

Meeting of the

AUDIT COMMITTEE

Monday, 14 January 2013 at 7.00 p.m.

A G E N D A

VENUE

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].	

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Antonella Burgio, Democratic Services
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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Monday, 14 January 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 - 10	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 25 September 2012.		
4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
4 .1 Certification of Claims and Returns Annual Report LBTH Audit 2011/12	11 - 18	
To note the report of Auditors KPMG		
5. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
5 .1 Quarterly Internal Audit Assurance Report	19 - 46	
To note the report and to take account of the assurance opinion assigned to the systems reviewed during the period.		
5 .2 Revised Internal Audit Plan for 2012	47 - 92	
To endorse the revised 2012/13 internal audit plan.		

5 .3	Annual Risk Management Report	93 - 104
	To note the report.	
5 .4	Annual Internal Audit Report for Schools 2011/12	105 - 116
	To note the contents of the report and to take account of the matters raised by Audit in each of the 12 areas examined.	
5 .5	Annual Governance Statement for 2011/12 - Update	117 - 120
	To note the report.	
5 .6	2011/12 Treasury Management Report to 30 November 2012.	121 - 132
	To note the report.	
6.	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 7.00 P.M. ON TUESDAY, 25 SEPTEMBER 2012

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

Members Present:

Councillor Carlo Gibbs (Chair)

Councillor Craig Aston
Councillor Stephanie Eaton
Councillor David Edgar

Officers Present:

Alan Finch	– (Service Head Financial Services, Risk & Accountability, Resources)
Tony Qayum	– (Corporate Fraud Manager, Internal Audit, Resources)
Minesh Jani	– (Head of Audit and Risk Management, Resources)
Shona Milton	– (Audit Manager, Audit Commission)
Kevin Miles	– (Chief Accountant, Resources)
Bharat Mehta	– (Audit Manager)
Jill Bell	– Head of Legal Services (Environment), Legal Services
Chris Holme	– (Service Head, Resources)
Alan Bryce	– (Audit Commission)
Steve Vinall	– (Deloitte Touche)
Jon Hayes	– (Audit Commission)
Antonella Burgio	– (Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Abdal Ullah.
Apologies for lateness were received from Councillor Anwar Khan.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the meeting held on 26 June 2012 were approved as a correct record of proceedings.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 Fraud Briefing from Protecting the Public Purse

The Committee received a presentation from Alan Bryce of the Audit Commission concerned with national and local measures in detecting and monitoring areas of fraud which affect councils and related bodies. The presentation supplemented the fraud briefing circulated at agenda item 4.1 which reported the Council's performance on tackling fraud in comparison to its neighbouring and peer authorities in 2012 and provided a cumulative trend analysis over three years since the initiative had been established.

Members noted the matters advised in regard to growing areas of fraud detection such as housing tenancy, single person discount, (social care) personalised budget and procurement frauds.

Members were advised that in since January 2012, the Council has worked to establish relationships with registered social landlords to identify what housing tenancy fraud issues exist.

Members were advised that in 2010-11, the Council reported no single person discount fraud. This then was investigated and data found. Mr Bryce therefore recommended that this data be reported by the Council.

Members noted the commendation of the Council's approach to dealing with personalised budget fraud and Mr Bryce advised that the Audit Commission had brokered the sharing of this good practice, with other authorities which had expressed an interest, with the agreement of the departments involved.

Members noted the matter of a contractor timesheet fraud raised at Council and were advised that the Fraud manager would investigate the referral and report back to Council. The Committee was advised that contractor timesheets were monitored and authorised through the departmental management structures.

RESOLVED:

- 1 That the presentation be noted
- 2 That the contents of the report be noted
- 3 That single person discount fraud data be reported in future
- 4 That the referral by Council to the Head of Paid Service and Fraud Manager concerning a contractor timesheet fraud be noted

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

5.1 Annual Governance Report - Council Accounts 2011-2012

Mr Jon Hayes of the Audit Commission presented the report circulated at agenda item 5.1. He advised that the annual governance report - audit 2011 - 12 was delivered in accordance with statutory deadline and reported that, in the main, the outcome of the annual audit had been satisfactory.

Mr Hayes noted the following areas of the report:

Page 5 - audit "uncertainties in the financial statement",

Page 6 - significant risks and findings,

Page 7 - table of areas to be focused on during the annual audit,

Page 9 - Weakness in internal control - page 9

Pages - 10 & 11 - matters significant for oversight of the council's financial reporting process and data cleansing,

Page 13 - value for money arrangements were satisfactory,

Appendix 1 - draft independent auditor's report

Appendix 5 - action plan & recommendations arising from the audit

Mr Hayes advised that, following changes in regulations, the annual audit henceforth was to be undertaken by KPMG.

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

Concerning "uncertainties in the financial statement", the Service Head Financial Services, Risk & Accountability agreed that appropriate control processes needed to be put in place and acknowledged that there was opportunity to do this. However it would be necessary to ensure that enough time was given for quality assurance before the accounts were published.

Concerning the un-reconciled difference discovered during an audit of sample cash account reconciliations, Mr Hayes noted that an anomaly of this kind could arise where an item in a closed account has not been fully written off. To avoid this, he recommended that regular maintenance of accounts should take place.

Concerning the submission of whole of government accounts within the statutory deadlines, Mr Hayes noted that the submission would be ready by the statutory deadline of 5 October 2012. To meet deadlines for the forthcoming year he suggested that the Committee consider a meeting one or two weeks earlier in order to meet the deadline

Noting that future audits would be undertaken by private companies, Members sought assurance that there was comparative data on the work required to produce audited accounts to ensure that auditors' fees would not escalate unreasonably. Mr Hayes advised that fees would be fixed for the next five years. Any variation would need to be agreed by the Audit Commission therefore councils were protected.

Mr Hayes advised the Committee arising from the changes in regulations, he would no longer undertake audits but would continue at the Audit Commission in a different capacity.

The Chair noted Mr Hayes departure to take up a new role and thanked him for his audit work on behalf of the Council over the past five years.

RESOLVED

That the draft audit to be approved

5.2 Annual Governance Report - Pension Fund Accounts

Mr Hayes presented the report noting the following:

Appendix 2 - corrected errors reported at Appendix 2.

Page 6 - risks and findings highlighted had not originated from his audit

He reported that overall, the audit of the pension fund had been satisfactory and the Annual Pensions Accounts would be signed off at the forthcoming Pensions Committee meeting.

RESOLVED

That the audit report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 Annual Financial Report 2011/12

The statement of accounts for the financial year end 31 March 2012 and accompanying report was presented by Alan Finch Service Head Financial Services, Risk & Accountability. He advised the Committee that the accounts also incorporated amendments made in the auditor's annual report and highlighted Cabinet's decision, on 20 June 2012, to allocate £950,000 to mainstream grant funding.

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

Concerning the deficit beyond the medium-term financial strategy, this had been noted and further savings would be sought. This was outside of the Council's present medium-term financial plan and has been identified as a future risk. It was noted that the figures were not yet fully known.

Concerning arrangements for the oversight of the governance structure of Tower Hamlets Homes, the Committee was advised that a written response would be provided by Chris Holme, Service Head Resources. Additionally Minesh Jani, Head of Audit and Risk, would undertake an audit of Tower

Hamlets Homes governance in December 2012. A report will be presented to the Committee subsequently.

Concerning whether equalities issues were being properly considered in the data, the Service Head Financial Services, Risk & Accountability advised that the Auditor had confirmed that the Council's accounts gave a true and fair view of the way that monies have been used.

Concerning the decision required on officers' remuneration, the Service Head Financial Services, Risk & Accountability recommended that this matter be taken up with the Head of Paid Service.

The Committee noted that there had been significant changes in some funding streams and requested an explanation. The Chief Accountant advised that a detailed answer would be required and agreed to reply in writing.

RESOLVED

- 1 That the statement of accounts for the financial year ended 31 March 2012 be approved, having regard to the Auditor's annual governance report.
- 2 That it be agreed that, if the auditor identifies any further significant issues, the Chair of the Committee be delegated to approve any subsequent amendments to the statement of accounts that may be necessary or as a result further audit work, and that the Chief Finance Officer will brief the Committee, and if necessary prepare a formal report to the next meeting of the Committee.

6.2 Quarterly Internal Audit Assurance Report

Minesh Jani, Head of Audit and Risk, presented to the report circulated agenda item 6.2. The Committee was asked to note

- the indicators examined by means of the audit and the resulting reconciliation
- recommendations yet to be implemented applied only to one area. Where recommendations remained to be completed the Head of Audit and Risk advised that these would take up with the relevant corporate director
- the overall level of assurance provided, detailed in paragraphs 5.3 to 5.5.

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

Further to the findings of the parking appeals systems audit at appendix 2 of the report, Members were advised that removal of the clamping organisation had not been part of the audit, however the contract management element of this service area had been examined.

Concerning the scope of the audit relating to the management of community buildings listed at appendix 1, Members were advised that this had involved inspection of systems of control beyond finance concerned with contractual arrangements were in place for the assignments of the buildings.

RESOLVED

That the report be noted, taking into account the assurance opinion assigned to the systems reviewed during the period.

6.3 Annual Anti -Fraud Report 2011/12

Tony Qayum, Corporate Fraud Manager, presented to the report circulated at agenda item 6.3 noting that, in the last 12 months, all anti-fraud functions had been managed by the Risk Management Section. The Corporate Fraud Manager noted the following highlights in the period; joint working, money-laundering investigations, and a citation for good practice regarding training that had been delivered. He also advised that future reports would include data on property abandonment.

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

Concerning whether there had been under reporting of corporate frauds and whether this area was under resourced, Members were advised that the areas mostly reported were those that had been agreed as priority areas. However the Anti-fraud Team was looking to reallocate resources to enable corporate matters to be better investigated.

Concerning achieving better data matching, Members requested that other bodies be encouraged to participate in data matching exercises on a voluntary basis by liaising with Councillors who are boards members of registered social housing organisations.

RESOLVED

That the report be noted

6.4 Social Housing Fraud Update

Tony Qayum, Corporate Fraud Manager presented the report circulated at agenda item 6.4. The Committee was asked to note that the Audit Commission was considering two initiatives to address fraud via unlawful tenancies. Additionally there was cross agency working on fraud cases which were connected to bigger areas of criminality.

RESOLVED

That the report be noted

6.5 Progress on National Fraud Initiative 2010-11, and launch of NFI 2012-13

The report was presented for information, to advise members of work connected with the initiative to be launched and of reporting frameworks.

RESOLVED

That the report be noted

6.6 2011-12 Treasury Management Outturn Report

Alan Finch Service Head Financial Services, Risk & Accountability presented the report circulated at agenda item 6.6 which advised the Committee of treasury management activity for the financial year ending at 31 March 2012, prior to its presentation at full Council. The Committee was asked to note:

- the Prudential Indicators for the period
- that in last year the Council had remained within these parameters
- the investment out turn at paragraph 11 of the report, and in particular the rate of return achieved which was 1.52%.

RESOLVED

That the report be noted

6.7 Treasury Management Activity for Period Ending 31 August 2012

Alan Finch Service Head Financial Services, Risk & Accountability presented the report circulated agenda item 6.7. He reported that investment returns were slightly reduced for the period; this reflected the general trend in investments. He advised that the Council would explore investment in relatively risk-free areas but asked the Committee to note that areas of better return were generally of higher risk. Therefore it would be necessary to balance risk exposure against the potential for greater returns.

RESOLVED

- 1 That the contents of the treasury management activity report for the period ending 31 August 2012 be noted and
- 2 That amendments to the investment strategy as attached appendix 3 be referred to Council

The meeting ended at 9.00 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee



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Certification of grants and returns 2011/12

Page 1

London Borough of Tower Hamlets
December 2012





Contents

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■ Recommendations	6

This report is addressed to the Authority 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.

