H	15	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Troubled Families Programme	This will be a review of the programme and any other work required by the DCLG around this programme.	H	10	Audit Needs Analysis and Management request	A Safe and Supportive Community Empower Older and Vulnerable People



Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Locality and Culture</u>					
Management and control of Horticulture works	This audit will examine systems and controls for managing horticulture works.	H	15	Audit Needs Analysis	A Great Place to Live Improve the environment and tackle climate change
Food Inspection and Control	We will review the systems and controls over food safety and inspection process.	H	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management of Highways Inspection programme	This audit will review the systems and controls for the highways inspection programme.	H	15	Risk Register TDTA0006	One Tower Hamlets. Working efficiently and effectively as One Council.
Leisure Management Contract	We will review the systems and controls for effective monitoring of the leisure management contract.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Pest Control	The objective of this audit is to examine the systems and procedures for pest control in the borough.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Youth Service	We will review the arrangements for delivering an effective and efficient youth service within the council.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Bulk Rubbish Collection service	This audit will examine systems and controls for managing bulk rubbish clearance within the Council.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management of Locality Hubs	The objective of this audit is to provide assurance over the effectiveness of the management and control of locality hubs.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Financial Systems	This annual review will provide assurance over the soundness of the key financial systems in place within THH.	H	10	Risk Register THH FN0003	One Tower Hamlets. Working efficiently and effectively as One Council.
S. 20 Major Works Consultation.	This audit will examine the soundness and adequacy of the systems in place for managing the s. 20 consultation process with leaseholders for major works.	H	15	Audit needs analysis.	One Tower Hamlets. Working efficiently and effectively as One Council.
Tenancy Successions and Exchanges	This audit will review systems in place for managing and controlling tenancy successions and exchanges.	H	10	Management request	One Tower Hamlets. Working efficiently and effectively as One Council
Management of Decent Homes works	To provide assurance that the decent Homes programme for year 3, is sound, secure and achieve key objectives.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Final Accounts	This will be audit certification of contractors final account statements.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Information Governance	We will review the soundness of the arrangements for information governance within THH.	H	10	Risk Register THH CF0015 and THH CG0007	One Tower Hamlets. Working efficiently and effectively as One Council.
Management and Control of Planned Maintenance works	This audit will review systems and controls over the management of planned maintenance works on Council residential dwellings.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Follow Up audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.		20	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management Requests	To service special requests from THH management to carry out any other high priority work.		25		

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>	A separate computer audit plan will be devised following the review of the computer audit strategic plan.		90	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council



Other

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Follow Up Audits	Follow up review of recommendations raised during 2012/13 audit plan.		100		One Tower Hamlets. Working efficiently and effectively as One Council.
Provision for Contract Audits	We will carry our pre-contract, current contract and post contract audits on some key building construction projects.		50		One Tower Hamlets. Working efficiently and effectively as One Council
Management Requests	A provision for servicing various management requests for advice and other systems development work.		50		One Tower Hamlets. Working efficiently and effectively as One Council.
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud.		50		One Tower Hamlets. Working efficiently and effectively as One Council.
Management Time	This is a provision for management time to direct, control and monitor the work of the team.		50		One Tower Hamlets. Working efficiently and effectively as One Council.

Governance-based Audit Assessment Methodology

Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category	Measure
A Corporate Importance – Objectives/Priorities	Corporate materiality
B Corporate Sensitivity – Impact	Reputational materiality
C Inherent Risk	Inherent vulnerability
D Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.

Score	Risk to Department, Corporate and/or Service Objectives	Operational Risk Exposure	Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	Minor inconvenience	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	Difficult to recover	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	Permanent loss of data	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	Unable to restore system	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	Organisation unable to function	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image	Risk of Adverse Publicity	Risk to Accountability	Risk of non-legal Compliance
10	Negligible consequences			No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	Information would be of interest to local press		Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	Information would be of interest to local MPs		Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	Incident of interest to National Press	Incident potentially leading to the dismissal or resignation of the responsible functional manager	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	Incident of interest to the Audit Commission, government agencies	Incident potentially leading to the resignation or dismissal of a Chief Officer	Possible court enforcement order for non-compliance

Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability	Risk of Error due to System Complexity	Risk resulting from Pace of Change	Risk to Asset Security
5	Low vulnerability	Simple system with low risk of error	No changes planned	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk		Limited changes planned with reasonable timescale	
7	Medium vulnerability	Moderately complex system with medium risk of error	Moderate level of change over medium term	
8	Medium to high inherent risk		Significant level of change with restricted timescale	
10	Highly vulnerable	Complex system with high risk of error	Extensive changes planned with short timescale	Highly desirable assets exposed to high risk of fraud or loss

Internal Audit Risk Assessment Matrices

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council’s Risk Manager could support evaluation.

Score	History of Risk Management Success	Management Risk and Control Environment	Condition of Risk Management Controls
2	No history of control weakness	There is effective risk management in place and adequate controls operated by risk-aware management	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	Good management risk and control environment	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	No knowledge of management risk and control environment	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	Some significant concerns have been expressed by management (through Controls Risk Workshops)	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	Major concerns have been expressed by management (through Controls Risk workshops)	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

Internal Audit Strategy

Introduction

What is Internal Audit?

Internal Audit is a review function within an organisation. Essentially it exists to perform the following roles:

- 1 review systems of risk management, internal control and governance to ensure that these are sound and effective.
- 1 to provide an assurance opinion on the soundness of the organisation's risk management and internal control frameworks.
- 1 to add value to the organisation's operational activities by recommending enhancements to systems and identifying potential efficiencies.

Perhaps the most succinct definition of Internal Audit is provided by the Institute of Internal Auditors – UK and Ireland (IIA-UK), as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Authority's Internal Audit Charter defines the function of Internal Audit, with specific reference to its role within the Authority, in the following way:

Internal Audit is an independent review function established as a service to Members, the Audit Committee and all levels of management. The Internal Audit Service is responsible for the independent assessment of the adequacy and effectiveness of the procedures and controls within systems operating within all of the Council's activities. It also has a responsibility to provide assurance to management that the Authority's risk management and corporate governance arrangements are satisfactory.

