

AUDIT COMMITTEE

Tuesday, 17 December 2013 at 7.00 p.m.

Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,
London, E14 2BG

This meeting is open to the public to attend.

Members:

Chair: Councillor Mizan Chaudhury

Vice-Chair: Councillor Carlo Gibbs

Councillor Judith Gardiner, Councillor M. A. Mukit MBE, Councillor Craig Aston,
Councillor Stephanie Eaton and Councillor Shafiqul Haque

Deputies

Councillor Denise Jones, Councillor Zenith Rahman, Councillor David Snowdon and
Councillor Tim Archer

The quorum for this body is 3 Members

Contact for further enquiries:

Antonella Burgio, Democratic Services

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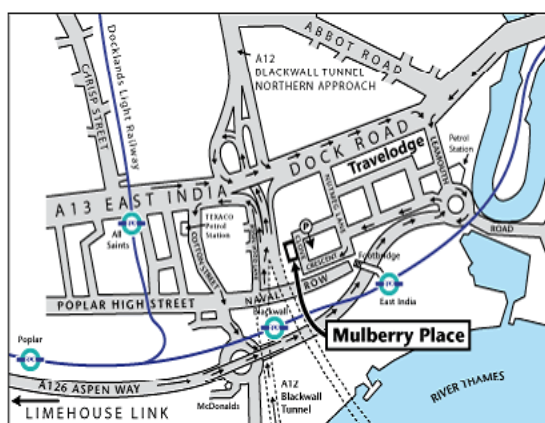
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APOLOGIES FOR ABSENCE

**PAGE
NUMBER**

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY
INTEREST**

1 - 4

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 Monitoring Officer.

2. MINUTES OF THE PREVIOUS MEETING(S)

5 - 16

To confirm the minutes of the Audit Committee held on 26 September 2013

**3. PROTECTING THE PUBLIC PURSE
FRAUD BRIEFING 2013**

17 - 34

To note the contents of the report and take account of the matters raised by the Audit Commission in their report; and to make recommendations as necessary to assist in the management of fraud risks.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4 .1 Quarterly Internal Audit Assurance Report

35 - 62

To note the report and to take account of the assurance opinion assigned to the systems reviewed during the period.

4 .2 Revised Internal Audit Plan for 2013/14

63 - 106

To note the changes proposed and to endorse the revised 2013/14 internal audit plan attached at Appendix 2.

4 .3 Treasury Management Activity for Period Ending 31 October 2013

107 - 120

To note the contents of the treasury management activity report for period ending 31 October 2013.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Date of the next Meeting:

The next meeting of the Committee will be held on Tuesday, 18 March 2014 in the Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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Agenda Item 1

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.07 P.M. ON THURSDAY, 26 SEPTEMBER 2013

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

Members Present:

Councillor Carlo Gibbs (Vice-Chair, in the Chair)
Councillor Craig Aston
Councillor Stephanie Eaton
Councillor M. A. Mukit MBE

Officers Present:

Kate Bingham – (Service Head, Resources, Education Social Care and Wellbeing)
Chris Holme – (Acting Corporate Director - Resources)
Minesh Jani – (Head of Audit and Risk Management , Resources)
Kevin Miles – (Chief Accountant, Resources)
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)
Manjit Saroya – (Head of ICT)
Gina Clarke – (Deputy Head of Legal Services)
Brian Snary – Financial Accountant - Resources
Antonella Burgio – (Democratic Services)

Others In Attendance

Andrew Sayers – (KPMG)
Antony Smith – (KPMG)
Molly Wallis – Interim Head of Neighbourhoods, THH

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Mizan Chaudhury, Shafiqul Haque and Judith Gardiner.

Apologies from Deloitte representative Daniel Hellary were also noted.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the Audit Committee held on 25 June 2013 were approved without amendment as a correct record of proceedings.