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, who is the engagement leader to the Authority (telephone 020 7311 6496, e-mail andrew.sayers@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

<p>Introduction and background</p>	<p>The certification of the Council's grant claims and returns was undertaken by your previous auditor, the Audit Commission's Audit Practice . This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns. completed by the Commission.</p> <p>For 2011/12 your auditor certified:</p> <ul style="list-style-type: none"> – two grants with a total value of £285,576 million; and – four returns with a total value of £341,453 million. 	
<p>Certification results</p>	<p>Unqualified certificates were issued for 4 grants and returns but qualifications were necessary in two cases.</p> <ul style="list-style-type: none"> ■ The Housing Benefit and Council Tax Benefit Subsidy return was qualified due to errors in income calculations which resulted in benefit underpayments. The qualification letter also set out the results of the work the Council did in response to the qualification of the 2008/09 claim. This matter related to the Council's failure to apply single person's discount in all of the cases that it should have done. ■ The Housing Subsidy return was qualified due to a technical error. The Council could not have corrected this and there was no impact on the subsidy payable to the Council. 	<p>Pages 3 – 4</p>
<p>Credit adjustments</p>	<p>Adjustments were necessary to four of the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ The amendments to the Housing Benefit and Council Tax Benefit return reduced the subsidy payable to the Council by £826k. Whilst this is a large sum, it represents only 0.3% of the total value of the claim which was £284 million. ■ Amendments were required to the Single Programme return because the Council incorrectly declared that it had received £1,083k of income. This amendment represented 100% of the income due in respect of this programme. 	<p>Pages 3 – 4</p>
<p>The Council's arrangements</p>	<p>The Council has sound overall arrangements for preparing its grants and returns and supporting our certification work but improvements are required in some areas.</p> <ul style="list-style-type: none"> ■ Overall the Council's arrangements for preparing grant claims and returns are adequate. There has been an improvement in the management of the certification process for the larger grants and this has resulted in fewer qualification letters and less significant adjustments. There are weaknesses in the processes in respect of smaller grants such as the GLA Single Programme and there is scope for the Council to improve in this area. 	<p>Page 5 – 6</p>
<p>Fees</p>	<p>The overall fee for the certification of grants and returns was £69,206k.</p> <ul style="list-style-type: none"> ■ The fee has reduced by £36,849k. The reduction is mainly due to improvements in the quality control arrangements for larger claims and a reduction in the number of claims subject to certification. 	<p>Page 5</p>

Overall, we certified six grants and returns:

- one was unqualified with no amendment;
- three were unqualified but required some amendment to the final figures; and
- two required a qualification to the audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from the certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of the work or where the auditor had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

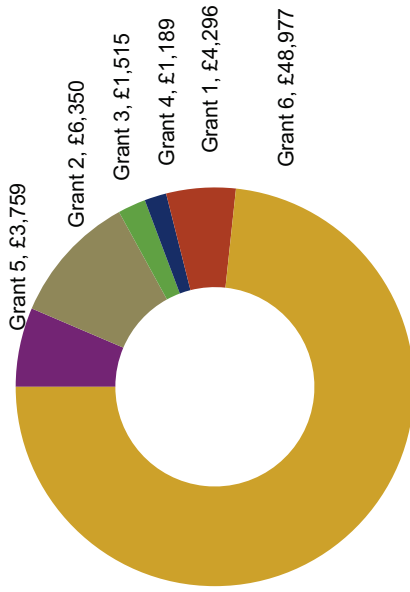
Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
1		●		●
				●
			●	●
			●	●
2	●			
3	●		●	

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>GLA Single Programme (High Street 2012)</p> <p>The GLA single programme grant return reported that the Council had received £1,083k of income that was due to the Council but had not been received. The claim was amended to correct the error before it was certified but this indicates weaknesses in the quality control arrangements for this claim.</p>	<p>Income payable increased by £1,083k</p>
2	<p>Housing Finance Subsidy Return</p> <p>The Housing Finance Subsidy return was qualified due to a technical matter that it was not possible for the Council to address in the claim. The qualification led to further information being provided to the CLG which resolved the issue and this did not have an impact on the subsidy payable to the Council.</p>	<p>N/a</p>
3	<p>Housing Benefit and Council Tax Benefit Claim</p> <p>The Housing Benefit and Council Tax Benefit Subsidy return was qualified due to errors in income calculations which resulted in underpayments to benefit recipients. The extent and impact of the qualification was less than in previous years and there was no reduction in subsidy payable to the Council as a result of the errors in the income calculations. This reflects the significant work the Council has undertaken to improve the quality monitoring arrangements in this area. Amendments were made to the claim to reflect the impact of software updates provided by the Council's software supplier. The amendments reduced the value of the claim by £826k which represents 0.3% of the subsidy claimed. The Audit Commission did not raise any concerns relating to the Council's arrangements to manage the process of software updates.</p> <p>The 2008/09, 2009/10 and 2010/11 claims were qualified due to the Council's failure to apply single person's discount in all of the cases that it should have done. The Council undertook a review of the 2008/09 cases in 2012 and the results of this review were reported in this year's qualification letter. The Council should now make the review of the 2009/10 and 2010/11 cases a priority.</p>	<p>Subsidy payable to the Council reduced by £826k</p>

Our overall fee for the certification of grants and returns was contained within the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return		
	2011/12 (£)	2010/11 (£)
1. GLA Single Programme (High Street 2012)	4,296	3,317
2. National Non-Domestic Rates Pooling Return	6,350	10,038
3. Pooling of Housing Capital Receipts	1,515	5,439
4. Teachers' Pensions Return	1,189	1,329
5. Housing Finance Subsidy Return	3,759	2,092
6. Housing Benefit and Council Tax Benefit Return	48,977	54,808
Claims and returns certified in 2010/11 but not in 2011/12	-	23,957
Managements and reporting	3,120	5,075
Total fee	69,206	106,055

The initial estimated fees for certifying 2011/12 grants and returns was £96,000. The actual fee charged was lower than the estimated fee. The main reasons for the fee being below the original estimate were:

- the continued improvement the Council has made in the quality control arrangements for its larger claims and returns; and
- a reduction in the number of claims subject to certifications.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Housing Benefit and Council Tax Benefit Subsidy Return – Single Person's Discount The Council has not completed work requested by the CLG in response to qualifications of prior year claims in relation to the application of single person's discount in the subsidy return.</p>	<p>There is a risk that Communities and Local Government may adjust previous year's subsidy claims to the detriment of the Council</p>	<p>1 Complete the review of 2009/10 and 2010/11 Council Tax Benefit cases to identify instances where single persons' discount should have been applied. Make the results of the review available for our review.</p>	<p>1</p>	<p>Work has commenced on the 2009/10 and 2010/11 Council Tax Benefit/ SPD mismatches and is due to be completed by the end of March 2013.</p>	<p>Steve Hill, March 2013</p>
<p>Overall Control Environment There are weaknesses in the Council's overall control environment to ensure that smaller grant claims and returns have been completed in accordance with the awarding body's terms and conditions.</p>	<p>The Council may lose grant funding due to late or ineligible claims.</p>	<p>2 Strengthen the overall control environment for smaller grant claims and returns</p>	<p>1</p>	<p>Officers completing grant claims will be reminded about the importance of checking and reviewing claims prior to submission to the grant paying body and audit. This includes checking what grant cash sums are still due to the Council.</p>	<p>Kevin Miles, March 2013</p>



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Agenda Item 5.1

REPORT TO: Audit Committee	DATE 14th January 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
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 September 2012 to November 2012.
- 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"

Contact :

N/A

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 September 2012, fifteen 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. The 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.

(Please refer to the table below).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	5	1	-	6
	Moderate	-	7	2	-	9
	Low	-	-	-	-	-
Total Numbers		-	12	3	-	15

Total %	-	80%	20%	-	100%
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- 5.4. From the chart it can be seen that of the six finalised audits which focused on high risk or high value areas; five were assigned Substantial Assurance and one was assigned Limited assurance. A further nine audits were of moderate significance and of these; seven were assigned Substantial Assurance and two, Limited Assurance.
- 5.5. Overall, 80% of audits resulted in an adequate assurance (substantial or full). The remaining 20% 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 October 2012	47%	57%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	100% 2 out of 2
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	83% 15 out of 18

The table above shows that the proportion of internal audit work completed to October 2012 is 57% against the target of 47%. This is principally due to most of the schools being audited in the first two quarters of the financial year which has meant that the audit plan is ahead of the target.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 100%, whereas the percentage of priority 2 recommendations was 83%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of all 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	Tower Hamlets Homes	Contractors Final Accounts – Systems Audit
	Moderate	Children, Schools and Families	St Anne’s Catholic School – Regularity Audit
	Moderate	Children, Schools and Families	Management and Control of School Meals Income – Sir John Cass Redcoat – Secondary School.
SUBSTANTIAL			
	Extensive	Corporate	Data Quality Systems Audit
	Extensive	Resources	Capital Accounting – Systems Audit
	Extensive	Resources	Budgetary Control
	Extensive	Resources	Medium Term Financial Plan – Follow Up Audit
	Extensive	Children, Schools and Families	Quality Assurance System – Child Protection Services
	Moderate	Children, Schools and Families	Careers Service
	Moderate	Children, Schools and Families	Youth Offending Service - Follow Up audit
	Moderate	Children, Schools and Families	Children’s Centres
	Moderate	Adults, Health and Wellbeing	Court of Protection - Systems Audit
	Moderate	Adults, Health and Wellbeing	Occupational Therapy – Systems Audit
	Moderate	Adults, Health and Wellbeing	Framework-I Adult Social Care Application
	Moderate	Tower Hamlets Homes	Bancroft Tenant Management Co-Operative - Follow Up

APPENDIX 2

Summary of Audits Undertaken:

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Final Accounts – Tower Hamlets Homes (THH)	Oct. 2012	<p>This audit sought to provide assurance over the adequacy systems in place for auditing contractors' final accounts. THH manages a significant part of the Council's Housing Capital Programme.</p> <p>Our audit found that a Final Account Procedure was introduced in March 2012 by Property Services. A new Capital Programme Financial Management Procedure Manual was also being developed at the time of audit which included a section on financial reporting on the final accounts process. Procedures require that all schemes above £25,000 are subject to final account audit. The procedures provide for adequate divisions of duty. However, our testing showed that in five out of seven final accounts examined by Audit, the Contract Administrator's line Manager was also a member of the Audit Panel which approved the final account. We were of the opinion that the level, extent and quality of testing on final accounts undertaken by the Audit Panel may not be of the same standard and independence as that of an independent contract Auditor. We therefore, recommended that a review (cost-benefit) be undertaken of the current practice and consideration should be given to having a system of auditing final accounts by independent auditors. We found that a number of variation orders were issued which related to additional works which could not be referenced to the contractor Schedule of Rates (SOR). Evidence of written quotations from the contractor for these non-SOR works was not found on the final account file to demonstrate value for money. There was no performance monitoring system which was able to report on the time taken between the preparation of the Final Account, submission of the Final Account and the audit examination and approval of the Final Account.</p> <p>All findings and recommendations were agreed with Head of Property and final report was issued to THH Chief Executive.</p>	Extensive	Limited

Management Comments

THH acknowledges the issues identified in the final account auditing. After discussion with Central Audit Team, a comprehensive list of management actions have been agreed with the timelines clearly defined. The management actions have been documented in the final version of the audit report circulated by Audit on 5 November. THH has now incorporated the actions into an ongoing service-wide programme aiming to improve the performance of the Capital Programme. Moving forward, THH will liaise closely with Finance team and Central Audit Team to complete the actions within the set timeline. A follow-up audit will be undertaken by Central Audit Team in six months' time to assess the progress in implementing the agreed management actions.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Anne's Catholic School	July 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 Resource Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; procurement of goods and services; 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 findings were as follows:-</p> <ul style="list-style-type: none"> • Testing identified one item (a newly purchased laptop) that could not be found and two items that were in a different location to that detailed in the asset register; • Not all Governors have completed a declaration of business interest form; • There was no evidence that the 2011/12 budget approval of the 2011/12 budget was minuted by the Governing Body, or evidence that the Financial Code of Practice is updated annually; • There was no evidence that the Pay Policy is reviewed annually or the Health & Safety Policy on a regular basis (last review October 2008); • Complete records to enable reconciliation of time sheets to agency invoices are not retained; • Petty cash limits are not always observed and claims forms are not signed by the recipient of the monies; • The school fund has not been audited for the 2010/11 or 2011/12 periods; and • Three instances were identified where ineligible children were in receipt of free school meals. <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 and their external finance support officer to review and support the school in its recommendations

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sir John Cass and Redcoat Secondary School.	Nov. 2012	<p>The objective of this audit was to provide assurance that the systems in place for collecting, controlling, banking, monitoring, reconciling and accounting for income received for school meals were sound and secure.</p> <p>Our review showed that there was a basic system in place with minimal control over cash collection and reconciliation. The current operational system was found to be both time consuming and labour intensive, record keeping was poor and inconsistent. Written procedures for collection, reconciliation and monitoring of school meal income were not in place. Daily income was counted and recorded by some staff but not by others. Furthermore, collected income was not reconciled back to tickets issued or meal numbers recorded. Cash transfers between staff were not signed for. Our testing of the collection and recording process and analysis of prime records showed that there was no reconciliation of income collected with the prime collection records and hence we were not able to provide assurance that all income collected was recorded, reconciled and banked.</p> <p>In order to address the issues raised by this audit, we have recommended that a full review of the school meals income collection and reconciliation process be undertaken with the objective to introducing a cashless system that would provide greater efficiency and control.</p> <p>All findings and recommendations were agreed with the School Bursar and school's finance consultant. Final report was issued to the Head Teacher and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Management Comments