Why do we need an Internal Audit Strategy?

An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. The strategy is the plan for the effectively delivery of the Internal Audit service.

This document sets out Internal Audit's strategic approach, which should facilitate:

- 1 on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;
- 1 audit of the Authority' risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;
- 1 improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- 1 the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- 1 effective co-operation with external auditors and other review bodies functioning in the Authority; and
- 1 provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

The role of Internal Audit is to understand the Authority's key risks, and to review and evaluate the adequacy and effectiveness of the systems of internal control, risk management and corporate governance that are in operation at the Council, to ensure that they are sufficient for the purposes of mitigating risk.

It is a statutory requirement for Local Authorities to have an internal audit function, under S151 of the Local Government Act 1972. The Act also stipulates that Internal Audit should have unrestricted access to all information and records retained by the Authority. This enables Internal Audit to comprehensively review, appraise and report on the authority's functions as outlined in the Audit Charter.

Strategic Aims

Internal Audit exists to support the Council in the achievement of its corporate objectives. In particular:

- 1 Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;

Appendix 2

1 Internal Audit will support the Authority in working to the values set out in its corporate plan by providing the Head of Risk Management, the Director of Resources and the Audit Committee with reports on the extent of compliance with the Authority's Code of Corporate Governance;

1 Internal Audit will contribute to the delivery of the Authority's community aims through professional audit reviews and effective recommendations for improving systems that support the Council's organisational aims;

1 Internal Audit will assist the Director of Resources in the discharge of his statutory responsibilities for ensuring the proper administration of the Authority's financial affairs and will contribute to the Authority's aim of maximising and making best use of its financial resources through:

- o Risk based reviews of financial systems;
- o Advice on the adequacy and effectiveness of controls in new and developing systems;
- o Promotion of best practice across the Authority;
- o Advice on the prevention and detection of fraud affecting the Authority and investigation of waste or abuse within the Council systems.

Internal Audit & Risk Management

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

Dimension 4 from the CIPFA/SOLACE report on good governance highlights Risk Management as being an integral part of good governance. Internal Audit will therefore also examine the authority's risk management arrangements annually and in so doing, also fulfil the requirements of the CIPFA Code of Practice 2006 for Internal Audit in Local Government to report formally on the authority's arrangement for Risk Management.

Identifying Audit Coverage

In order to identify the auditable systems and establish the areas of risk or specific importance within the authority, Internal Audit will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting key officers within the authority including Corporate Directors and Finance Managers, the Chief Executive and other key officers within the authority. Internal Audit will also discuss the requirements of the External Auditors and the requirements of the “managed audit” approach to ensure those areas upon which our external auditors would seek to place reliance on the internal audit work are included within the internal audit programme. Details of the “Governance” Based Strategic Planning are attached to this paper for information.

In compiling its work programme, Internal Audit will make use of information available within the authority to identify auditable systems, such as

- the authority’s risk registers, to ensure risks are being managed properly;
- background information obtained from previous audits and our discussions to date with the authority;
- experience of issues raised at other public sector organisations after carefully considering key risks to the authority; and
- current and previous audit plans and strategic issues facing the authority.

For each auditable system, Internal Audit will classify the systems into one of three risk bands according to the system’s significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority. Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also be included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

Delivering the Strategy

The strategic internal audit plan will be compiled annually for each financial year and only comprise those systems due for review in that year. The strategic plan will therefore relate to one financial year and be subject to a formal six monthly review.

Internal audit will primarily perform risk based audits, all exceptions to this will require prior agreement from the Head of Risk Management. The risk based approach entails examining the objective of the auditable system, the risks relating to the delivery of those objectives and an assessment of the adequacy and effectiveness of the control framework to achieve the desired objectives.

Audit Reporting

The reporting arrangements for Internal Audit are detailed in the Internal Audit Charter under “Reporting” .

Quality

All internal audit work will be subject to rigorous review and quality assurance procedures. This will entail:-

- 1 planning the scope of the audit to ensure focus on areas of risks and concerns;
- 1 supervision of audit work by the Audit Managers;
- 1 a formal review and sign off of the audit report and audit file by the Audit Managers;
- 1 further formal reviews of all reports and sign off for issue to auditee by the Partnership Manager;
- 1 obtaining feedback and comments from the auditees and Directors;
- 1 seeking feedback from the external auditors; and
- 1 bench marking Internal Audit quality control procedures with other similar organisations.

The Internal Audit Process

The Pre-Audit Stage

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

During the Audit

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

Post Audit Stage

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.