4. UNRESTRICTED KPMG REPORTS FOR CONSIDERATION

4.1 London Borough of Tower Hamlets - Report to those Charged with Governance (ISA 260) 2012/13

At the Chair's invitation, Mr Sayers of KPMG presented the Council's Annual Governance report which reported the outcome of KPMG's annual audit work for the Council according to the agreed external audit plan 2012-13.

Mr Sayers advised that:

- KPMG expected to issue an unqualified opinion and certificate concluding the 2012-13 audit, by 30 September 2013 subject to completing:
 - the investigation of a number of outstanding enquires, the and
 - the procedures specified by the National Audit Office on the Council's whole governance account return.
- only two significant audit adjustments were identified
 - accounting for employee annual leave that was not taken at the financial year end and
 - a provision relating to the administration of Municipal Mutual Limited
- eight of the nine recommendations made in the previous year's annual audit had been implemented.
- the audit had not identified any significant issues from the planning risks around property, pensions or VFM savings plans
- the control environment over all was effective and
- the report included eight recommendations, but none of these were considered to be at the highest (priority 1) risk level (see Appendix 1)

Further, he:

- confirmed that KPMG's VFM conclusion would also be unqualified as KPMG was satisfied that the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and
- noted the importance of completing the corporate governance review and implementing its recommendations.

In response to Member's questions, the following matters were discussed:

Audit Adjustments:

- concerning an audit adjustment to reduce the net worth of the authority by £1.184M, the Committee was informed that there was no impact as, in practical terms, it was moving funds from an earmarked reserve to a provision.

Local Governments Electors Enquiries:

- concerning an enquiry relating to councillors' expenses, the Committee was advised that this had been investigated and revealed no major issues. However, to improve governance further, the procedures were being revised.

- concerning an enquiry relating to the potential sale of a heritage asset, Members were advised some procurement procedures had been revised however the decision around which auction house and how the sale would be handled had not yet been finalised.
- concerning protocols for responding to these enquires; the Committee was advised that members of the public were permitted to lodge written queries with KPMG. Upon receipt, these would be assessed to ascertain whether it constituted an enquiry or an objections. If it was an enquiry, KPMG would determine whether it was best placed to investigate or consider referring it to the Council's internal audit team. It was noted that none of the enquiries received during the year had become a formal objection.
- concerning whether investigations would be charged, the Committee was advised that the Audit Commission set a scale of fees for the audit. Any additional work, such as that required by enquires and objections relating to the accounts, needed to be agreed with the Audit Commission and was based on actual time needed and at the rates set by the Audit Commission.

RESOLVED:

1. That the report be noted taking in to the account the matters raised in the audit
2. That the headline messages in Section 2 be noted
3. That the key findings in relation to the 2012/13 financial statements set out at Section 3 be noted
4. That the key findings in Section 4 from the work on VFM conclusion be noted
5. That the recommendations set out at Appendix 1 be noted
6. That progress in implementing previous year's recommendations in Appendix 2 be noted
7. That the Council's ISA 260 audit report be approved

4.2 London Borough of Tower Hamlets Pension Fund - Report to those Charged with Governance (ISA 260) 2012/13

At the Chair's invitation, Mr Sayers presented the Tower Hamlets Pension Fund Governance report circulated at agenda item 4.2. He noted the headline messages at section two of the report advising that officers responded promptly to queries and that an unqualified opinion was expected to be issued at the same time as the opinion on the Council's accounts. The Committee raised no matters relating to the report.

RESOLVED:

1. That the report be noted taking in to the account the matters reported by the auditors
2. That the headline messages set out at Section 2 be noted
3. That the key findings in relation to the audit of the Fund's accounts set out at Section 3 be noted
4. That the recommendations at Appendix 1 be noted
5. That the Council's Pension Fund ISA 260 Audit Report be approved

5. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION**5.1 Statement of Accounts 2012/13 - Audit Report and Approval**

The Acting Corporate Director Resources and Chief Accountant, Resources presented the report which detailed the Authority's accounts for the year ending 31 March 2013. The Corporate Director Resources thanked KPMG for their work on the statement of accounts and advised the Committee that information reported was in accordance with CIPFA guidance. He also noted that there had been no substantive changes to the draft accounts tabled at June Audit Committee.