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 finance officer to review and support the school in its recommendations.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Data Quality – Corporate Review	Oct. 2012	<p>This audit was designed to provide assurance to management that adequate arrangements are in place for the collection of data relating to single line data and strategic indicators.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • There is an appropriate data quality policy which has been recently updated in April 2011; and • The Corporate Strategy & Performance Team (CSPT) has carried out annual completeness checks on the integrity of reported information and deficiencies identified were reported to relevant Directorates. The Performance Review Group (PRG) actively identifies areas of weak performance. <p>The main weaknesses are:-</p> <ul style="list-style-type: none"> • Inspection of the working papers used to derive SI 195 on Street and Environmental Cleanliness identified inconsistency with the methodology employed for measuring performance. The review found the use of an optional intermediate grading system. This approach was clearly documented within the corporate working papers. However, there is no clear requirement for changes in performance methodology to be communicated to the PRG; • There was insufficient working papers to substantiate SI 201 (households who consider themselves homeless); • The Data Quality Policy, whilst freely available to access via the Council's intranet, has not been formally communicated to all relevant Council employees; and • CSPT maintain a spread sheet of their key strategic measures which details when information is due for reporting etc. No spread sheet is in operation for the single data list (former National Indicators and other data streams). The Council is reliant on Directorates to report to central government on a timely basis. <p>The findings were agreed with the Service Manager, Strategy, Policy & Performance and the final report was issued to the Assistant Chief Executive – Legal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Accounting-Systems Audit	Oct. 2012	<p>This audit sought to provide assurance to management as to whether the systems of control within the Capital Accounting system are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Capital Strategy outlines the Council's approach to capital investment and how the Council ensures that investment is directed towards its corporate priorities; • Capital receipts are identified by the Chief Accountant's team through extracting financial information in respect of the relevant account codes from the Oracle JDE accounting system; • Individual directorates and project managers are responsible for monitoring capital expenditure on their own project schemes; and • Reconciliation between the Corporate Property Asset Management System and the fixed asset register is conducted by the Chief Accounting team. <p>The main weakness is:</p> <ul style="list-style-type: none"> • The quarterly reconciliation between CAPS and the fixed asset register is conducted by the Chief Accounting team once they receive the CAPS report from the Asset Management Database Officer. We identified that the reconciliation in respect of quarter 2 had not been undertaken. However, officers do conduct a full reconciliation at the end of the financial year for the purposes of drawing up the balance sheet. <p>The findings were agreed with the Chief Accountant and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Budgetary Control- Systems Audit	Oct. 2012	<p>This audit sought to provide assurance to management that the systems at corporate level for controlling and monitoring revenue budgets across the Council to meet the agreed objectives are sound, secure and effective. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Council has identified a total of £84m worth of savings but still needs to identify further savings over the next two years; • The General Fund Revenue Budget and Medium Term Financial Plan 2011/12 to 2013/14 was reviewed and approved by the Cabinet and Council during meetings held in February 2011; and • Budget monitoring is undertaken using the JDE financial management software. The Council has taken the decision to abandon the use of the 'budget monitoring tool implementation project' as it was found not to enhance the budget monitoring process. <p>We raised recommendations in relation to:</p> <ul style="list-style-type: none"> • The budget process timetable specifies that "financial planning send draft budget book pages to Directorates for checking" by the agreed deadline. Although this should take place prior to the ratification of the budget by Cabinet our testing identified this occurred after the event; • The Benefits Realisation Team requires budget holders to submit master spread sheets on a monthly basis, to identify the status of savings earmarked. Testing identified that the spread sheets were not always fully completed; and • The Council's budget manager's manual was last subject to review in May 2010. <p>The findings were agreed with the Service Head - Finance, Risk and Accountability and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Medium Term Financial Plan – Follow Up Audit	Oct. 2012	<p>This audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in October 2011.</p> <p>Our review found that all four priority 2 recommendations had been progressed. The MTFP now incorporates the Council's Capital Strategy, Capital Programme and Borrowing to ensure that the strategic priorities and risks for asset management and capital investment are considered within the MTFP. The quality checking has improved and sensitivity analysis, scenario testing and financial modelling has formed part of the MTFP formulation process. This should allow the MTFP to be more resilient in the face of any perceived increase in uncertainty. The progress of the plan is reviewed on an on-going basis through the MAB SARP meetings. Formal annual review of lessons learned needed to be carried out and the office copy of MTFP needed to be cross referenced back to the working papers.</p> <p>All findings and recommendations were agreed with the Service Head - Finance, Risk and Accountability and final report issued to Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Quality Assurance System – Child Protection Services	Oct. 2012	<p>The objective of this audit was to provide assurance to management that the quality assurance systems for child protection services are sound and secure.</p> <p>The main findings are summarised below:</p> <p>The Child Protection Review Service use the Working Together guidance issued by the Department for Education, as well as child protection procedures issued by the London Local Safeguarding Children Board to underpin their approach to quality assurance for child protection.</p> <p>We raised recommendations in relation to:</p> <ul style="list-style-type: none"> • A strategic quality assurance document for children's social care has not been drafted. However, the process is underpinned by a number of supporting documents, most notably the care quality assurance framework; • There is currently no formal feedback mechanism in place to inform fieldwork services of performance issues; • Although performance targets are generally being met, there is no action plan in place to tackle areas of weaker performance; • Individuals should not be on a child protection plan for longer than two years. Although testing confirmed that individuals are subject to review at three and six month intervals in accordance with quality standards, there is no formal review at the 15 month trigger point if required; • Performance surgeries are not minuted at present to identify the matters arising and whether issues have been subsequently followed up and resolved; and • Case conference minutes are not being issued in accordance with the agreed timescales. <p>The findings were agreed with the Interim Service Head Children's Social Care and the final report was issued to the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Careers Service – Systems Audit	Oct 2012	<p>The audit was designed to provide assurance to management that systems and controls are in place for the administration and management of key service objectives relating to the Careers Service and to alert management to any deficiencies in the control procedures. The main findings were as follows:-</p> <ul style="list-style-type: none"> • The Careers Service Team Plan has been developed, but we could not find any evidence that the team plan was formally approved by senior management. In addition, partnership agreements between the Council's careers service and the education institutions have been developed, but three out of the 10 partnership agreements in our sample had not been signed and dated by both parties; • A review of the partnership agreements between the Council's careers service and education institutions shows that measures/indicators to assess the service provision to the school/college have been defined within agreement, but these are not reported on a regular basis; • We identified five instances where the next follow-up due date had not been updated/amended after the last follow-up or meaningful contact with the young person (i.e. where the Careers Service had a direct/two way contact with the young person). In addition, there was one instance where the Careers Service was informed during the follow-up that the young person had gained a place at University, but the young person was not removed from the NEET register; and • Only one out of the eight key performance indicators (KPIs) set out in the Careers Service Team Plan is reported to the DMT. There is limited commentary in respect of other KPIs, although no actual figures are provided. <p>All findings and recommendations were agreed with the Careers Service Manager and reported to the Head of Secondary Learning and Achievement and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Youth Offending Service	Sept. 2012	<p>This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit finalised in June 2011.</p> <p>The Youth Offending Service is a statutory function provided under the Crime and Disorder Act 1998 and administered via the Home Office Youth Justice Board. Youth Offending Services are provided locally by a multi-agency team of which the local authority takes the lead role. Youth Offending Services provides services to two main groups of people – those young people offending and those likely to offend for the first time.</p> <p>Our follow up review showed that of two priority 1 recommendations made at the conclusion of the original audit both had been progressed. Of fourteen priority 2 recommendations made, twelve had been progressed well.</p> <p>A team plan for the service had been created from the Inspection of Youth Offending Report from Her Majesty's Inspectorate of Probations (HMIP). The team plan focused on performance and highlighted areas for improvement. The follow up audit showed that there was still scope for improvement in the operational management processes such as petty cash, sickness and attendance management, oyster card usage, inventory management and monitoring of mobile phone usage.</p> <p>All findings and recommendations were agreed with the Service Manager, Youth Offending Team and copy of final report was issued to the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children's Centres	Nov. 2012	<p>The objective of this audit was to provide assurance to management that adequate arrangements are in place for the management of children's centres. The main findings are summarised below:</p> <ul style="list-style-type: none"> • There is an Advisory Group in place at each children's centre with a documented terms of reference; • Policy and procedures are in place for all the core functions; • A budget has been set for Children's Centres by the local authority which has then been allocated to each locality and agreed by the Locality Strategic Lead; • Income from the 'grants for families' scheme is documented and accounted for accurately; and • There are robust controls in place to help achievement of best value during the procurement process. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • Testing found that the terms of reference documents for the children's centres had not been recently reviewed; • Advisory Group meetings were not being held on a regular basis; • The individual asset registers are not accurate; • An annual stock check had not been completed at each of the centres within the last 12 months; • There is currently no standard protocol for the authorisation of disposals and the update of records to reflect such disposals; and • The contract in place between the local authority and the trustees of the Tower Hamlets Opportunity Group (THOG) for the lease of premises is not signed by both parties. In addition, no income relating to the use of the building has been received since 2007/08. <p>The findings were agreed with the Head of Learning and Achievement and the final report was issued to the Corporate Director – Children's, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Court of Protection Systems Audit	Oct. 2012	<p>The objective of this audit was to provide assurance that sound controls were in place for managing and administering the financial affairs and accounts of those clients who are subject to the Court of Protection orders.</p> <p>Upon referral from Safeguarding Adults, a nominated officer in Finance is instructed to apply for a Court of Protection order, which is a legal contract awarding the status of Financial Deputy to the Director of Adults, Health and Wellbeing, who will then act for the named vulnerable client. To satisfy the judge that a Court of Protection (CoP) order is necessary, the Council must demonstrate that the client can no longer be expected to manage his/her financial affairs on a daily basis. This evidence should be provided by assessments already carried out by social workers who have deemed the client vulnerable.</p> <p>Our audit showed that overall, there were adequate controls in place and that action was being taken during the audit to address some of the key weaknesses we were identifying. However, we reported that the roles and responsibilities for administration and financial functions between AHW Finance, Social Workers and Safeguarding Adults team needed to be clarified to ensure that vulnerable clients do not fall into gaps between the two services and that resources within AHW Finance team are deployed efficiently. There was a single officer dealing with some key administration and financial functions. The risk associated with this situation was highlighted and recorded on the Directorate risk register. We also recommended that management should review the clients' banking arrangements to ensure that the rate of interest received on clients' monies (up to £2M) is maximised and that the Financial Deputy is fulfilling the responsibility of safeguarding the client's assets at all times.</p> <p>All findings and recommendations were agreed with the Head of Finance and final report was sent to the Service Head, Resources and Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Occupational Therapy- Systems Audit	Oct. 2012	<p>This audit sought to provide assurance that the Occupational Therapy systems for adult social care are sound and secure and being complied with in practice.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • All contact from service users is appropriately documented and transferred to the relevant department to be assessed in a timely manner. There are effective referral channels in place to ensure the requirements of service users are adequately assessed. There is an integrated approach between health care professionals, social workers etc. to ensure that the requirements of services users are being met; and • Adaptation requests are in line with initial assessments carried out into the needs of service users. Adaptations are not carried out by the Council until all eligible grant funding (disabled facility grant) and or monies owed from service users is appropriately received. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • The Occupational Therapy service has undergone operational changes as part of the Council's Transformation agenda to better integrate departments with each other. As a result, a number of the local procedure notes were found to be in draft format. Testing also identified variations with the type of supporting documentation being retained; and • Our testing identified a number of major and minor adaptations where the initial assessment did not appear to have been completed within the expected timeframe. Whilst, a number of spread sheets are maintained to record cases and progress, it was unclear whether regular chasing was being undertaken and as a result where delays were occurring, we were unable to establish the root cause. <p>The findings were agreed with the Interim Service Head – Adult Social Care and the final report was issued to the Acting Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Framework-I Adult Social Care Application	Oct 2012	<p>This audit was designed to provide assurance over the application controls over the Council's Adult Social Care Application Framework-I. The audit covered the following areas:- Application Management and Governance, System Security, Interface Control and Processing, Support Arrangements and Implementation Controls:-</p> <p>We raised seven recommendations:-</p> <ul style="list-style-type: none"> • Password controls for the 'Default' profile so that user account passwords are compliant with the Council's Information Security Policy; • The need to review all current accounts with access to the Framework-I application to confirm that access has been appropriately requested and to put in place a procedure to notify the system administrator when a user no longer requires access to Framework-I; • The need to update and test the applications Disaster Recovery Plan; • Management to update and review the existing departmental Business Continuity Plan; • Review of the existing Maintenance and Support Arrangement to confirm that the levels of service are acceptable and that it includes a provision that requires the supplier to provide appropriate information regarding its performance against the arrangement; • To configure the data input field for a client's forename and surname to include a valid format check to reject non-alpha characters; and • The requirement to document the interface between the Framework-I application and the Council's financial system as part of the process for replacing the JD Edwards system. <p>The findings and recommendations were agreed with the IT Manager- Social Care and ICT Business Architect in addition recommendations that required action by Agilisys were also agreed and a copy of the final report was issued to the Service Head and Corporate Director.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bancroft Tenant Management Co-Operative Follow Up	Nov. 2012	<p>The purpose of this follow up audit was to provide assurance that appropriate financial management processes and systems are in place at Bancroft Tenant Management Co-operative (TMC). A total of 24 recommendations were raised during our audit in August 2011. The majority have now been implemented with six still requiring further progress. The current status of these six, are summarised below:</p> <ul style="list-style-type: none"> • The TMC Financial Regulations were revised in March 2012. Whilst these changes detail general practices to be followed by staff, they do not currently explicitly state individual roles, responsibilities and delegated authority for staff or TMC members; • There is currently no one in house with accounting package skills. The TMC has appointed a bookkeeper who does the accounting/ book keeping on TAS Books (a SAGE product); • Testing of a sample of 20 cheque payments identified that in the nine cases where an order had been raised, five had not been authorised. For the four orders which were signed, we were unable to determine if this was in line with delegated authority, as thresholds are not documented in the Financial Regulations. In seven cases, we could not locate an order on file; • There is a requirement for two signatories to authorise cheques and BACS instructions. The TMC does not have a scheme of delegation which explicitly states the names of the cheque signatories and their positions; • Whilst the bank reconciliations have been completed on a monthly basis since December 2011, they are not being signed by the officer who prepared them. There was no evidence to show that the bank reconciliations had been reviewed and signed off by an independent officer, as these are retained by the bookkeeper; and • The Asset Register is held by the TMC's external auditors. The register was due to be updated in September 2012. <p>The findings were agreed with the Interim Director of the TMC and the final report was issued to the THH Chief Executive.</p>	Moderate	Substantial

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
Medium Term Financial Plan	It should be ensured that the office copy of MTFP is adequately referenced to ensure that a full audit trail of the figures contained within the MTFP is available. The Risk Evaluation document should be supported by working papers	Alan Finch	Oladapo Shonola
Youth Offending Service	There should be regular monitoring by the Service Manager to ensure that all managers comply with the required procedures on staff attendance, sickness and annual leave	Kate Bingham	Stuart Johnson
Youth Offending Service	It should be ensured that the Service Manager develops procedure notes for Oyster card usage. There should be regular spot checks and monitoring of the use of Oyster cards.	Kate Bingham	Stuart Johnson

Agenda Item 5.2

REPORT TO: Audit Committee	DATE 14th January 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Revised Internal Audit Plan for 2012/13			
ORIGINATING OFFICER(S): Head of Risk Management and Audit	Ward(s) Affected: N/A			

1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to endorse the revised 2012/13 internal audit plan attached at Appendix 2.