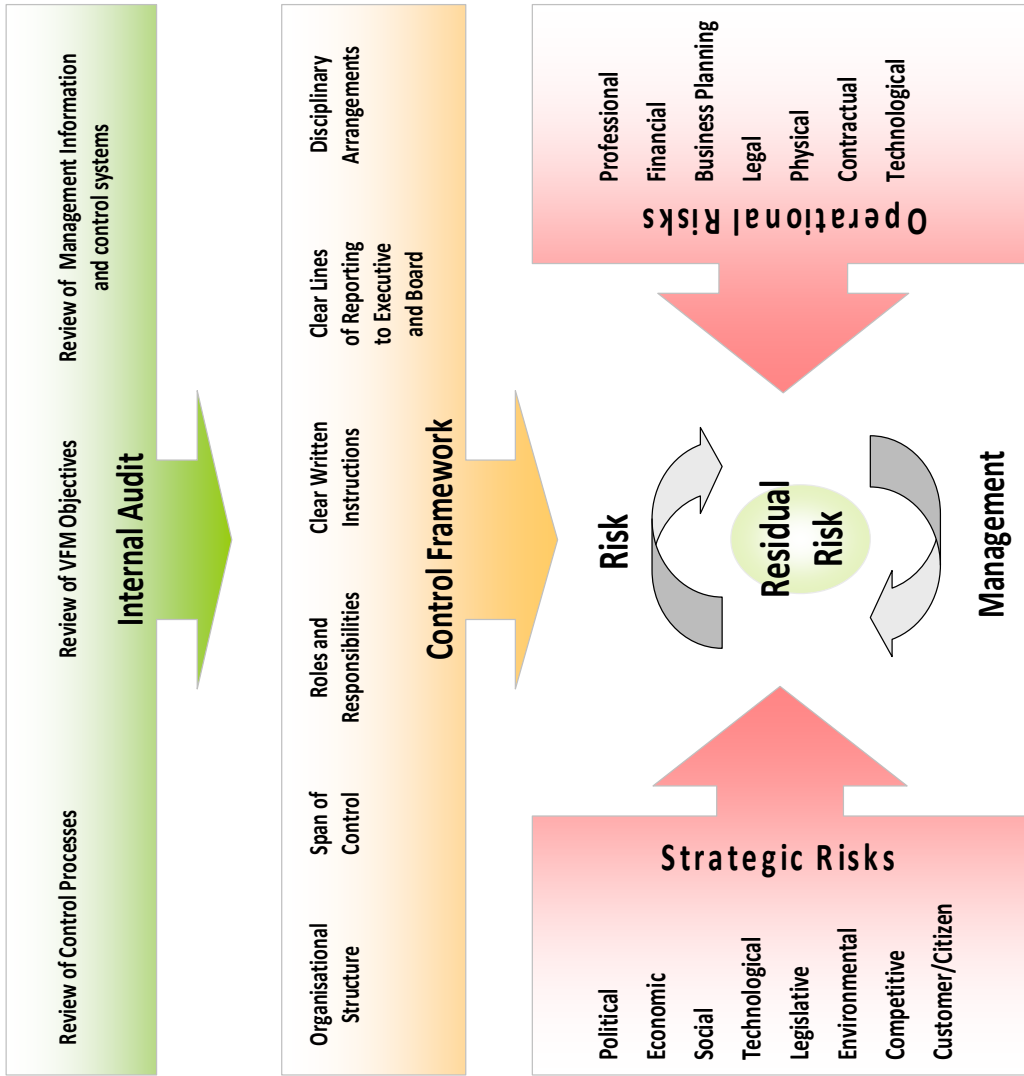
The Monitoring Process

Follow-up audits will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

Internal Audit recommendations are classified as follows:

- Category 1 – High Priority - 100% of recommendations to be implemented within six months
- Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

Summary



Internal Audit: Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

Control Framework: A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

Risk Management: The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

Appendix 3: Risk Management Framework

Definitions

Risk “Any issue which could impact on an organisation’s ability to meet its objectives”

Risk Management Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

Objective Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

Our Policy: We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.

Objectives of Risk Management:

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

These Objectives will be Achieved by:

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

To Emphasise the Organisation's Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:

"London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community".

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

Roles and Responsibilities

<p>Audit Committee</p>	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
<p>Corporate Management Team</p>	<p>One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.</p>
<p>Corporate Director of Resources</p>	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
<p>Corporate Directors</p>	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>

Risk Management Action Plans

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

Classification of Risk

Strategic Risks		Operational Risks	
<p>Political</p> <p>Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO</p>	<p>Economic</p> <p>General economic problems Regional economic problems Treasury risk Missed business or service opportunities</p>	<p>Professional</p> <p>Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners</p>	<p>Financial and business planning</p> <p>Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services</p>
<p>Social</p> <p>Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working</p>	<p>Technological</p> <p>Obsolescence of technology Security policies Breach of confidentiality Failure in communications</p>	<p>Legal</p> <p>Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation</p>	<p>Physical</p> <p>Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies</p>
<p>Legislative</p> <p>Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission</p>	<p>Environmental</p> <p>Impact of sustainability policies Noise, contamination and pollution</p>	<p>Contractual</p> <p>Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies</p>	<p>Technological</p> <p>Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites</p>
<p>Competitive</p> <p>Failure to show best value Failure of bids for government funds</p>	<p>Customer/Citizen</p> <p>Lack of appropriate consultation Bad public and media relations</p>		

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Agenda Item 6.3

REPORT TO: Audit Committee	DATE 26th March 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Progress on National Fraud Initiative 2010 and New Initiative 2012		
ORIGINATING OFFICER(S): Head of Risk Management and Corporate Fraud Manager		Ward(s) Affected: N/A		

1. SUMMARY

- 1.1 This report updates the Audit Committee of the current progress of the National Fraud Initiative 2010 and provides an overview of anti fraud work undertaken during the past six months by Audit Services.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the contents of the report.

3. INTRODUCTION

- 3.1 This report updates the Audit Committee of the progress of the National Fraud Initiative 2010 and details of the current exercise for 2012.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

N/A

Tony Qayum, 0207 364 4773

4. NATIONAL FRAUD INITIATIVE 2010-11

Background:

- 4.1 The National Fraud Initiative is a bi-annually run Data Matching exercise managed by the Audit Commission.
- 4.2 The exercise matches data provided by some 1,300 participating organisations from across the public and private sectors including government departments and other national agencies.
- 4.3 Since its launch in 1996 the NFI has enabled its participants to detect fraud, overpayments and errors totalling more than £939 million nationally.
- 4.4 The last exercise was run in 2010 with the matched output being received by the Authority in February 2011. Because of the volume of matches received this exercise has been operational ever since, with matches being investigated gradually over the two year period from February 2011 to date. The coverage of the exercise had the objectives of identifying fraud or error on the following key areas:-
 - Benefits fraud (Housing and Council Tax)
 - Employee fraud (employees with Border Agency issues and rights to work and employees failing to declare other employment which may have a conflict)
 - Pension fraud/overpayments to deceased pensioners
 - Inappropriate Right - to - Buy applications
 - Illegal tenancies and temporary accommodation
 - Multiple insurance claims
 - Creditors address book
 - Potential duplicate payments
 - In-appropriate issue/abuse of parking permits, blue badge or freedom passes
 - Incorrectly awarded Single Person Discounts on Council Tax accounts

4.5 For the 2010 NFI exercise, this Authority received a total of 17,559 matches for examination/investigation. This exercise is now drawing to a close, with many of the investigated cases only reaching court in recent weeks. Some are still awaiting court dates.