In response to Member's questions, the following matters were discussed:

Potential liability and potential consequences of risk relating to the transfer of tenanted and leasehold properties to other landlords:

- Members were advised potential liability could not be quantified presently; however the Director of D&R would provide a written response on the potential risks relating to transfer of this kind.

Fees paid to pension fund investment managers:

- Members were advised that:
 - fees were paid to each of the managers engaged. Normally these were administered as a charge within the investment; however GMO applied its fees separately.
 - managers' fees were not generally published however the matter would be reviewed as part of the fund triennial evaluation.

Tax liable on investment Income derived from foreign tax investments:

- the Committee was advised that tax was a matter for Governments of countries where the investments were held; therefore no UK tax was liable on these funds.

Whether the value of the Henry Moore statue was incorporated into the sum of heritage assets held by the Council:

- the Committee was informed that the figure published was for total artworks held by the Council with a material value and based on book

value. For accounting purposes, either this value or an insurance valuation could be applied. These assets had recently been valued by art experts as it was normal for such valuations to be periodically reviewed, however as there isn't an active market for such specialist items, there could be a difference between a potential sales value quoted by a specialist and a suitable book value for the accounts. It will be important that officers agree an appropriate valuation approach with auditors.

Actions by:

Kevin Miles, Chief Accountant – Resources

RESOLVED:

1. That the Statement of Accounts for the financial year ended 31st March 2013 be approved having regard for the auditor's Annual Governance Report.
2. That the Chair of the Committee, if the auditor identifies any significant issues, be delegated authority to approve any subsequent amendments to the statement of accounts that may be necessary as a result of further audit work
3. That the Chief Financial Officer will brief members of the committee, on any such amendments and if necessary prepare a formal report for presentation at the next meeting of the Committee

5.2 Quarterly Internal Audit Assurance Report

At the Chair's invitation the Head of Audit and Risk Management presented the report which summarised the internal audits undertaken for the period June - August 2013 and reported their assurance ratings. He advised that 16 audits had taken place and of these, nine extensive audits and three moderate audits had returned substantial assurance while four extensive audits had returned limited assurance. Officers of audits in the latter category were present to discuss findings.

Management and Control of Void Dwellings – Follow up Audit:

The Head of Audit and Risk Management informed the Committee that this audit had returned a limited assurance since four of the six areas of improvement identified in the previous audit had yet to be completed.

Molly Wallis, Interim Head of Neighbourhoods THH was present to answer questions. She informed the Committee that since she had been in-post she had worked to address the key recommendations relating to rigour in data recording and the management of void dwellings. She advised that the following actions had been taken:

- The voids process had been reviewed
- Additional training given to ensure procedures were understood
- Date, notice served on tenant / tenant signed V2 tenancy termination form now recorded on the SX 3 system

- Ensure that each property file contained all key documents necessary for the property and also a standard tick-list of the documents required
- Key documents included:
 - gas inspection certificate
 - electricity inspection certificate
 - void keys record sheet
- Tick-list to be retained by the originating officer to verify that documents had been correctly scanned to the relevant property file
- Pre-determination inspections were carried out
- Practical measures to ensure that, in future, managers follow the void management procedures in full
- Past mis-filed data, where discovered, was corrected

She advised that, to ensure consistency, she monitored much of the work in person.

In response to Members questions the following information was provided:

Potential adverse impact of decent homes programme works on the time taken to prepare and re-let a void property:

- the Committee was informed that there was no impact because the works were administered under different criteria. Void properties were made ready for letting under 'day-to-day repairs' programme while the decent homes programme was administered via Surveyors Team. If a property that became void was assessed to require work under the decent homes renovation programme, it would then be removed from the day-to-day repairs list. Alternatively if a property in a block undergoing decent homes renovations became void, it would be either used as a respite property or withheld from letting until the works were complete.