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

Minesh Jani, 0207 364 0738

3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2012. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology, Audit Strategy and Internal Audit Terms of Reference are attached at Appendix 3.
- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:
- 1 Requests from officers to perform audits that were not originally planned;
 - Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
 - 1 Requests from Chief Officers to defer audits due to service restructuring and/or changes made to existing systems and the need to allow a period of bedding in;
 - 1 Make use of days provided in the original plan that had not been allocated to specific audits;
 - 1 To avoid duplication of work with either the external auditor or other assurance provider; and
 - 1 Additional commitment to unplanned work.

4. Updated Internal Audit Plan for 2012/13

- 4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Appendix 2 shows the updated internal audit plan following the changes and provides for provision of unallocated days which could be used for specific audits at the request of Directorates, thus retaining some flexibility in the plan. The summary below shows how the plan has changed.
- 4.2. In updating the audit plan, we have taken account of requests by management to extend the scope of audits already approved. Where possible, these changes have been absorbed within the existing provision, although additional time has been necessary.

Number of days originally planned	1,325
Add: Additional audits added to the plan (Please refer to Appendix 1)	215
Less: Audits to be considered as part of 2013/14 Audit Plan (Please refer to Appendix 1)	70
Less: Use of previously unallocated days to specific audits	50
Less: Use of reactive fraud allocation	35
Number of days per the Revised plan	1,385

5. Comments of the Chief Financial Officer

- 5.1 Any financial implications arising from this report are contained within the body of the report.

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

- 6.1. 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.

7. One Tower Hamlets Considerations

- 7.1 Each audit activity within the revised audit plan provides a link with the Council's corporate and strategic plan priorities including that of One Tower Hamlets.

8. Anti-Poverty Considerations

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

9. Risk Management Implications

- 9.1. The revised audit plan should pick up some of the key areas of risk exposure to the Council and audit reviews of these areas should provide a source of assurance to those charged with governance.

10. Sustainable Action for a Greener Environment (SAGE)

- 10.1 There are no specific SAGE implications.

A Summary of Changes to the Internal Audit Plan – 2012/13

	Directorate	No. of days	No. of days
Original 2012/13 Audit Plan			1325
<i>Audits Added to the Original Plan</i>			
Grant Certification	CLC	5	
Youth Service	CLC	15	
Localisation of services through the "hubs"	CLC	10	
Bangladeshi Parents and Carers' Association	AHWB	10	
Community Infrastructure Levy	D&R	10	
Tower Hamlets Somali Organisation	D&R	20	
Management of PFI Contract	CSF	10	
Schools Audits	CSF	60	
Recruitment Audit	Corporate	15	
R2P Pre-receipting review	Corporate	12	
Leavers Follow Up	Corporate	10	
Specialist Repairs	THH	10	
Lifts Renewal Programme	THH	10	
Final Accounts	THH	10	
Competitive tendering	RES	18	
<i>Sub Total</i>			225
			1550
Less			
Audits amended or considered as part of 2013/14 Audit Plan			
Members' Enquiries	ACE	15	
Electronic Home Care	AHWB	12	
Selection of contractors	RES	8	
Domiciliary Care Contracts	AHWB	15	
Commissioning Adults Services	AHWB	15	
Nomination Rights	D&R	10	
Olympic planning & risk management	CLC	10	
Victoria Park Post contract	CLC	10	
<i>Sub Total</i>			95
Use of Management Request contingency		35	
Use of Reactive Fraud provision		35	
<i>Sub Total</i>			70
Total Revised Plan			1385

London Borough of Tower Hamlets 2012/13 Revised Internal Audit Plan

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	Audit Days	Pages
Corporate systems and Council-wide reviews	165	2-4
Children, Schools and Families	267	5-6
Communities, Localities & Culture	109	7-8
Tower Hamlets Homes	165	9-11
Development & Renewal	136	12-14
Adult, Health and Wellbeing	44	15
Resources & core financial systems	234	16-19
Information technology audits	80	20
Follow up, management and reactive fraud provision	185	20
Total Provision	1385	-

REVISED INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Contract Management	This audit will provide assurance that the Council's contract management and monitoring arrangements are sound and secure. A sample of contracts will be selected to test compliance with corporate procedures on contract management.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Complaints	This audit will examine systems for managing and monitoring various complaints received by the Council to ensure that sound arrangements are in place.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Scheme of Delegation	The Council requires a scheme of delegation to manage those operations and functions which are delegated to management. This audit will examine the Council's scheme of management delegation and its compliance.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Projects	This review will provide assurance that adequate controls are in place to manage and monitor the delivery of efficiency projects across the Council.	H	15	Strategic Risk Register RS0038 and RS0039.	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Data Quality	This audit will provide assurance that there are sound controls in place to manage and monitor the quality of data produced at various levels within the organisation.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Waivers of Financial Regulations	The audit will focus on the Council's arrangements for managing and monitoring waivers of Financial Regulations by officers.	H	5	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Use of Oyster Cards	This audit will review systems for managing and monitoring the use of Oyster Cards across the Council.	M	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Equality Impact Assessment	The objective of this audit is to provide assurance over the Council's systems and procedures for carrying out Equality Impact Assessment.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Translation services	To provide assurance that the Council's arrangements for procuring, paying and monitoring translation services are sound and secure.	M	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Mayors Bursary grants	This will be review of the administration and control of the Bursary Grants to eligible pupils attending secondary and further education schools and colleges.	H	8	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Recruitment	To follow up recommendations made at the conclusion of the previously agreed report.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Leavers Follow Up	To follow up recommendations made at the conclusion of the previously agreed report.	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
R2P Pre-receipting checks	To carry out audit checks on a sample of receipted orders to ensure that they are receipted only after GRN has been received.	H	12	Audit Commission	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Corporate Governance	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Special Education Needs - assessment and commissioning	This review will examine the systems for assessing and commissioning services for children with special education needs.	M	15	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Children's Centres	This audit will be probity audits to a sample of children's centres to provide assurance that systems for governance and financial management are sound and secure.	M	10	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Contract Audit	To provide assurance on the management and administration of building contracts	M	10	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Commissioning of social care services	To examine systems and procedures for commissioning services for children,	M	15	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Children Looked After	This audit will provide assurance that systems for services provided to Looked after children are sound and secure.	H	15	Audit needs analysis	A Safe and Supportive Community Focus on Early Intervention

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Careers Services	The review will examine the key controls over the management of careers service to ensure that key service objectives are achieved.	H	12	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all. Council
Core Assessments	This audit will provide assurance that management oversight and control in carrying out initial and core assessments is sound and secure.	H	15	Management request	A Safe and Supportive Community Focus on Early Intervention
School Meals Income Collection and Banking	To provide assurance that systems and controls for collecting and banking schools meals income are sound and secure. A sample of secondary schools will be selected for testing.	M	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Schools' Probity Audits	School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management.	H	150	From Audit Needs Assessment	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council
Financial Management of PFI Accounts	To review the financial management of Grouped Schools PFI accounts	H	10	Management request	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Idea Stores- Probity Audit	This is a probity audit which will examine systems for collecting and banking of income, petty cash, ordering and paying for goods and services, inventory management, staffing and other financial matters.	M	12	Audit needs analysis	<p>One Tower Hamlets</p> <p>Working efficiently and effectively as One Council</p> <p>A Prosperous Community</p> <p>Support lifelong learning opportunities for all</p>
Commercial Waste	This audit will examine management and control of commercial waste to ensure that sound systems and procedures are in place.	H	10	Audit needs analysis	<p>A Great Place to Live</p> <p>Improve the environment and tackle climate change</p>
Management and control of Markets	This audit will review the Council's arrangements for management, control and enforcement of street trading activities.	H	15	Audit needs analysis	<p>One Tower Hamlets</p> <p>Working efficiently and effectively as One Council</p>
Horticultural contracts management	To review systems and controls in place for managing and monitoring horticultural contracts.	H	10	Audit needs analysis	<p>A Great Place to Live</p> <p>Improve the environment and tackle climate change</p>

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Baisakhi Mela - Contract Management	This audit will examine the contract management arrangements for Baisakhi Mela.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Anti -Social Behaviour	This audit will provide assurance that systems for managing and controlling Anti-social behaviour is sound and secure.	M	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Trading Standards Stores	To review the systems and controls for managing the Trading Standards stores.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Localisation of Services using the Hubs	To review systems for delivering services from localised Hubs following the implementation of the localisation agenda.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Grant Certification	To certify a grant claim	H	5	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Youth Service In-housing	To review risk management and controls around the project.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Right to Buy	This audit will examine systems of control for managing Right to Buy applications and compliance with appropriate legislation, regulations and authorisations from LBTH.	H	10	Internal Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	H	10	Risk Register THH-FN0003, THH-FN0005, Internal Audit needs analysis and External Audit requirement	One Tower Hamlets Working efficiently and effectively as One Council
Document Management and Workflow System	To advise on the robustness of the system across tenancy management, leaseholder services and HR.	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Major Works – Consultation.	This audit will examine the soundness and adequacy of the consultation systems for Major Works.	H	10	Risk Register THH LS0001 and LS0002 and Internal Audit needs analysis.	A Great Place to Live Provide affordable housing and develop strong neighbourhoods

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Decent Homes Programme	To provide assurance that the management of Decent Homes works for year 2 , is sound, secure and achieve the key objectives of securing the necessary funding..	H	15	Risk Register – DRA0009, THH0049 and THH-IP0001	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Water Systems and Installations	To provide assurance that water installations are inspected, tested and rectified where necessary to ensure that the necessary statutory and H&S requirements are complied with.	H	10	Internal Audit Needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Estate Parking	This audit will seek to examine systems and controls for management and control of parking permits.	M	12	Internal Audit Needs analysis and Risk Register THH-CF0001 and CF0002.	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Governance of THH	This audit will examine the adequacy and soundness of the governance arrangements for THH.	H	10	Internal Audit Needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Contractors Final Accounts Audits	This audit will provide assurance that the systems and procedures in place for checking and auditing contractors final accounts for completed projects are sound and secure.	M	10	Internal Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Aids and Adaptations	This audit will examine systems for managing and controlling aids and adaptations works requisitioned by the LBTH Occupational Therapy service.	M	10	Internal Audit Needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Specialist Repairs	To review budgetary control arrangements for specialist repairs	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Lift Renewal Programme	To review systems for developing the programme for Lifts Renewal	H	10	Management Request	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Audit of a Final Account	To audit Final Account	H	10	Management Request	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.		18		
Management Requests	To service special requests from THH management to carry out any other high priority audit work.		10		

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Management and control of Land Charges	This review will focus on the systems for managing and controlling land charges and the associated trading account.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Mainstream Grants	The objective is to provide assurance over the management and control of mainstream grants awarded to third sector organisations.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Procurement and Payments for Accommodation for Homeless	This audit will provide assurance over the soundness and adequacy of the Council's arrangements for placing homeless families in temporary accommodation and for making payments for the accommodation.	H	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Recovery of Deposits under FRDS	The review will examine the systems in place for recovering deposits under the family rental deposit scheme	M	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and control of S106 Planning Obligations	To review systems and controls for management and control of s.106 Planning Obligations monies received by the Council.	H	12	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Lettings and Nominations Right	This audit will examine systems and controls for managing Lettings to Council dwellings.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Collection and Banking of Planning Fees	This review will examine systems and procedures for charging, collecting and banking income from planning fees.	M	10	Directorate Risk Register DRP0005	One Tower Hamlets Working efficiently and effectively as One Council
Tower Hamlets Somali Organisation – Inquiry and probity review	To look into the Grant Application process	H	20	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Community Infrastructure Levy (CIL)	To carry out review of the systems development for the CIL	M	10	Management Request	One Tower Hamlets Working efficiently and effectively as One