5. 2010 Exercise Outcomes

5.1 To date this authority has identified 1146 cases of error and 78 cases of fraud, with overpayments totalling £827,356.

5.2 There has been a successful link up with the Department of Work and Pensions Benefit Investigators, who also participated in the exercise, which led to benefit related cases being jointly investigated and prosecuted accordingly.

5.3 The results total of £827,356 includes £394,408 of Housing and Council Tax Benefit overpayments, and £164,087 of DWP benefits overpaid. Twelve prosecutions and 41 other sanctions have been levied as a result of the exercise so far.

5.4 £109,336 has been identified as incorrectly awarded Single Person Discount on Council Tax accounts to date.

5.5 Three social housing properties have been recovered.

5.6 £111,382 of duplicated creditor payments were identified and recovery has been sought on these.

A full breakdown of the results to date is included at the end of this report (Appendix 1 & 2)

6. National Fraud Initiative Exercise 2012

6.1 The new 2012 National Fraud Initiative exercise has recently commenced and departments preparing to manage the outturn.

7. Comments of the Chief Financial Officer

7.1 The comments of the Chief Financial Officer are contained within the body of the report.

8. Concurrent Report of the Assistant Chief Executive (Legal Services)

8.1 These are contained within the body of this report.

9. One Tower Hamlets Considerations

- 9.1 This progress update on significant issues arising from the National Fraud Initiative should allow the Audit Committee to focus on management action taken to date to improve risk management and control in order to minimise future risk exposure.

10. Anti-Poverty Considerations

- 10.1 There are no specific Anti-Poverty issues arising from this report.

11. Risk Management Implications

- 11.1 This report highlights risks relating to the National Fraud Initiative data matching exercise findings and shows how the Council is responding to potential risks to the control frame work that may be exploited by fraudsters.