Query relating to a delay of several months for work under the decent homes programme:

- the Committee was informed that this work was administered through the Surveyors Team and therefore a written answer would be provided to Councillor Mukit

Whether delays in the decent homes programme's schedule of works resulted in a delay in lettings of the properties:

- the Committee was advised that the approach taken would be dependent on the length of the delay, for example if a six-month delay were anticipated, a property would be let rather than remain empty and the intended refurbishments carried out while the property was occupied. However for periods up to one month, the property would be withheld from letting and the works completed before re-letting. The Committee was further advised that there was provision to undertake works under the decent homes programme outside of the voids program.

Limited assurance returned on the management of voids.

- The Committee was advised that one of the key issues was how documents such as gas / electrical safety certificate were filed. Documents relating to a void property could be placed in either the property file, the new tenants' file or the former tenants' file, and therefore some documents had been difficult to locate. Training had since been given to ensure that all gas/electric safety certificates would be filed appropriately and could be easily traced. In addition the Head of Neighbourhoods had acted to correct misfiled certificates as they came to officers' attention.

ICT Governance Systems Audit:

The Head of Audit and Risk Management informed the Committee that although ICT governance, on the whole was good, the audit had returned a limited assurance as improvement was needed around ICT security, security monitoring and reporting

Manjit Saroya, Head of ICT was present to answer questions.

He reported that:

- there had been progress on strengthening management tools and ICT strategy
- all new staff were required to undertake ICT security awareness training as part of their induction
- the recommendations of the Cabinet Office on information governance groups had had an impact on the management of Council data
- much work had been done on data sharing to ensure the Council passed its PSN assessments

In response to Members questions the following information was provided:

Risks around using a third-party manager to administered the Council's ICT infrastructure:

- the Committee was informed that Agilysis were tasked to ensure that all software was up-to-date and patches implemented regularly. These works were carried out to a planned schedule.

Terms and conditions required to be signed by new starters:

- the Committee was advised that these referred only to ICT usage and was a procedure implemented ensure that new starters understood the terms they were required to agree to.

How the Council could ensure that partners were operating best practice in terms of ICT security:

- the Committee was informed that:
 - secure data vehicles were utilised such as GSX
 - schools had their own specific security protocols
 - secure protocols are being extended to the PCT via engagement and evaluation of data exchanges
 - the risk management process was used as a key to identify where security issues might arise.

The Head of Audit and Risk Management advised that the outcomes of schools' audits would be presented separately later in the agenda.

RESOLVED:

That the content of the quarterly audit report be noted taking account of the assurance opinion assigned to the systems reviewed during the quarter.

5.3 Annual Anti -Fraud Report 2012-13

Tony Qayum, Corporate Antifraud Manager presented to the report which provided an update of reactive and antifraud work undertaken during 2012-13. Additionally, the work of the Corporate Antifraud Team relating to corporate investigation, housing benefit fraud, social housing fraud and parking fraud was reported.

He noted that:

- the multi-agency review (paragraph 4.5) had been very successful in revealing criminal activity
- significant monies had been recouped from activities under the National Fraud Initiative
- fraud convictions were now often subject to legal challenge and therefore the process evictions or reclaiming properties from sub-lettees was delayed
- an Antifraud Hub had been established to better enable data mismatches to be tracked. This also acted to invigorate further investigations
- the Antifraud Team was exploring opportunities for joint working with further partners to ensure that housing was allocated to those genuinely in need

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

Families with children who were renting illegally:

- the Committee was informed that most cases investigated revealed that those renting illegally also owned properties elsewhere. It rarely occurred that an illegal occupier return to the Council through the homeless persons' service. He also advised that data matching had been undertaken since 2010 during which time 120 illegally rented properties had been recovered.

Anticipated date for the establishment of the London Authorities Partnership:

- the Committee was advised that establishment was expected to be concluded within the next month. Since a protocol for sharing information would be established through this partnership, all London authorities would be able to undertake data matching exercises, fraud investigations and share data more effectively

RESOLVED:

That the Annual Anti-Fraud Report be noted.