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Archiving and Retrieval Contract	This audit will provide assurance over the management and monitoring of the contract.	H	12	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One
BSF – Current Contracts	Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme to provide assurance that cost and programme controls are adequate during the currency of the contract.	M	8	Directorate Risk Register BSF-DAP0003 and DAP0005 and Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Supporting People - Assessments	To review systems for assessment for clients eligible for the service.	H	12	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Safeguarding Vulnerable Adults	This audit will review the Council's systems and controls for safeguarding vulnerable adults.	H	12	Directorate Risk Register AH0015 and Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Statutory Review Process	This audit will provide assurance over the arrangements for carrying out annual statutory review of service users needs and priorities.	H	10	Directorate Risk Register AH001 and Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Bangladeshi Parents and Carers Association	To carry out probity Audit of the organisation.	H	10	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>	Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach.				One Tower Hamlets
Treasury Management		H	10		Working efficiently and effectively as One Council
HR/Payroll		H	10		
General Ledger		M	10		
Creditors/R2P		H	15		
Debtors		M	8		
N.N.D.R.		M	8		
Council Tax		M	10		
Capital Accounting		M	8		
Cashiers		H	8		
Pensions		M	8		
Pension Fund		M	8		
Housing & Council Tax Benefit		M	10		
Housing Rents		M	8		

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REVISED INTERNAL AUDIT PLAN – 2012/13

<u>Audit Name</u>	<u>Broad Scope</u>	<u>Priority</u>	<u>Audit Days</u>	<u>Source of Audit</u>	<u>Link with Corporate Priorities</u>
<u>Resources</u>					
Cheque Control and Cancelled Cheques	This audit will review systems for cheque control and cancellation and booking back of returned cheques.	M	8	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of VAT	This will be a review of the Council's systems and controls for management of VAT.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
ICT Contract Monitoring and Clienting	This review will focus on the arrangements in place for managing and monitoring the future sourcing contract once it has been let.	H	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Financial Information System - Implementation	This will involve internal audit in providing assurance over the implementation of the new FIS.	H	20	Directorate Risk Register RSB0014	One Tower Hamlets Working efficiently and effectively as One Council
Grant Claims	To review systems for addressing issues raised by Audit Commission in their certification of various grant claims.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Management and Control of Purchase Cards	This audit will review the arrangements for managing and controlling the issue and use of purchase cards.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Competitive Tendering	To review the Council's systems for competitive tendering for goods, services and works.	H	18	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
NNDR and Council Tax refunds	This will be a probity review of how refunds for NNDR and Council Tax are managed and controlled and links with possible money laundering.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Grant Claim - Teachers Pensions Return	This is an annual audit which will examine the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	M	10	Audit Commission requirement	One Tower Hamlets Working efficiently and effectively as One Council

REVISED INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	H	80	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
<u>Other</u>					
Management Requests	A provision for servicing various management requests for advice and other systems development work.		15		One Tower Hamlets Working efficiently and effectively as One.
Follow Up Audits	Follow-up of reviews carried out in 10/11 to ensure implementation of audit recommendations		100		One Tower Hamlets Working efficiently and effectively as One
Reactive Fraud – Balance of provision	A provision for work carried out on investigating and reporting upon reported irregularities and fraud		20		One Tower Hamlets Working efficiently and effectively as One
Management time	This is a provision for management time required to direct, control and monitor the work of the audit team.		50		

Other
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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.

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.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	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.	or	Permanent loss of data	or	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.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

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

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	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	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	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	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	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	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	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	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:

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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

Page 80 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;
- 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

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

Page 82
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 primary 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 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

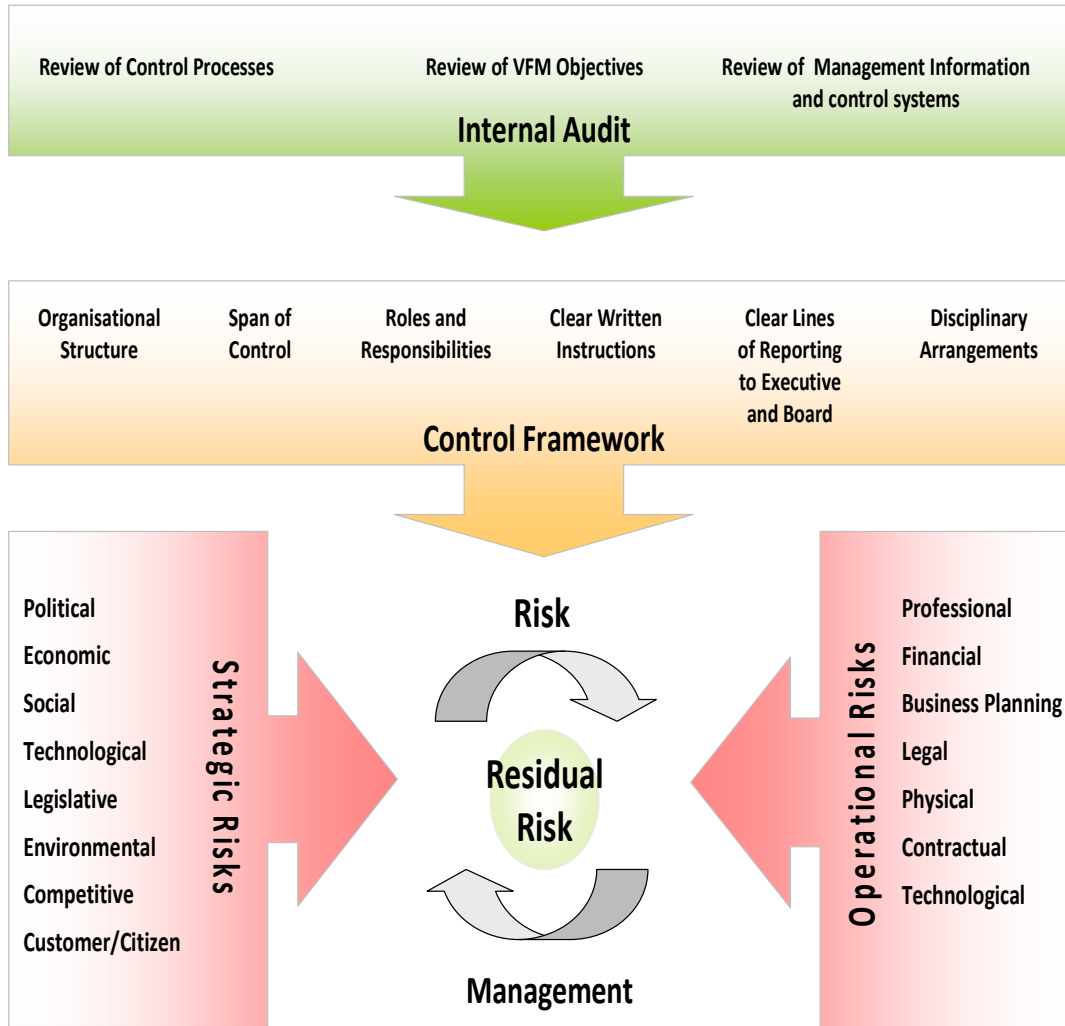
Follow-up audits will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

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.

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

Audit Committee	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.
Corporate Management Team	One of the roles of the Audit Committee 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.
Corporate Director of Resources	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.
Corporate Directors	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.

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	
Political 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	Economic General economic problems Regional economic problems Treasury risk Missed business or service opportunities	Professional 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	Financial and business planning Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services
Social Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working	Technological Obsolescence of technology Security policies Breach of confidentiality Failure in communications	Legal 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	Physical Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies
Legislative Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission	Environmental Impact of sustainability policies Noise, contamination and pollution	Contractual Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies	Technological Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites
Competitive Failure to show best value; Failure of bids for government funds	Customer/Citizen Lack of appropriate consultation Bad public and media relations		

Agenda Item 5.3

REPORT TO: Audit Committee	DATE 14th January 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: <u>Corporate Director, Resources</u>		Risk Management Annual Report 2012		
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A		

1.0 Introduction

1.0 The Audit Committee's terms of reference includes as one its functions "to review the Risk Management arrangements of the Authority". This report is designed to assist the Committee in the exercise of this function.

The purpose is to provide the Committee with:

- a) An oversight of the authority's processes to facilitate the identification and management of significant business risks.
- b) Summary of the current Corporate Risk Register and
- c) Risk Management Team activity over the last 12 months and future actions.

2.0 Recommendation

That the Audit Committee is asked to note to contents of this report.

**LOCAL GOVERNMENT ACT, 2000 (SECTION 97)
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
None	Minesh Jani, 0207 364 0738

3.0 Background

- 3.1 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. In recent years there have been a number of high profile events that have led to improved Risk Management and corporate governance arrangements in the private and public sectors. Such events and incidents include child abuse cases, fraud, failing schools, major project and procurement failures, arson in public buildings etc.
- 3.2 These events have led to the recognition of the importance of Risk Management and its place within the internal controls of a public body and its contribution to the delivery of successful service outcomes.
- 3.4 There is a legal requirement i.e. (The Accounts and Audit Regulations 2011) which require a system to be in place to identify and manage risks in public bodies. In addition public bodies have to comply with corporate governance regulations and codes. This is demonstrated in guidance issued by CIPFA / SOLACE, "Delivering Good Governance in Local Government", which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.
- 3.5 Over the last few years, the use of Risk Management to assist effective decision making in the public sector has gained strength as the appreciation of how it can be used as a technique for delivering an efficient and effective service to all its stakeholders.

4.0 Corporate Risk Management Process

- 4.1 The approach to managing risk is outlined in the Council's Risk Management Policy Statement which encourages innovation and creative approaches to service delivery whilst requiring careful consideration of the risks involved and taking appropriate measures to manage them. The Corporate Risk Management Process is aimed at identifying, assessing, prioritising and mitigating the significant risks that could impact on the delivery of the Council's objectives (i.e. corporate risks). This process is aligned with the Council's priorities.
- 4.2 Corporate risks are those concerned with ensuring overall success of corporate/strategic objectives as well as the vitality and viability of the Council. Materialisation of such risks would be perceivable by elected members and other stakeholders/partners including the public and will affect the reputation of the Council, amongst other significant consequences. Guidance has been produced to help Risk Champions identify such corporate risks from their directorate level assessment.

- 4.3 The methodology involves designated senior directorate managers (known as Risk Champions), in liaison with their directorate DMTs, identifying risks which should be regarded as being 'corporate'. Risk Champions meet monthly to review and moderate the identified risks and the associated mitigating action. Once reviewed these risks form part of the monthly risk report to CMT and MAB.

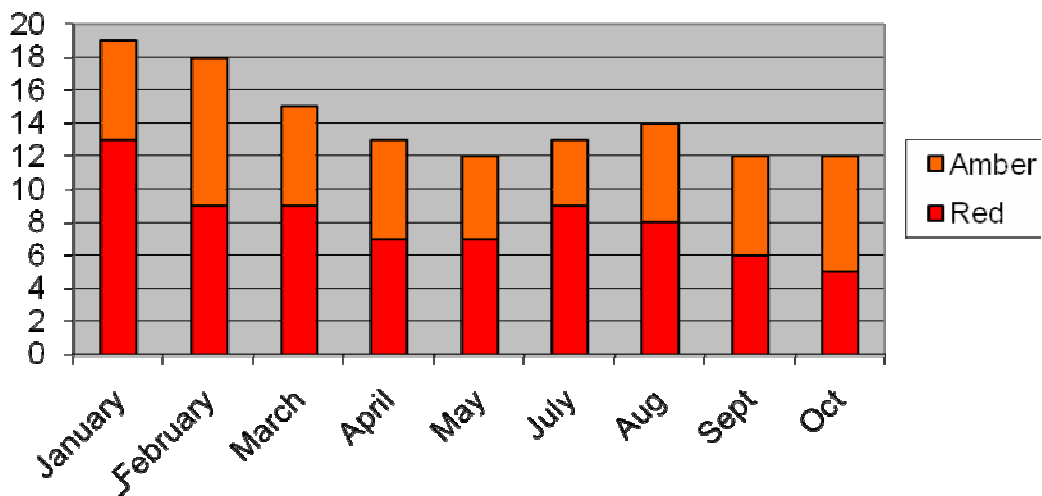
The directorate Risk Champions are:

Chief Execs/Resources	Head of Audit and Risk Management
Adults, Health and Wellbeing	Interim Head of Finance
Children, Schools and Families	Head of Programme Office
Communities, Localities and Culture	Finance and Resources Manager
Development and Renewal	Head of Programme & Business Assurance

5.0 Corporate Risk Register

- 5.1 The Corporate Risk Register consists of the most significant risks to the Council's objectives, identified by directorates and moderated by the Risk Champions Group. Corporate risks tend to be risks which are in the medium to long term e.g. failure to meet decent homes target but also may be more short term such as risks to Council services due to the Olympics.
- 5.2 As the table below shows the number of corporate risks reduced from January 2012, when there were 19 to a current figure of 12. The number of risks has been in the range of 14 - 12 since April. Some risks have been de-escalated to directorate level following successful mitigation to a lower level of risk exposure whilst others have been removed from the register as the risk event has passed (i.e. there is no longer a risk).