12. Sustainable Action for a Greener Environment (SAGE)

- 12.1 There are no specific SAGE implications.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
2 High	Housing Benefit Claimants to Student Loans, high quality, between bodies	184	301	Opened	196	42	23	3	£249859.14
4 Medium	Housing Benefit Claimants to Student Loans, medium quality, between bodies	6	8	Opened	7	1	0	0	£0.00
13 High	Housing Benefit Claimants to Payroll, high quality, within bodies	13	619	Opened	91	7	5	0	£19823.10
13.1 High	Housing Benefit Claimants to Pensions, high quality, within bodies	7	365	Opened	11	0	1	1	£11175.30
14 High	Housing Benefit Claimants to Payroll, high quality, between bodies	25	188	Opened	25	4	2	1	£27218.71
14.1 High	Housing Benefit Claimants to Pensions, high quality, between bodies	33	725	Opened	67	0	7	6	£92203.71
15 Medium	Housing Benefit Claimants to Payroll, medium quality, within bodies	0	5	Closed	5	0	0	0	£0.00
16 Medium	Housing Benefit Claimants to Payroll, medium quality, between bodies	1	2	Closed	2	0	0	0	£0.00
16.1 Medium	Housing Benefit Claimants to Pensions, medium quality, between bodies	0	3	Opened	3	0	0	0	£0.00
17 Low	Housing Benefit Claimants to Payroll, address quality, within bodies	363	1168	Opened	210	54	25	3	£119276.63
17.1 Low	Housing Benefit Claimants to Pensions, address quality, within bodies	21	73	Opened	35	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
18 Low	Housing Benefit Claimants to Payroll, address quality, between bodies	375	906	Opened	106	52	1	1	£1698.45
18.1 Low	Housing Benefit Claimants to Pensions, address quality, between bodies	47	120	Opened	6	0	0	0	£0.00
21 Medium	Housing Benefit Claimants to In-Country Immigration, medium quality, between bodies	3	4	Opened	0	3	0	0	£0.00
23 High	Housing Benefit Claimants to UK Visas, high quality, between bodies	4	9	Opened	6	3	0	0	£0.00
24 Medium	Housing Benefit Claimants to UK Visas, medium quality, between bodies	62	139	Opened	45	0	0	0	£0.00
26 High	Housing Benefit Claimants to Housing Benefit Claimants, high quality, within bodies	1	6	Closed	6	0	0	0	£0.00
27 High	Housing Benefit Claimants to Housing Benefit Claimants, high quality, between bodies	33	75	Opened	60	15	0	0	£0.00
29 Medium	Housing Benefit Claimants to Housing Benefit Claimants, medium quality, between bodies	18	20	Opened	17	3	0	0	£0.00
30 High	Housing Benefit Claimants to Housing Tenants, high quality, within bodies	25	29	Opened	28	1	0	0	£0.00
31 High	Housing Benefit Claimants to Housing Tenants, high quality, between bodies	45	67	Opened	54	13	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
32 Medium	Housing Benefit Claimants to Housing Tenants, medium quality, within bodies	18	21	Opened	17	1	0	0	£0.00
33 Medium	Housing Benefit Claimants to Housing Tenants, medium quality, between bodies	86	110	Opened	52	19	0	0	£0.00
35 High	Housing Benefit Claimants to Right to Buy, high quality, between bodies	1	2	Opened	1	1	0	0	£0.00
37 Medium	Housing Benefit Claimants to Right to Buy, medium quality, between bodies	3	4	Opened	4	0	0	0	£0.00
45.4 Medium	Housing Benefit Claimants to Insurance Claimants, medium quality, between bodies	0	2	Not Opened	0	0	0	0	£0.00
45.5 Low	Housing Benefit Claimants to Insurance Claimants, address quality, within bodies	0	1	Opened	0	1	0	0	£0.00
45.6 Low	Housing Benefit Claimants to Insurance Claimants, address quality, between bodies	0	4	Closed	4	0	0	0	£0.00
46.1 High	Housing Benefit Claimants to Market Traders, high quality, within bodies	26	107	Not Opened	0	0	0	0	£0.00
46.2 High	Housing Benefit Claimants to Market Traders, high quality, between bodies	1	9	Opened	1	0	0	0	£0.00
46.3 Medium	Housing Benefit Claimants to Market Traders, medium quality, within bodies	1	2	Closed	2	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
46.4 Medium	Housing Benefit Claimants to Market Traders, medium quality, between bodies	0	2	Closed	2	0	0	0	£0.00
46.5 Low	Housing Benefit Claimants to Market Traders, address quality, within bodies	53	153	Opened	2	0	2	0	£25984.35
46.6 Low	Housing Benefit Claimants to Market Traders, address quality, between bodies	2	10	Opened	1	1	0	0	£0.00
47.2 High	Housing Benefit Claimants to Taxi Drivers, high quality, between bodies	171	1039	Opened	12	24	1	0	£14352.70
47.4 Medium	Housing Benefit Claimants to Taxi Drivers, medium quality, between bodies	3	11	Opened	3	0	0	0	£0.00
47.6 Low	Housing Benefit Claimants to Taxi Drivers, address quality, between bodies	327	1122	Opened	12	4	1	0	£2405.00
48.2 High	Housing Benefit Claimants to Personal alcohol licences, high quality, between bodies	0	1	Closed	1	0	0	0	£0.00
48.3 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, within bodies	6	25	Opened	6	1	1	0	£5012.38
48.4 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, between bodies	17	35	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
48.5 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, within bodies	56	194	Not Opened	0	0	0	0	£0.00
48.6 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, between bodies	9	23	Opened	7	2	0	0	£0.00
52 High	Pensions and Pension Gratuity to Benefits Agency Deceased Persons, high quality, within bodies	10	50	Closed	50	0	0	5	£4308.52
52.1 High	Pensions and Pension Gratuity to DDRI Deceased Persons, high quality, within bodies	16	39	Closed	39	0	0	6	£25388.54
54 High	Pensions to Payroll, high quality, within bodies	53	70	Closed	70	0	0	0	£0.00
55 High	Pensions to Payroll, high quality, between bodies	35	80	Closed	79	0	0	0	£0.00
65 High	Payroll to Payroll, high quality, within bodies	33	180	Closed	0	0	0	0	£0.00
66 High	Payroll to Payroll, high quality, between bodies	4	167	Opened	164	3	0	0	£0.00
67 Medium	Payroll to Payroll, medium quality, within bodies	0	1	Closed	1	0	0	0	£0.00
68 Medium	Payroll to Payroll, medium quality, between bodies	1	4	Closed	4	0	0	0	£0.00
72 High	Payroll to UK Visas, high quality, between bodies	8	8	Closed	8	0	1	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
73 Medium	Payroll to UK Visas, medium quality, between bodies	62	68	Opened	65	3	0	0	£0.00
75 High	Payroll to Housing Benefit Claimants, high quality, between bodies	3	3	Closed	3	0	0	0	£0.00
76 Info	Payroll to Housing Benefit Claimants, medium quality, between bodies	1	1	Closed	1	0	0	0	£0.00
78 Info	Payroll to Pensions, high quality, between bodies	0	22	Closed	22	0	0	0	£0.00
81 Low	Payroll to Creditors, address quality, within bodies	28	49	Not Opened	0	0	0	0	£0.00
83 Info	Payroll to NI Number Check, within bodies	0	18	Closed	18	0	0	0	£0.00
85 High	Payroll to Council Tax, high quality, within bodies	0	51	Not Opened	0	0	0	0	£0.00
100 High	Housing Tenants to Housing Tenants, high quality, within bodies	5	7	Closed	7	0	0	0	£0.00
101 High	Housing Tenants to Housing Tenants, high quality, between bodies	15	17	Opened	17	0	1	0	£0.00
102 Medium	Housing Tenants to Housing Tenants, medium quality, within bodies	5	6	Closed	6	0	0	0	£0.00
103 Medium	Housing Tenants to Housing Tenants, medium quality, between bodies	52	57	Opened	51	2	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
105 Medium	Housing Tenants to In-Country Immigration, medium quality, between bodies	0	1	Closed	1	0	0	0	£0.00
107 High	Housing Tenants to UK Visas, high quality, between bodies	0	10	Opened	5	5	0	0	£0.00
108 Medium	Housing Tenants to UK Visas, medium quality, between bodies	0	156	Opened	2	1	1	0	£0.00
111 High	Housing Tenants to Housing Benefit Claimants, high quality, between bodies	28	31	Opened	22	6	1	0	£0.00
113 Medium	Housing Tenants to Housing Benefit Claimants, medium quality, between bodies	44	64	Opened	45	1	0	0	£0.00
117 Medium	Housing Tenants to Right to Buy, medium quality, between bodies	0	1	Closed	1	0	0	0	£0.00
144 Medium	Right to Buy to UK Visas, medium quality, between bodies	2	10	Opened	2	0	0	0	£0.00
149 High	Right to Buy to Housing Tenants, high quality, between bodies	1	1	Closed	1	0	0	0	£0.00
150 Medium	Right to Buy to Housing Tenants, medium quality, within bodies	1	3	Closed	3	0	0	0	£0.00
151 Medium	Right to Buy to Housing Tenants, medium quality, between bodies	2	2	Closed	2	0	0	0	£0.00
156 High	Right to Buy to Housing Benefit Claimants, high quality, within bodies	53	78	Closed	78	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
157 High	Right to Buy to Housing Benefit Claimants, high quality, between bodies	1	1	Closed	1	0	0	0	£0.00
158 Medium	Right to Buy to Housing Benefit Claimants, medium quality, within bodies	1	3	Opened	2	1	0	0	£0.00
159 Medium	Right to Buy to Housing Benefit Claimants, medium quality, between bodies	0	1	Closed	1	0	0	0	£0.00
170 High	Blue Badge Parking Permit to Blue Badge Parking Permit, high quality, between bodies	0	1	Closed	1	0	0	0	£0.00
170.1 Medium	Blue Badge Parking Permit to Blue Badge Parking Permit, medium quality, between bodies	0	11	Opened	9	2	2	0	£0.00
172.1 High	Blue Badge Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	48	56	Opened	55	1	1	38	£0.00
172.2 High	Concessionary Travel Passes to Benefits Agency Deceased Persons, high quality, within bodies	103	103	Closed	103	0	0	100	£0.00
172.3 High	Resident Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	8	13	Closed	13	0	0	13	£0.00
172.4 High	Blue Badge Parking Permit to DDRI Deceased Persons, high quality, within bodies	175	195	Opened	195	0	2	149	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
172.5 High	Concessionary Travel Passes to DDRI Deceased Persons, high quality, within bodies	246	246	Closed	246	0	0	220	£0.00
172.6 High	Resident Parking Permit to DDRI Deceased Persons, high quality, within bodies	20	42	Closed	42	0	0	38	£0.00
173 High	Private Residential Care Homes to Benefits Agency Deceased Persons, high quality, within bodies	1	12	Closed	12	0	0	2	£844.13
173.1 High	Private Residential Care Homes to DDRI Deceased Persons, high quality, within bodies	19	19	Closed	19	0	0	1	£1363.36
180.1 High	Insurance Claimants to Insurance Claimants, high quality, within bodies	1	1	Closed	1	0	0	0	£0.00
312 High	Housing Benefit Claimants to Fraud Data, High Quality, Between Bodies	0	1	Opened	0	1	0	0	£0.00
313 Medium	Housing Benefit Claimants to Fraud Data, Medium Quality, Between Bodies	0	2	Opened	0	2	0	0	£0.00
315 High	Housing Rents to Fraud Data, High Quality, Between Bodies	0	1	Closed	1	0	0	0	£0.00
316 Medium	Housing Rents to Fraud Data, Medium Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
321 High	Market Traders to Fraud Data, High Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
322 Medium	Market Traders to Fraud Data, Medium Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
328 Medium	Personal Licence to Supply Alcohol to Fraud Data, Medium Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
330 High	Payroll to Fraud Data, High Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
343 Medium	Residential Parking Permit to Fraud Data, Medium Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
344 Low	Residential Parking Permit to Fraud Data, Address Only, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
701 High	Duplicate creditors by creditor name	0	304	Opened	298	0	0	251	£0.00
702 High	Duplicate creditors by address detail	0	502	Opened	20	1	0	3	£0.00
703 High	Duplicate creditors by bank account number	0	69	Opened	62	0	0	59	£0.00
707 High	Duplicate records by invoice reference, invoice amount and creditor reference	0	6	Closed	6	0	0	0	£0.00
708 High	Duplicate records by invoice amount and creditor reference	0	4270	Opened	119	10	0	0	£0.00
709 High	VAT overpaid	0	6	Closed	6	0	0	0	£0.00
710 High	Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	0	13	Closed	13	0	0	3	£2988.97