5.4 Annual Internal Audit Report for Schools for 2012/13

The Chair noted the typographical error at agenda page 238 and advised that a corrected chart had been tabled at the meeting.

Minesh Jani, Head of Risk Management and Audit and Kate Bingham, Service Head Resources, Education, Social Care and Wellbeing Directorate (ESCW) then presented the report which provided an overview findings arising from schools' audits. The Committee was advised that, overall, governance arrangements in schools had improved. In the year 2012 -13, approximately one third of the audits undertaken had returned a limited assurance and work was being undertaken by the ESCW to explore how further improvement could be achieved. The audits examined 12 control areas ranging from governance, procedures, security, risk management to financial matters. The audits had commonly identified that there was a lack of evidence demonstrating that schools' development plans had been formally reviewed and approved by the full governing body; and some schools had limited assurances around financial procedures and procurement procedures.

The Service Head Resources ESCW was concerned the results indicated that there was insufficient adherence to protocols and procedures amongst schools. She advised that ESCW was already working collaboratively to support and give guidance to schools concerning adherence to procurement and finance procedures. However the audit outcomes indicated that leadership teams needed to be engaged in resolving issues. To widely communicate this message, the annual audit report had been presented at the Schools Forum and would also be published in the Headteachers' Bulletin to better engage with schools' leadership teams. The scheme for school governance had been completed and it was now necessary to ensure that schools implemented it.

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

Whether schools were receiving the right to levels of support:

- the Committee was advised that, in the past, ESCW had relied on training school finance officers. However to implement the appropriate cultures across the schools it was felt necessary to focus on the leadership teams.

RESOLVED:

That the contents of the report be noted and that Members take account of the matters raised in each of the 12 areas examined.

5.5 Treasury Management Activity for Period Ending 31 August 2013

The Acting Corporate Director Resources presented the report which advised the Committee of treasury management activity in the current financial year up to 31 August 2013. This report was required to be presented under the powers of the Local Government Act 2003.

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

The Council's rationale for investment in small local authorities and whether any had failed to meet the necessary credit ratings:

- the Committee was advised that:
 - all local authorities were indemnified by the Government and had AAA rating.
 - it was generally understood that no local authorities had failed to meet the credit ratings, however this would be investigated and a written reply provided.

The Committee was advised that a small investment pool in itself was a source of risk. The Council's investment advisers were tasked to monitor the levels of risk exposure. However a change in the pool of risk would be investigated.

Counterparty exposure to banks and local authorities in which the Council invests:

- regarding Members' concerns that the Council's choice of investment should be safe and they were advised that the investments chosen had very low risk. The Corporate Director Resources noted that as Lloyds bank remained partly Government owned, it would retain the same rating as Royal Bank Of Scotland (RBS). In response to Members' concerns, he agreed that the ratings of the Council's chosen investments be investigated and reported back.

Whether the Council expected to be required to reassign funds following the anticipated sale of Lloyds and RBS back to the private sector:

- the Committee was advised that officers would take advice on this matter from the Council's investment advisers. The Corporate Director, Resources noted that RBS presently remained under Government ownership although some Lloyds Bank shares had been floated on the Stock Exchange. While, overall, it was not expected that these floatations would have an impact on the Council's investments because a risk averse approach to investment had been chosen, a report would be given at the next meeting

Action by

Chris Holme, Acting Corporate Director of Resources

RESOLVED:

That the treasury management update report for the period ending 31 August 2013 be noted.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.25 p.m.

Vice-Chair, Councillor Carlo Gibbs
Audit Committee

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Agenda Item 3

Report To: Audit Committee	Date 17 December 2013	Classification Unrestricted	Report No
REPORT OF: Corporate Director, Resources		Fraud Briefing from Protecting the Public Purse 2013	
ORIGINATING OFFICER(S): Minesh Jani, Head of Risk Management and Audit		WARD(S) AFFECTED: N/A	

1. SUMMARY

- 1.1. The attached report summarises the work of the Audit Commission who compared Tower Hamlets performance in tackling a range of fraud with other similar authorities. The work of the Commission focused on five specific types of frauds, highlighted as the most common from an earlier survey of all local authorities in England, these being; housing and council tax benefit fraud; council tax discount fraud, housing tenancy fraud; right to buy fraud and Disabled parking (blue badge) fraud.