5.3 Chart 1: Monthly totals of Corporate Red and Amber Risk since January 2012



- 5.4 Tables 1 and 2 below analyse the **12 corporate** risks on the basis of corporate priorities by directorate. There are no corporate risks identified for the Safer and Supportive Community priority.

Table 1: Number of risks by corporate priority theme:

Corporate Priority/Theme	Red	Amber
A Great Place to Live	4	0
A Prosperous Community	1	3
A Safe and Supportive Community	0	0
A Healthy Community	0	1
One Tower Hamlets	0	3
Total	5	7

- 5.5 **Table 2: Number of risks by directorate (Red and Amber):**

Directorate	Red	Amber
Adults, Health and Well being	0	1
Chief Execs	0	3
Children, Schools and Families (CSF)	1	0
Communities, Localities and Culture (CLC)	0	0
Resources	1	3
Development and Renewal (D&R)	3	0
Total	5	7

There are no corporate risks identified by CLC.

- 5.6 Out of the 12 corporate risks there are **five Red risks** and details of these are set out below. (Note: Some risk descriptions have been summarised).

Red risks attract a score of between 8 and 16 (max). The risk scoring system can be seen in appendix 1.

Score 16 (Two risks)

CSE00010 - Insufficient capacity (assets, land and funding) to meet local need for schools places.

DRDH0001 – Reduction in affordable private sector accommodation.

Score 9 (One risk)

RS0039 – Risk that additional savings are required to respond to major variances in financial planning assumptions.

Score 8 (Two risks)

DRA0009 – Failure to deliver Decent Homes by 2016.

DRA0012 – Unable to deliver the Mayor’s target level of affordable housing.

- 5.7 There are **seven Amber** risks. Amber risks are those which have a risk score of between 4 and 6. See appendix 1 for the risk scoring system.

The six Amber risks are set out below:

Score 6 (six risks)

AH 0025 - A shortfall in the level of supported housing available to the service

CEAC0004 – Publication or broadcast of content that presents reputational risk to the Council.

HR 0005 - There is a risk that the Council will fail to develop and implement a work force plan that effectively meets its strategic and operational needs over the next 5 to 10 years – across all services.

RS0038 - The approved savings programme for 2012-13 to 2014/15 may not be delivered either in full or to the original timescales.

S&P 0006 - Impact of welfare reform on local residents

TP – SW0015 - Failure to vacate and surrender Anchorage House lease on time.

6.0 Risk Management Activity

- 6.1 The following paragraphs detail some of the recent activity by the Risk Management team in helping to promote and embed Risk Management within the Council.

a) Zurich Municipal (ZM) – Risk Management Review

The Risk Management team commissioned Zurich Municipal Risk Engineering (The Risk Management consultancy arm of the Insurance company) to undertake review of the Council’s Risk Management arrangements.

The consultant reviewed of the Council’s Risk Management policy and guidance, interviewed senior officers, Risk Champions and two elected members (Chair of Audit Committee and Lead Member for Resources) and an online survey of over 150 managers was also conducted. ZM produced a report, which included the survey results, and presented their findings and recommendations to the Risk Champions Group.

The report lays the foundation for a Risk Management Improvement Plan (see 7.0 below).

b) Promotion, Communication and Training

Risk Talks

A programme of short one hour talks, led by external and/or internal speakers, on matters of topic interest in relation to Risk Management has been implemented. The programme commenced in June 2012 and is aimed at managers and other specialist staff.

The first Risk Talk was presented by the National Audit Office on Initiating Successful projects. Since then talks have taken place on how global events cause risks at national and local levels e.g. climate change as well as managing reputation risk and effective Health and Safety management.

There has been an excellent attendance ranging from about 35 to over 60 for the managing reputation risk talk. Two more Talks are taking place this year on managing digital Risks and a legal summary of insurance cases. Articles based upon these Talks have been produced for inclusion in TH Now to disseminate the key risk messages within the Council and provide publicity for these events.

Risk Management training

Regular half day Risk Management training sessions have been held every couple of months. The training session includes an overview of the Council's Risk Management process as well as opportunities for delegates to participate in a Risk Management exercise. Whilst delegate feedback has been positive the numbers of attending have varied and on occasions sessions have had to be rearranged. These sessions are currently on hold pending a review to of the training content but will re-commence from January 2013.

The Risk Management team have been piloting a new training package which has been well received. A decision whether to use the new package has yet to be made.

Risk Management training will continue to be provided but will need to be targeted more specifically at managers and other special areas e.g. project managers.

TH Net – Risk Management content

The Risk Management pages on TH Net, (intranet) have been reorganised and new content added including a set of generic risk assessments as well as guidance in the use of the Council's Risk Management information system (JCAD).

Risk Management Screen Saver

A screen saver, containing important Risk Management messages -Think RISK, Deliver RESULTS –(see appendix 2 to see views of the screen savers), was designed and published on all the Council PCs and laptops in February and are continuing. The purpose of the screen saver was to raise awareness of the benefits of effective Risk Management across the organisation as well as the information available on TH Net. It also linked in with an article in TH Now about the Risk Management process and its importance for successful service delivery.

Risk Management information System

The Council uses a Risk Management Information System, known as JCAD, to record risk and control information and produce management information reports. These reports are used to report risk information to CMT and MAB. The system is used to record corporate, directorate and service risks as well as some projects. Earlier this year the Council moved a new hosted service providing improved access and speed as well as greater reliability.

Provision of Advice and Guidance

The Risk Management team are currently providing a range of advice and guidance to services including, for example, the introduction of a systematic Risk Management scheme within CLC Public Realm. This has involved producing a Risk Management protocol, training of staff in the concepts of business Risk Management and undertaking training staff to use JCAD. This work is on going.

7.0 Risk Management Improvement Plan

The ZM report highlighted the good progress made by the Council in developing and embedding its Risk Management arrangements and also set out a number of recommendations for further developing and embedding these. In doing so it set out areas that the Council might seek to improve on, in order to ensure that Risk Management is a practical and useful tool which supported the achievement of the Council's strategic objectives.

The key recommendations focused on:

- Improving the corporate risk identification process and the regularity of risk reporting
- Reviewing and revising Risk Management guidance documents
- Reviewing and improving existing training for managers and members
- Expanding the use of JCAD to include corporately significant programmes and projects
- Support for Risk Champions and management of the Risk Management group
- A range of minor technical changes to the process including changing the risk matrix to allow greater flexibility in scoring risks

The ZM report's recommendations have been accepted by Risk Champions. A Risk Management Improvement Plan (RMIP) based upon the recommendations report will be submitted to CMT in November/December based upon the ZM report.

8.0 Comments of the Chief Financial Officer

The report sets out the main corporate risks facing the organisation and the actions that are being taken to improve the management of risk in the authority. Whilst the number of red and amber risks has declined over the course of the year, the scope and scale of the remaining risks has not diminished, and if anything there is a sense that they have increased. For example, the Chancellor of the Exchequer's recent announcement that austerity will persist into 2017/18 means that financial risks are likely to become more difficult to manage over time. It is intended to prioritise a thorough review of corporate strategic risks in the new year to ensure they continue to reflect the more serious and pressing issues facing the authority.

9.0 Concurrent Report of the Assistant Chief Executive (Legal Service)

The council is required under the Account and Audit regulations 2011 to have a sound system of internal control which facilitates the effective

exercise of the Council's functions and which includes arrangements for the management of risks. The maintenance and considerations about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

10. One Tower Hamlets Considerations

There are no specific Equal Opportunities issues arising from this report. Sound risk management is one way in which the Council ensure that it discharges its functions in accordance with its expressed objectives, including those set out in the community Plan, and that it does so in accordance with statutory requirements.

11. Anti-Poverty Considerations

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

12. Risk Management Implications

The revised control environment should pick up areas identified as of concern and reduce the residual risk.

13. Sustainable Action for a Greener Environment (SAGE)

There are no specific SAGE implications.

What is a risk?

- A risk can be defined as “an event or set of events that could impact on the achievement of objectives”
- A risk should be assessed against an objective.
- A risk is measured in terms of likelihood and impact. (see Tables below)
- It is important to note that if the likelihood of the event occurring is *less than* 100%, i.e. it is not a certainty
- A risk may never 100% mitigated, but its risk score may reduce to an acceptable level
- A risk can be dealt with in 4 ways – Treat (mitigate), Tolerate (accept), Transfer to a third party or Terminate (avoid).

How to use the Risk Scoring Matrix

To assess a risk, first consider the likelihood of that risk occurring. Consult the Likelihood Classification Table below and choose the most appropriate description e.g. **Moderate**, which has a score of 2. Next, consider the impact of that risk occurring using the Impact Classification Table. There may be several impacts of a risk e.g. service disruption and financial loss, choose the highest rated impact e.g. **High** which has a score of 3. It is essential to take into account, when scoring, any existing measures that either reduce the likelihood or/and impact of the risk occurring. Using the Risk Matrix below a likelihood score of **Moderate (2)** and an Impact of **High(3)** gives a risk score of **6 (Amber)**. The Risk Definition table indicates the meaning of that score in terms of management action required.

Likelihood Classification

Score	Likelihood Description	
4	Extremely Likely	Expected to occur in most circumstances (>75%)
3	Likely	Will probably occur in most circumstances (51% - 75%)
2	Moderate	Fairly likely to occur (26% - 50%)
1	Remote	May occur only in only exceptional circumstances (<25%)

Impact Classification


Impact Type	Service disruption	Financial Loss	Reputation	Performance	Health and Safety
Extreme (4)	Total failure of service for a significant period	Financial loss in excess of £1,000,000	Government intervention in running of services and adverse national media coverage	Failure to achieve a strategic theme or major corporate objective in the Council's strategic plan	Fatality of employee. Service user or other stakeholder
High (3)	Significant service disruption	Financial Loss in excess of £500,000	Adverse national media coverage	Failure to achieve one or more strategic plan objectives	Serious injury/permanent disablement of one or more employees/service users
Medium (2)	Disruption to service	Financial loss in excess of £100,000	Adverse local media coverage/significant service-user complaints	Failure to achieve a service plan objective	Injury to staff resulting in loss of working time
Low (1)	Some minor impact on service	Financial loss under £100,000	Isolated to service user complaints	Failure to achieve a team plan objective	Minor injury to one or more staff/ service users

Risk Matrix

Extremely likely (4)	4	8	12	16
Likely (3)	3	6	9	12
Moderate (2)	2	4	6	8
Remote (1)	1	2	3	4
	Low (1)	Medium (2)	High (3)	Extreme (4)
	Impact			

Risk Score definitions

RED (High) (Score 8 -16)	Red (High) indicates the risk is very significant and requires immediate comprehensive management attention.
AMBER (Medium) (Score 4-6)	Amber (Medium) indicates that the consequences of a risk materialising would be significant, but not disastrous. Some immediate action (but not as time critical) is required plus the development of a comprehensive action plan
GREEN (Low) (Score 1-3)	Green (Low) indicates the likelihood and impact of the risk relatively unimportant.



**To deliver
RESULTS
think
RISK**

TH Net>Staff Services>Business Planning and Performance>Risk Management
for more information please contact the Risk Management team on ext 4051



Think RISK

- Record your objectives
- Identify the risks to achieving your objectives
- Select and prioritise the risks that need attention
- Keep the risk in check

TH Net>Staff Services>Business Planning and Performance>Risk Management
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**Deliver
RESULTS**

- Right first time
- Enhanced ability to evidence decisions
- Successful delivery of your objectives
 - Underpins best value
 - Legal and regulatory compliance
- Targeting resources where most needed
 - Satisfied customers/clients

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RESULTS**

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TH Net>Staff Services>Business Planning and Performance>Risk Management
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Agenda Item 5.4

REPORT TO: Audit Committee	DATE 14th January 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Annual Internal Audit Report for Schools – 2011/12		
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2011/12.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by Audit. It is envisaged that this assessment will be used by the Children's, Schools and Families school team to enhance the governance framework at schools.
- 1.3. During the financial year, audit visits were carried out to 23 schools including one at the specific request of senior management. Each audit visit with the exception of the one requested by management, involved compliance testing of system and procedures in 12 areas of control in accordance with a pre-agreed audit test programme.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by Audit in each of the 12 areas examined. The Audit Committee is further invited to seek assurance over the done by the Children's, Schools and Families School team in relation to matters raised by the work of Internal Audit in relation to the Schools.

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

Minesh Jani, 0207 364 0738

3. Comments of the Chief Financial Officer

- 3.1 Any financial implications arising from this report are contained within the body of the report.

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

- 4.1. The Council is required by the Accounts and Audit Regulations 2003 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. Under the Council's Constitution, the Audit Committee is given the function of reviewing internal audit findings.

5. One Tower Hamlets

- 5.1 The issues raised in the Annual Report have been reported to the Corporate Director, Children, Schools and Families who has put necessary arrangements in place to ensure that the standard of financial management and control is improved and monitored across all the schools in the Council.

6. Anti-Poverty Considerations

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

7. Risk Management Implications

- 7.1. The risks involved in each of the control area reviewed by audit are incorporated within the body of the Annual Report.

8. Sustainable Action for a Greener Environment (SAGE)

- 8.1 There are no specific SAGE implications.