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

11-Feb-2013

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
711 High	Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	0	105	Closed	105	0	0	13	£1111478.82
712 High	Duplicate records by postcode, invoice date and invoice amount but different creditor reference and supplier invoice number	0	15	Closed	15	0	0	1	£2647.14
713 High	Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	0	75	Closed	75	0	0	0	£0.00
801 High	Council Tax single persons discount to Electoral Register	0	2265	Opened	412	2	0	229	£109335.83
802 High	Council Tax rising 18s	0	247	Not Opened	0	0	0	0	£0.00
TOTAL									

IMPORTANT : This summary includes matches that occurred in previous years.

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NFI 2010/11 Outcomes Summary - Delivered Only

London Borough of Tower Hamlets

Date of Generation : 2/11/2013 12:25:25 PM

1. Benefit Fraud Investigations (for HB paying bodies only)

		Confirmed					Estimates		
		(i) Overpayments (fraud & non fraud)			(ii)	(iii)	(iv)	(v)	(vi)
		HB/CTB	IS/JSA	Other (e.g. pension credit)	Weekly reduction in benefit	No. where recovery is in progress	Value of overpayments where recovery is in progress	Value of over-payments	Administrative Penalty Amount (30% of HB/CTB)
		£	£	£	£		£	£	£
A	Total Amount	394,408	164,087	0	4,819	78	549,321	0	22,490
B	No. UKBA have deported or are deporting					0			

2. Pensions Investigations (for pension administering bodies only)

		(i)	(ii)	(iii)	(iv)	(v)	(vi)
		No. of cases not previously identified	Confirmed value of overpayments / forward savings	No. where recovery is in progress	Value of overpayments where recovery is in progress	No. of prosecutions	Weekly reduction in pension
A	Deceased pensioners (report 52)	11	29,697	10	29,601	0	
B	Deferred Pensioners (report 53)	0					
C	Pension abatements	0	0	0	0	0	
D	Pension abatements (forward savings)		0				
E	Injury benefits	0	0	0	0.00	0	0.00

3. Housing								
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
Match Type	No. of properties recovered; No of applicants removed from waiting list.	No. of cases where action is being taken	Amount of : - overpayment; discount awarded per annum; arrears; lost rates; weekly rent; value of removing ineligible applicants from waiting list (£)	No. of cases where recovery is in progress	Value of overpayments where recovery is in progress	No. of applications revoked or withdrawn	No. of prosecutions	Total discount incorrectly awarded
A Housing Rents	3							
B Right To Buy		0	0	0	0	0		
C Former tenant arrears		0	0	0	0			
D ER Pilot (NI)		0					0	
E Rates v ER pilot (NI)		0	0	0	0		0	
F Temp accomodation (pilot)	0		0				0	
G Waiting Lists	0		0				0	
H No. UKBA have deported or are deporting	0							

4. Payroll and other investigations (i.e. investigations resulting from NFI but not associated with NFI match e.g. expenses claim fraud)