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 the Audit Commission in their report; and
 - make suggestions and recommendations as it considers necessary to assist in the management of fraud risks.

3. NATIONAL PICTURE

- 3.1. The Audit Commission in their publication "Protecting the Public Purse 2013" focuses on fighting fraud against local government and has been written for councillors and senior officers responsible for governance. In their report, the Audit Commission highlight fraud as a significant problem affecting everyone in the UK.
- 3.2. The National Fraud Authority (NFA) estimates that fraud loss to local government in England is in excess £2 billion per year.
- 3.3. The Audit Commission's 2012/13 survey of fraud against councils and related bodies shows that councils detected more than £178 million worth of fraud, involving 107,000 cases. The total value of detected

fraud losses for 2012/13 decreased by 1 per cent compared with 2011/12, with the number of fraud cases also decreasing by 14 per cent.

- 3.4. However London boroughs detected more fraud than in 2011/12 with an increase of 36 per cent compared to the previous year.
- 3.5. With regard to Social Housing Fraud, Councils recovered 2,600 homes from tenancy fraudsters. This was a 51 per cent increase on the previous year with London councils representing over half, 58 per cent of the total.
- 3.6. The report advises that Councillors have a crucial role in supporting the right approach to deter and detect fraud.

4. LOCAL PICTURE

- 4.1. The overall message from this report is that on the whole, Tower Hamlets is broadly on par with other inner London Boroughs and others in its peer group in tackling fraud. In 2012/13, Tower Hamlets detected fraud estimated at approximately £989,656 exclusive of Social Housing Fraud.
- 4.2. The national report recommends that Councils should promote in particular, a vigorous counter – fraud culture, develop a clear strategy to tackle fraud, work in partnership to reduce fraud and prepare effectively for the introduction of the Single Fraud Investigation Service by ensuring, inter alia, that there remains a capacity to investigate non benefit fraud which is proportionate to the identified risk.
- 4.3. With these points in mind we are actively enhancing our partnership working across the service and are currently engaged with a pro- active data matching exercise to examine a wide area of activity including Housing Rents, Housing Benefits and the Housing Waiting list to an external credit reference agency to identify areas of potential inconsistency and to take forward to investigation.
- 4.4. The Audit Commission will present this report to the Audit Committee on 17th December 2013.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1. This report describes the Audit Commission's briefing report of Tower Hamlets Council's performance in tackling a range of fraud and provides an opportunity for councillors to consider fraud detection performance compared to similar local authorities.
- 5.2. In 2012-13 Tower Hamlet Council's detected fraud estimated at approximately £989,656 exclusive of Social Housing Fraud and the

Council's performance was comparable with other inner London Boroughs.

- 5.3. There are no specific financial implications emanating from this report and the Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 6.1. There are no immediate legal implications arising from this report.

7. ONE TOWER HAMLETS

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

8. RISK MANAGEMENT IMPLICATIONS

- 8.1. This report highlights the potential areas of fraud risks that any local authority is likely to be exposed to. A considered assessment of the nature and impact of the fraud risks will allow the authority to make better use of its resources.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 9.1. There are no specific SAGE implications.