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2011/12**

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2011/12

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2011/12.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.
- 1.3. During the 2011/12 financial year, Internal Audit carried out probity audit visits to 20 primary schools, one junior school and two secondary schools (one of which was an announced audit). An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are:-
 - Operation of Governance Processes;
 - Financial Planning and Budgetary Control;
 - Control and Monitoring of Schools Bank Account;
 - Procurement, including Large Single Purchases, Tendering and Value for Money;
 - Accounting of Income and Expenditure;
 - Charging Policy, Income Collection and Banking;
 - Personnel and Payroll Management;
 - School Meals;
 - Voluntary Fund and School Journey;
 - Asset Controls and Security of Assets;
 - Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
 - Risk Management and Insurance.
- 1.5. As a result of the 23 probity audits undertaken in 2011/12, 15 schools were assigned a Substantial Assurance opinion, seven schools assigned a Limited Assurance opinion and one school assigned a No Assurance opinion.

1.6 Appendix A provides a breakdown of assurance opinions covering the period 2009/10 to 2011/12 for comparison purposes, whilst appendix B provides an analysis of key issues identified. Full details of the issues are included in the respective areas of this report detailed below.

2. Most Common Findings

2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that inconsistencies between the Code of Financial Practice and the Scheme of Delegation are addressed and that the amended document, tailored to the requirements of the school, is formally approved by the Governing Body. The most common weakness in the document was the lack of delegated financial limits specified for the authorisation of financial transactions. Furthermore financial delegation documents have not been reviewed and approved on an annual basis.

2.2. Governing Body and Committee meeting minutes were not always checked and signed by the respective Chair to ensure they provide an accurate account of decisions made, including the approval of key policies.

2.3. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and/or all staff with financial management responsibilities.

2.4. Terms of references have not been drawn up for all sub-committees. Where they have been drawn up, they have not been reviewed annually and approved by the Governing Body.

2.5. Budget monitoring reports had not been presented to budget holders on a regular basis to help ensure the effective monitoring of individual budgets.

2.6. A common weakness identified was the lack of evidence to show that the Schools' Development Plans had been formally approved by the full Governing Body.

2.7. In a number of instances schools did not retain an up-to-date bank mandate for its current, fund and special interest bearing bank accounts.

2.8. Formal tendering processes were not undertaken as required in a number of cases and there was no evidence of best value being achieved for some high value purchases.

2.9. Official orders were not raised by all schools as required to support purchases and there was a lack of documentary evidence that the goods and services received are checked for accuracy and that delivery documentation was appropriately annotated.

- 2.10. In a number of instances, the financial limit for petty cash payments, as stipulated by the School's Financial Procedures Manual, was exceeded.
- 2.11. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date.
- 2.12. The Governing Body has not always approved a Pay Policy and where these were in place they were not always up to date. Adequate segregation of duties was not always in place between processing personnel and approving payroll transactions. Appropriate documentation is not always held on file.
- 2.13. Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties.
- 2.14. Documentary evidence for the costing of school trips and journeys was often not maintained and details of school journeys had not been presented to the Governing Body prior to the journey.
- 2.15. The Governing Body had not always approved objectives/mission statement for voluntary funds. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.
- 2.16. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body. Portable and valuable assets were not always visibly and indelibly security marked by the school. Furthermore equipment loan registers did not generally specify employees' liability/responsibility for equipment. Disposals of assets were not appropriately authorised by an individual within their delegated limits.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

- 3.1.1 All schools had in place a Scheme of Delegation and Finance Procedures policy. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified.
- 3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In a number of instances, there was no evidence of meeting minutes being presented to and approved by the appropriate Chair.

- 3.1.3 Where the Governing Body has set up sub-committees, terms of reference had not been approved and reviewed annually in a number of instances.
- 3.1.4 In most schools, the Register of Business Interest was not up-to-date with missing declarations for Governors on the Governing Body and staff with financial management responsibilities. However, the opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. *Financial Planning, Budget Setting, Monitoring and Forecasting*

- 3.2.1 Schools have generally produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to help ensure resource implications are considered during the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in several instances approval of the plan was not evidenced adequately in minutes of meetings.
- 3.2.2 For all schools the Chair of Governors and the full Governing Body had approved the budget plans in a timely manner. Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken either monthly or as a minimum on a quarterly basis. However in a number of instances, budget monitoring reports had not been presented to budget holders in a timely manner.
- 3.2.3 Material variances were investigated and corrective action identified. Virements are generally presented to the appropriate committee.

3.3. *Control and Monitoring over School Bank Accounts*

- 3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a number of cases. In several instances, copies of the bank mandate were not retained by the school.
- 3.3.2 Adequate arrangements have been established to support separation of duties over cheque production. Safe security and printed cheque security procedures were adequate.
- 3.3.3 Schools in most instances have ensured that surplus funds are identified and adequate arrangements made to maximise returns on the account balances. In a small number of cases, schools do not make use of a high interest bank facility.

3.3.4 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.3.5 Most schools had banked income received at the school in a timely manner and as a result ensured excessive amounts of cash were not held on site. However in some instances schools were found to be holding amounts of cash in excess of the maximum insured amount.

3.4. Procurement (including Large Single Purchases, Tendering & VFM)

3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified, above which prior approval from the Governing Body is required. In practice however, formal tendering processes were not undertaken as required in some cases. There was no evidence of best value being achieved for some high value purchases.

3.4.2 Official orders were not raised in all instances to support purchases therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with their delegated limits. There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.

3.4.3 Invoices sampled were arithmetically correct and in most cases had been certified as approved for payment by an officer within their delegated limits. Segregation of duties for procurement was generally evidenced.

3.4.4 Robust procedures were found to be in place for procurements using debit cards.

3.4.5 Incidents were identified where schools have not complied with the Council's guidance when entering into lease agreements. The majority of the leases have been in place for a number of years and the Head Teachers have confirmed that guidance will be sought in future.

3.5. Accounting of Income and Expenditure

3.5.1 Direct credits and debits were posted in a timely manner and journal entries on the financial accounting system appeared reasonable. Although there were a limited amount of journal postings at the year end, management were aware of the processes required.

3.5.2 There were several instances where a weakness in the petty cash process was identified. These related to vouchers not being completed fully or authorisation of payments which exceed limits laid out in the school's Financial Code of Practice.

3.6. Charging Policy and Income Collection and Banking

3.6.1 Governors have not always approved a documented Charging Policy. Where one was in place, the policy was not always being kept up to date.

3.6.2 Official receipts were used where appropriate and where receipts were not issued compensatory records were generally adequate and reliable.

3.6.3 Most schools had a documented Lettings Policy in place where appropriate which included the terms and conditions for hiring the premises. Agreements were signed between the school and persons / groups hiring the use of the premises and lettings were authorised by the Head Teacher. Charges were made in compliance with an approved rate.

3.6.4 In the majority of cases income was regularly and fully banked and amounts were periodically reconciled to the cash-book within the school's financial accounting system.

3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

3.7.1 Where the Governing Body has approved a Pay Policy, these were in several of the schools not kept up-to-date. In some instances, where they were reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.

3.7.2 Evidence of pre-recruitment checks is not always maintained, such as identity checks, references, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.

3.7.3 We noted that in a number of instances starter, leaver and overtime forms had been processed electronically by the same individual who receives and monitors payroll reports, resulting in a lack of segregation of duties.

3.7.4 Payroll reconciliations are undertaken in all schools, however in some there was no evidence of a senior member of staff having performed an independent review of the reconciliation. There was lack of evidence in several schools to demonstrate the Governing Body complying with the Teachers Pay and Conditions Document 2000, by annually approving the remuneration of the Head Teacher, Deputy Head Teacher and Assistant Head Teacher(s) following their performance management reviews.

3.8. School Meals

3.8.1 All schools had adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Income due from pupils for school meals is recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

3.9.1 The Governing Body has not always approved the Objectives of the Voluntary Fund account. The accounts for the school fund were not independently audited for some schools by a person who is not involved in the day to day administration of the account.

3.9.3 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.4 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained up to date with new assets being added and disposed assets recorded in a timely manner.

3.10.2 Inventory checks are not always performed and the results of the inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11. Security of the IT Infrastructure, Disaster Recovery, Data Protection

- 3.11.1 All schools had evidence of registration under the Data Protection Act. However some schools did not have procedures for dealing with requests made under the Freedom of Information Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.
- 3.11.2 Improvements have been made in enforcing periodical password changes for administrative user accounts.

3.12. Risk Management and Insurance

- 3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety were considered appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

- 4.1. In general, schools met the minimum standard of financial control and management. However, improvements were required in the areas of operation of governance processes; financial planning; control and monitoring of bank accounts, accounting for income and expenditure; procurement; personnel and payroll management; voluntary fund; school journey; asset control including security of assets and data protection.

Agenda Item 5.5

REPORT TO: Audit Committee	DATE 14th January 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Annual Governance Statement for the 2011/12 Accounts Update		
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A		

1. Summary

- 1.1 This report updates the Audit Committee of the progress made in dealing with the significant issue identified within the annual governance statement presented to the Audit Committee in September 2012.

2. Recommendation

- 2.1 The Audit Committee is asked to note the action in dealing with the issues raised on the annual governance statement in September 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

Minesh Jani, 0207 364 0738

3. Background

3.1 The Accounts and Audit Regulations 2003 and its subsequent amendment by regulation 4(2) in 2006 require the Council to conduct a review, at least annually of the effectiveness of its governance arrangements and to publish an Annual Governance Statement (AGS) with the annual financial statements. The Statement of Recommended Practice requires the AGS to be approved by the committee approving the accounts, which at Tower Hamlets is the Audit Committee.

3.2 The table appended to this report outlines the governance issue raised on the AGS, the agreed action and progress to date.

4. Comments of the Chief Financial Officer

4.1 The comments of the Chief Financial Officer are contained within the report of which he is the author.

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

5.1 The Council is required under the Accounts and Audit Regulations 2003 to ensure adequate and effective financial management and a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. This must be reviewed at least once each year and a report provided to committee, which must approve a statement on internal control. It is consistent with the maintenance of a sound system of internal control, that the Council should produce an Annual Governance Statement and monitor performance against that.

5.2 The Council's Constitution provides that it is the function of the audit committee to be satisfied that the annual governance statement properly reflects the risk environment and any actions required to improve it. It is entirely proper that the audit committee should receive reports on progress against issues identified in the statement.

6. One Tower Hamlets Considerations

6.1 This progress update on significant issues from the Annual Governance Statement on 2011/12 Financial Year should allow the Audit Committee to focus on management action taken to date to improve risk management and control in order to provide strong leadership and inclusive services.

7. Anti-Poverty Considerations

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

8. Risk Management Implications

8.1. The progress update on significant governance issues should provide assurance to members that key risks associated with progressing these issues are being addressed and managed.

9. Sustainable Action for a Greener Environment (SAGE)

9.1 There are no specific SAGE implications.

APPENDIX

Progress Update on Significant Issue from the Annual Governance Statement 2011/12

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>The annual external audit raised a number of queries relating to creditors and the year-end cut-off procedures.</p>	<p>Issues raised from the audit process have been reviewed and action taken to improve current arrangements as part of the implementation of the new finance system.</p>	<p>All Directorates have been asked to review all debtor and creditor balances to ensure they can be justified. Returns are due back to ensure that year-end balances at 31st March 2013 are current and accurate for closedown and for migration to Agresso. If a balance cannot be justified, then write-off to revenue will be the likely approach.</p> <p>At closedown - Directorates will be asked to justify the value of all debtors & creditors at 31st March 2013 to avoid doubts on accuracy of balances.</p> <p>Systems Development – the new Accounts Payable System will include a prompt to assist users when receipting goods/services so that the risk of pre-receipting is minimised. The system will produce regular exception reports to highlight instances of pre-receipting.</p>	<p>Corporate Director, Resources</p>

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Agenda Item 5.6

COMMITTEE: Audit Committee	DATE: 14 January 2013	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Acting Chief Finance Officer		TITLE: Treasury Management Activity for Period Ending 30 November 2012		
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 30 November 2012 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. The current average return on investment stands at 1.24%, 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 30 November 2012.

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 Council's Treasury Management Strategy was approved on 22 February 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; and
 - The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April to 30 November 2012

- 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 30 November 2012.

8 MARKET UPDATE

- 8.1 The Eurozone debt crisis has continued to impact world economy and has depressed growth in most countries. This has however, been abated by the European Central Bank's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. Market sentiment has improved considerably since this action by the ECB and the recent Eurozone commitment to support Greece and keep the Eurozone intact. Current reports on the US have shown a positive and improving economy but this is hampered by the government's discussions on ways to avert the 'fiscal cliff' of a possible recession if current tax concessions are allowed to lapse by the year end. The pace of economic growth in the US remains weak despite the Federal Reserve's liberal amounts of quantitative easing and ultra-low interest rates. Unemployment levels have been slowly reducing but against a fall in the number of those available for work. However, the housing market seems to have reached the bottom and house prices are picking up. Hopes for a broad recovery have now focused on the emerging markets.
- 8.2 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. Quarter 2 of 2012 was the third quarter of contraction in the economy although it returned to positive growth in the third quarter.
- 8.3 The implications of this challenging and uncertain outlook on treasury management is higher counterparty risk and relatively low investment returns, although borrowing interest rates continue to be attractive and may remain relatively low for some time. However, there is an existing threat by one of the major ratings agencies to downgrade the UK's credit rating and this may have a negative impact on the UK's borrowing costs.