	(i)	(ii)	(iii)	(iv)	(v)
	No. of cases where: - fraud or error found; or action taken	Amount of overpayment or error	No. of cases where recovery is in progress	Value of overpayments where recovery is in progress	No. of prosecutions
A Payroll to payroll	0	0	0	0	0
B Payroll to UK visas	1	0	0	0	0
C Payroll to failed asylum seekers	0	0	0	0	0
D Payroll to student loan (pilot)					
E Other fraud and error (e.g. expenses claim fraud)	10	18,454	4	6,637	0

5. Additional Questions - housing benefit*

A	Case Status re: the HB cases you have actioned so far how many are:	No. of cases
	i. Fraud	72
	ii. Customer Error	9
	iii. Official Error	237

*** the number of cases and value of overpayments reported for questions B-K of this section should agree to the confirmed values in Section 1 above**

Housing benefit overpayment cases linked to matches with:		(i) No. of cases	(ii) Confirmed value of overpayments
B	Students eligible for student loans	30	249,859
C	NHS employees	2	26,726
D	Local government employees	33	130,777
E	Local government pensioners	6	45,933
F	Failed asylum seekers	0	0
G	UK visas	0	0
H	Insurance claim payouts	0	0
I	Licences		
a	Market traders	2	25,984
b	Taxi drivers	2	16,758
c	Personal alcohol	1	5,012
J	Right to buy	0	0
K	Central Government employees	0	0
L	Central Government pensioners	9	57,446
M	Housing benefits	0	0
N	Housing tenants	0	0

In accordance with the NFI Guidelines employers should be notified of cases that are reported in 5 O-Q below.

Please confirm this in 6 C below.

O	Number of prosecutions	12	
P	Number of administrative penalties	26	
Q	Number of official cautions	15	

6. Additional Questions - employees

		(i)	(ii)
		No. of cases	Confirmed value of overpayments
A Number of employees dismissed/resigned involving:			
i)	Housing benefit claimants	0	0
ii)	Failed asylum seekers	0	0
iii)	Invalid UK visas	1	0
iv)	A match to another payroll	0	0
v)	Council tax	0	0
vi)	Procurement matches	0	0
vii)	Other	0	0
B Number of employees removed from the UK involving:			
i)	Housing benefit claimants	0	0
ii)	Failed asylum seekers	0	0
iii)	Invalid UK visas	0	0
iv)	A match to another payroll	0	0
v)	Other	0	0
vi)	Other council tax	0	0
C If you have identified cases in section 5 C, D & K above:			
	In how many cases was the employer notified?	2	
D Number of National Insurance numbers corrected			
		0	

7. Overpayments relating to ad-hoc areas

		(i)	(ii)	(iii)	(iv)	(v)
		No. confirmed as deceased	No. revoked or withdrawn	Value of overpayment	No. of cases where recovery is in progress	Value of overpayments in the process of recovery
A	Blue badge parking permits	190				
B	Private care home residents/ continuing care payments	5		0	0	0
C	Serial insurance claimants		0	0	0	0
D	Blue badge parking permits matched to payroll		0			
E	Market traders with failed asylum seekers/ UK visas		0			
F	Taxi drivers with failed asylum seekers/ UK visas		0			
G	Blue badges to blue badges (pilot)		2			
H	Residents permit to residents permit (pilot)		0			
I	Concessionary fares	320				
J	Residents permits	51				

8. Creditors

	(i)	(ii)	(iii)	(iv)	(v)
	No. of cases where action take to correct error	No. of frauds/overpayments	Value of fraud/overpayments	No. of cases where recovery is in progress	Value of overpayments in the process of recovery
A Duplicate creditors by creditor reference (700)	0				
B Duplicate creditors by creditor name (701)	251				
C Duplicate creditors by address (702)	3				
D Duplicate creditors by bank account details (703)	59				
E Invalid VAT number (704)	0				
F Invalid VAT number structure (705)	0				
G No address details recorded on file (706)	0				
H Duplicate by invoice reference, invoice amount and creditor reference (707)	1	1	0	0	0
I Duplicate by invoice amount and creditor reference (708)	1	1	0	0	0
J Incorrect VAT (709)	0	0	0	0	0
K Duplicate by cred name, invoice no., invoice amount, but different cred ref (710)	7	7	2988.97	1	1045.17
L Duplicate by invoice no., invoice amount, but diff cred ref & name (711)	17	16	105746.88	13	105746.88
M Duplicate by postcode, invoice date and invoice amount, but diff cred ref & invoice number (712)	1	1	2647.14	1	2647.14
N Dups by postcode, invoice amount, but diff cred ref, invoice no. & invoice date (713)	0	0	0.00	0	0.00

9. NHS student loans/bursaries - NHS Student Grant Unit only

	(i)	(ii)	(iii)	(iv)
	No. of cases	Amount of overpayments	No. of cases where recovery is in progress	Value of overpayment where recovery is in progress
Overpayment relating to :				
A	Failed asylum seekers	0	0	0
B	Invalid UK visas	0	0	0
C	Amberhill	0	0	0
Forward savings relating to :				
A	Failed asylum seekers	0	0	
B	Invalid UK visas	0	0	
C	Amberhill	0	0	

10. Other Agencies

	(i)	(ii)	(iii)	(iv)	(v)
	No. of cases not previously identified	Confirmed value of overpayments / forward savings	No. where recovery is in progress	Value of overpayments where recovery is in progress	No. of prosecutions
A	Deceased Students	0	0	0	0
		No. Removed	No. Where other action taken		
B	Removed failed asylum seekers	0	0		
C	Removed UK visas	0	0		

12. Council Tax

	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
Match Type	No of cases where action is being taken	Total amount of discount awarded per annum for those where discount withdrawn	No. of cases where recovery is in progress	Value of overpayments where recovery is in progress	No. of applications revoked or withdrawn	No. of prosecutions	Total discount incorrectly awarded
A	Council Tax Single Person Discount	230	62,211	229	109,336	0	0
B	Rising 18s	0	0	0	0	0	0

13. Procurement

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
	No. of cases with undeclared interest.	No. where action taken.	No. where contract has been terminated.	Value of contracts.	No. of cases where recovery is in progress.	Value of payments in recovery.
A	0	0	0	0	0	0