9 CREDIT CRITERIA

- 9.1 The following credit criteria for investment counterparties were established by the Council in February 2012 as part of the budget setting exercise. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating. Explanation of credit ratings criteria is attached at Appendix 1.

Institution	Minimum Credit Criteria	High rating	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 AAA	rating	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.

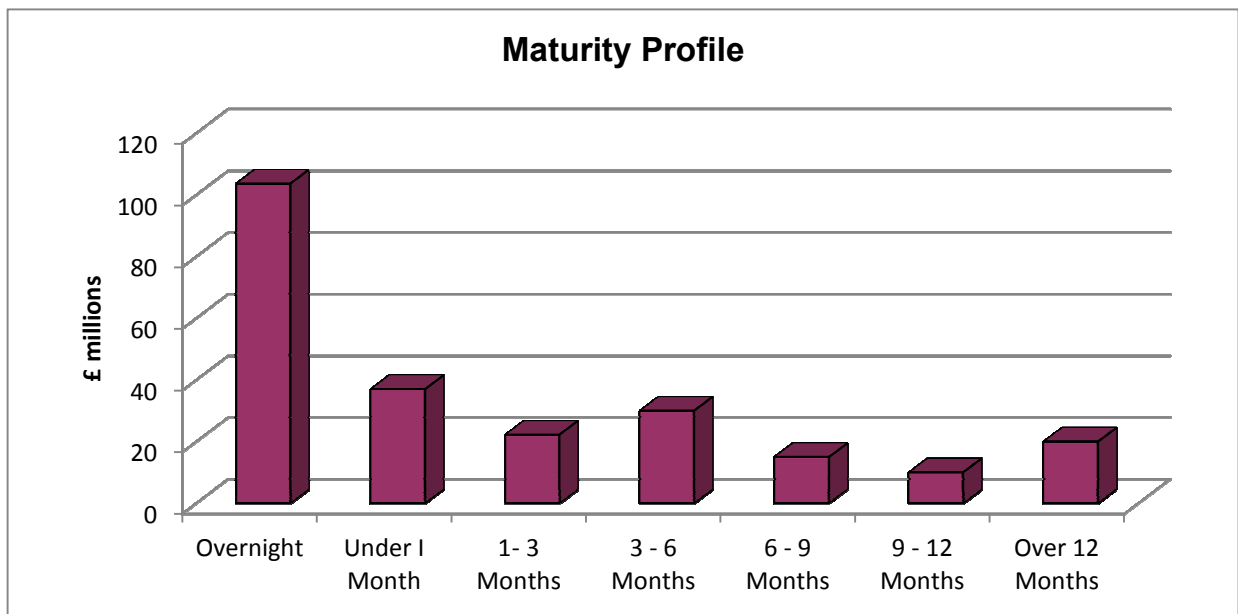
10 INVESTMENT STRATEGY

- 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.
- 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 30 November 2012

Projection	Actual Deal			
Term	Counterparty	Maturity	Amount £M	Rate
Overnight	Deutsche Managed Sterling	MMF	15.000	0.37%
Overnight	SWIP Global Liquidity Sterling	MMF	15.000	0.34%
Overnight	Goldman Sachs	MMF	15.000	0.43%
Overnight	Ignis Liquidity Funds	MMF	15.000	0.48%
Overnight	Insight	MMF	15.000	0.42%
Overnight	DMO	Overnight	28.600	0.25%
	SUB TOTAL		103.600	
< 1 Month	Leeds City Council	10-Dec-12	3.000	0.30%
	Glasgow City Council	17-Dec-12	4.000	0.30%
	OCBC	18-Dec-12	30.000	0.35%
1 - 3 Months	Glasgow City Council	09-Jan-13	5.000	0.30%
	Salford City Council	09-Jan-13	1.200	0.30%
	Royal Bank of Scotland	11-Jan-13	5.000	0.15%
	Glasgow City Council	16-Jan-13	1.000	0.30%
	Bank of Scotland	13-Feb-13	5.000	3.10%
	Bank of Scotland	13-Feb-13	5.000	3.10%
3 - 6 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	0.54%
6 - 9 Months	Royal Bank of Scotland	12-Jun-13	5.000	1.69%
	Bank of Scotland	04-Jul-13	10.000	3.00%
9 - 12 Months	Royal Bank of Scotland	11-Oct-13	5.000	2.25%
	Bank of Scotland	29-Oct-13	5.000	2.00%
Over 12 Months	Royal Bank of Scotland	12-Dec-13	5.000	2.00%
	Royal Bank of Scotland	03-Jan-14	10.000	4.00%
	Royal Bank of Scotland	27-Jan-15	5.000	3.35%
	SUB TOTAL		134.200	
	TOTAL		237.800	

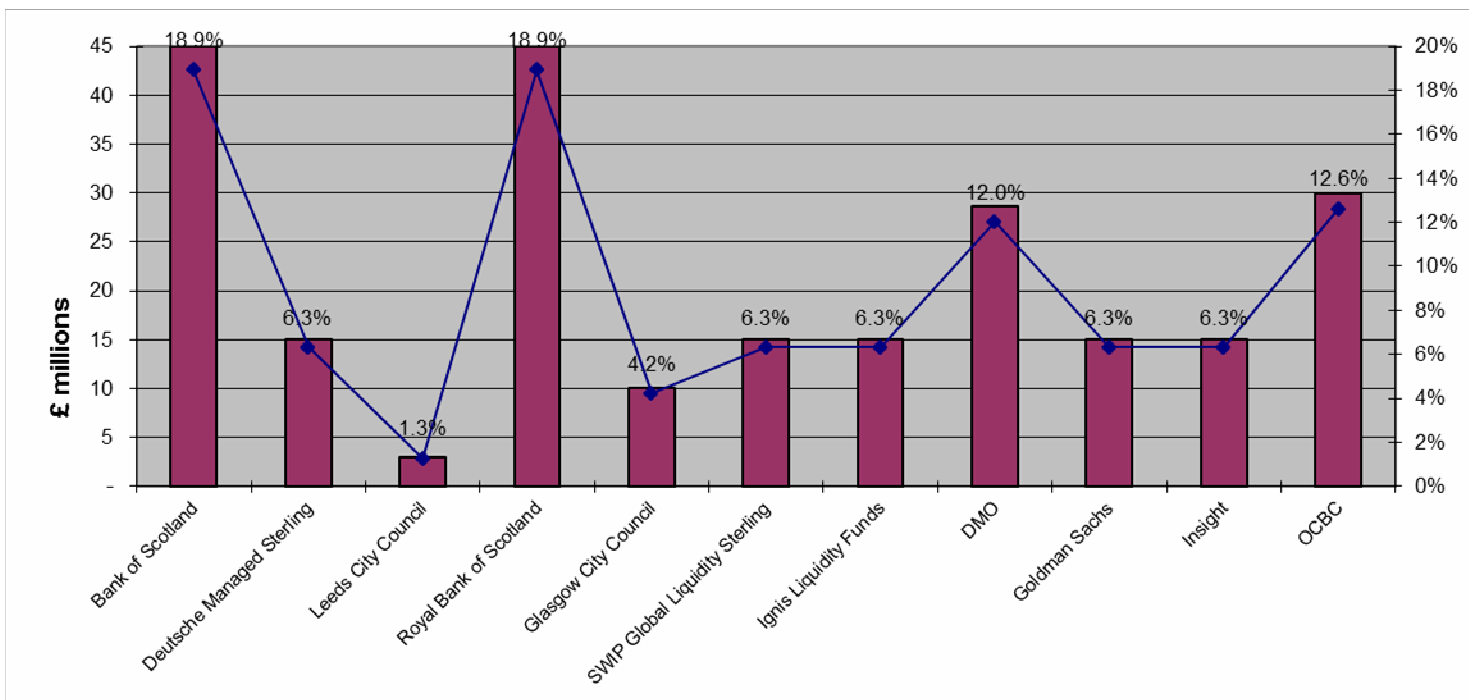
Maturity of Investment Portfolio



10.6 The amount in overnight instruments appears high because of money market fund deposits which although are technically classed as overnight investments. In reality, these are used as longer term investment vehicles. Of the £103.6m in overnight instruments, £75m is held with money market funds. This allows the Council to maintain liquidity whilst still able to secure reasonable return 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 30 November 2012.

Counterparty Exposure



11 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). Performance against LIBID has been strong so far but in recent months (since September 2012), the portfolio has marginally been underperforming against the portfolio benchmark, with year to date return on investment at 1.24%.
- 11.2 Though the Strategy approved at the 22 February 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, 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. The latest approved 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.
- 11.4 The budgeted investment return for 2012/13 is £2.395m. It is expected that this target will be achieved.
- 11.5 The table below details performance of investments. The table shows that performance has consistently outperformed LIBID.

Period	LBTH Performance	7 Day LIBID	(Under)/Over Performance
Full Year 2011/12	1.52%	0.48%	1.04%
June 2012	1.39%	0.44%	0.95%
July 2012	1.35%	0.42%	0.93%
August 2012	1.26%	0.40%	0.86%
September 2012	1.21%	0.39%	0.82%
October 2012	1.12%	0.37%	0.75%
November 2012	1.11%	0.36%	0.75%
Average YTD - 2012/13	1.24%	0.40%	0.84%

- 11.6 Following a review of the current strategy and the current market environment, a revised Treasury Management Policy Statement report was received by Full Council on 28 November 2012 requesting approval of an increase in the limits of deposits with wholly or partly owned government banks whilst maintaining a risk profile similar to the existing portfolio. These changes do not affect the period covered by this report.

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 Finance 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"

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

November 2012 Investment Portfolio Analysis Report

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Mulberry Place, 4th Floor.*

Appendix 1: 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 Ratings					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	-	-	-	SB	Aaa	-	-	SB	AAA	-
Bank Nederlandse Gemeenten	SB	AAA	F1+	-	1	NO	Aaa	P-1	A	NW	AAA	A-1+
Bank of Montreal	SB	AA-	F1+	aa-	1	RD	Aa2	P-1	B-	SB	A+	A-1
Bank of New York Mellon (International) Ltd	SB	AA-	F1+	-	1	-	-	-	-	-	-	-
Bank of New York Mellon, The	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	NO	AA-	A-1+
Bank of Nova Scotia	SB	AA-	F1+	aa-	1	RD	Aa1	P-1	B	NO	AA-	A-1+
Bank of Scotland Plc	SB	A	F1	-	1	NO	A2	P-1	D+	NO	A	A-1
Canada	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	1	RD	Aa2	P-1	B-	SB	A+	A-1
Collateralised LA Deposit*	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
DBS Bank Ltd	SB	AA-	F1+	aa-	1	NO	Aa1	P-1	B	SB	AA-	A-1+
Debt Management Office	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Denmark	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Finland	SB	AAA	-	-	-	SB	Aaa	-	-	NO	AAA	-
France	NO	AAA	-	-	-	NO	Aa1	-	-	NO	AA+	-
Germany	SB	AAA	-	-	-	NO	Aaa	-	-	SB	AAA	-
Landwirtschaftliche Rentenbank	SB	AAA	F1+	-	1	NO	Aaa	P-1	-	SB	AAA	A-1+
Lloyds Banking Group plc	SB	A	F1	bbb	1	NO	A3	-	-	NO	A-	A-2
Luxembourg	SB	AAA	-	-	-	NO	Aaa	-	-	NO	AAA	-
National Westminster Bank Plc	SB	A	F1	-	1	NO	A3	P-2	D+	SB	A	A-1
Netherlands	SB	AAA	-	-	-	NO	Aaa	-	-	NO	AAA	-
Nordea Bank AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	NO	AA-	A-1+
Nordea Bank Finland plc ~	SB	AA-	F1+	-	1	SB	Aa3	P-1	C	NO	AA-	A-1+
Norway	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Oversea Chinese Banking Corporation Ltd	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
Royal Bank of Scotland Group plc	SB	A	F1	bbb	1	NO	Baa1	P-2	-	SB	A-	A-2
Singapore	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Standard Chartered Bank	NO	AA-	F1+	aa-	1	SB	A1	P-1	B-	SB	AA-	A-1+
Supranationals	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Svenska Handelsbanken AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	NO	AA-	A-1+
Sweden	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Switzerland	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
The Hong Kong and Shanghai Banking Corp	NO	AA	F1+	aa-	1	SB	Aa2	P-1	B	SB	AA-	A-1+
The Royal Bank of Scotland Plc	SB	A	F1	bbb	1	NO	A3	P-2	D+	SB	A	A-1
Toronto Dominion Bank	SB	AA-	F1+	aa-	1	RD	Aaa	P-1	B+	NO	AA-	A-1+
U.K	NO	AAA	-	-	-	NO	Aaa	-	-	SB	AAA	-
U.S.A	NO	AAA	-	-	-	NO	Aaa	-	-	NO	AA+	-
UK Gilts	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
United Overseas Bank Ltd	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
Wells Fargo Bank NA	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C+	NO	AA-	A-1+

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