14. SLAB

Match Type	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
	No. of cases closed error or fraud	No of cases where legal aid was cancelled or reduced	Amount of overpayment where legal aid was cancelled or reduced	No. of cases where recovery is in progress	Value of overpayments where recovery is in progress	Amount of forward savings	Prosecution case reported to PF?
A Legal aid applications	0	0	0.00	0	0.00	0	0

15. Amberhill pilot

Match Type		(i)	(ii)	(iii)
		No of cases resulting in prosecution	No of cases resulting in Administrative Penalty	No of cases resulting in Official Caution
A	Amberhill	0	0	0

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Agenda Item 6.4

REPORT TO: Audit Committee	DATE 26th March 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Social Housing Update		
ORIGINATING OFFICER(S): Head of Risk Management and Corporate Anti-Fraud Manager		Ward(s) Affected: N/A		

1. Introduction

- 1.1 This report provides the Audit Committee with an update on the work of the Social Housing Fraud team and its successes to date in the recovery of unlawfully let public sector dwellings.

2. Recommendations

- 2.1 The Audit Committee is asked to note this report.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

N/A

Tony Qayum, 0207 364 4773

3. Background

- 3.1 The Audit Committee has received reports previously on the creation of this team and its funding arrangements. The Audit Commission has continued to highlight the abuse of Social Housing and in its annual "Protecting the Public Purse" publication which is issued in October each year.
- 3.2 In 2010, it reported that through the efforts of some sixty councils in England 1,600 properties with an asset value of £240 million were recovered from unlawful tenants.
- 3.3 The paper stated that fewer than 5% of those evicted from Sublet properties sought assistance from Homeless Services as in most cases they found alternative accommodation in the private rented sector. This is not dissimilar to the experience at Tower Hamlets.
- 3.4 Following on from the Audit Commission paper and a report by the National Fraud Authority on abuse of Social Housing the Government advised that those authorities that had made the most effective use of earlier funding would be further supported by an award of £100,000 to continue the crackdown on tenancy cheats.

4. Current Position

- 4.1 In December 2011 the government assessed the Councils eligibility for further funding and made £100,000 available for the continuation of the function for financial year 2012-13.
- 4.2 In Tower Hamlets terms we have continued to utilise the services of the three temporary officers for which funding was awarded and have committed to maximise effectiveness by extending the existing arrangements for a further full financial year and to utilise, wherever possible, the use of technology to risk assess potential cases for follow up. To this end we have acquired and developed a Fraud Case Management system funded from existing resources, and are testing it while under development with the provider.
- 4.3 The Team have continued its joint working arrangements with Tower Hamlets Homes and following agreement to temporary funding a short term post was created to support THH on their recoveries. Following the recruitment of a temporary post holder the number of cases brought to a successful conclusion has increased thus justifying the initiative.
- 4.4 The team has also forged closer working arrangements with the Housing Benefit Fraud team, which now forms part of the enhanced Corporate Anti- Fraud team and this has resulted in the identification of potential abuse of the Homeless Service system where fraudulent applicants use

a THH or RP address as their home but upon further examination the tenant confirms that either the applicant has never lived there or that the address was used as a device to acquire permanent accommodation.

- 4.5 This is an area where we feel there is some considerable scope to further develop and we have met with the Homeless Service to develop an authorised procedure for initial applications to be verified against the Housing Benefit system and where there is a concern the case is referred to a Single Point of Contact in the Corporate – Anti Fraud team for further investigation. Since the function was introduced 25 of the 35 referrals received had resulted in a positive anti-fraud outcome.
- 4.6 We have continued to provide training to staff in THH and those RP's that form part of the Common Housing Register.
- 4.7 The Team has continued to look into inappropriate "right-to-buy" applications or potential unlawful subletting property with live "RTB" applications. These are either from referrals from THH "Right-to-Buy" team or from whistle blows, to avert an in-appropriate disposal of property and consider prosecution action. It is considered that this risk is likely to increase in light of the enhanced discount made available to tenants following the revisions to the Right to Buy scheme.
- 4.8 The publicity on the whistle blowing hotline and the anti-fraud email together with referrals through the Council and THH have proved effective with over 737 referrals for investigations being received.
- 4.9 The following is a summary of the team's case load, progress and successes to date:-

Open Cases

- 290 current cases
- Of these 185 have Housing Benefit and/or Council Tax Benefit in payment
- 170 of these cases are Tower Hamlets Homes managed properties
- 25 cases are currently in various stages of recovery.

Closed Cases

- 335 closed cases (excluding recovered properties)
- Of these 232 had Housing Benefit and / or Council Tax Benefit in payment.
- 235 were Tower Hamlets Homes managed properties

Recovered Cases

- 118 properties recovered to date
- 51 had Housing Benefit and / or Council Tax Benefit in payment.
- 84 were managed by Tower Hamlets Homes

In addition the team have achieved 1 court conviction for a fraudulent housing application, 2 Right to Buy stopped and 1 set of keys handed back to a property after a false homeless claim was discovered- work undertaken by our Housing Benefit Fraud team in conjunction with Homeless Services.

- 4.10 It is intended to provide regular reports to the Audit Committee on the success of this unit.

5. Comments of the Chief Financial Officer

- 5.1 The comments of the Chief Financial Officer are contained within the body of the report

6. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 6.1 These are contained within the body of this report.

7. One Tower Hamlets Considerations

- 7.1 This progress update on Social Housing sub letting should allow the Audit Committee to assess the management action taken to date to improve risk management and control in order to provide greater assurance that this risk is being managed effectively.

8. Anti-Poverty Considerations

- 8.1 There are no specific Anti-Poverty issues arising from this report.

9. Risk Management Implications

- 9.1 This report highlights risks relating to illegal letting of social housing properties. The report identifies potential risks to the control framework that may be exploited by fraudsters.

10. Sustainable Action for a Greener Environment (SAGE)

- 10.1 There are no specific SAGE implications.