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

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Protecting the Public Purse Fraud Briefing 2013 London Borough of Tower Hamlets

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Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

And do not forget

- Checklist for those charged with governance (Appendix 2 of PPP 2013)*
- Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)
- Fraud is never a victimless crime
- Councillors have an important role in the fight against fraud

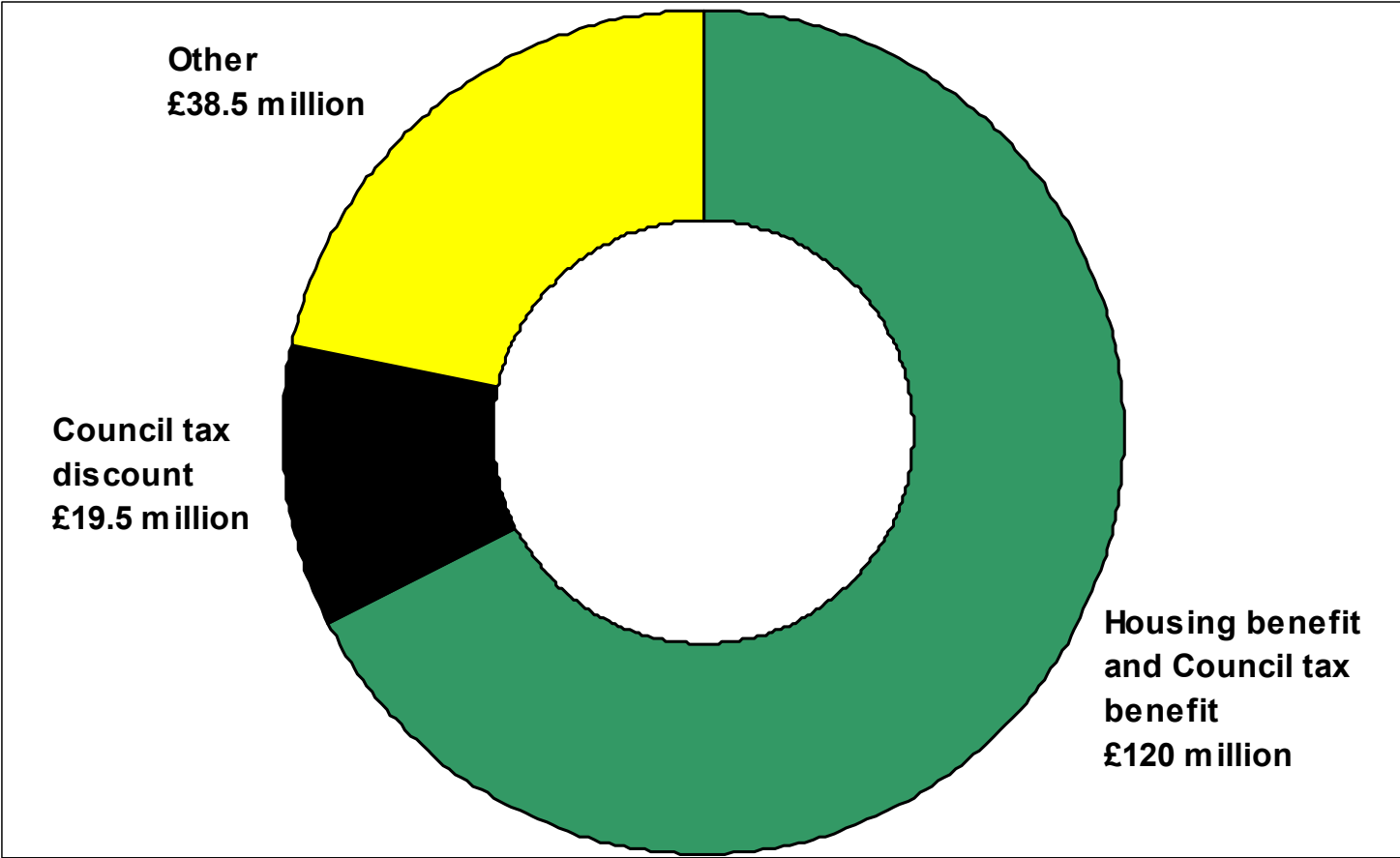


Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities;
- Reviews current counter fraud strategy and priorities;
- Discuss local and national fraud risks;
- Reflect local priorities in a proportionate response to those risks

National Picture 2012/13

Total cases detected 107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

Interpreting fraud detection results

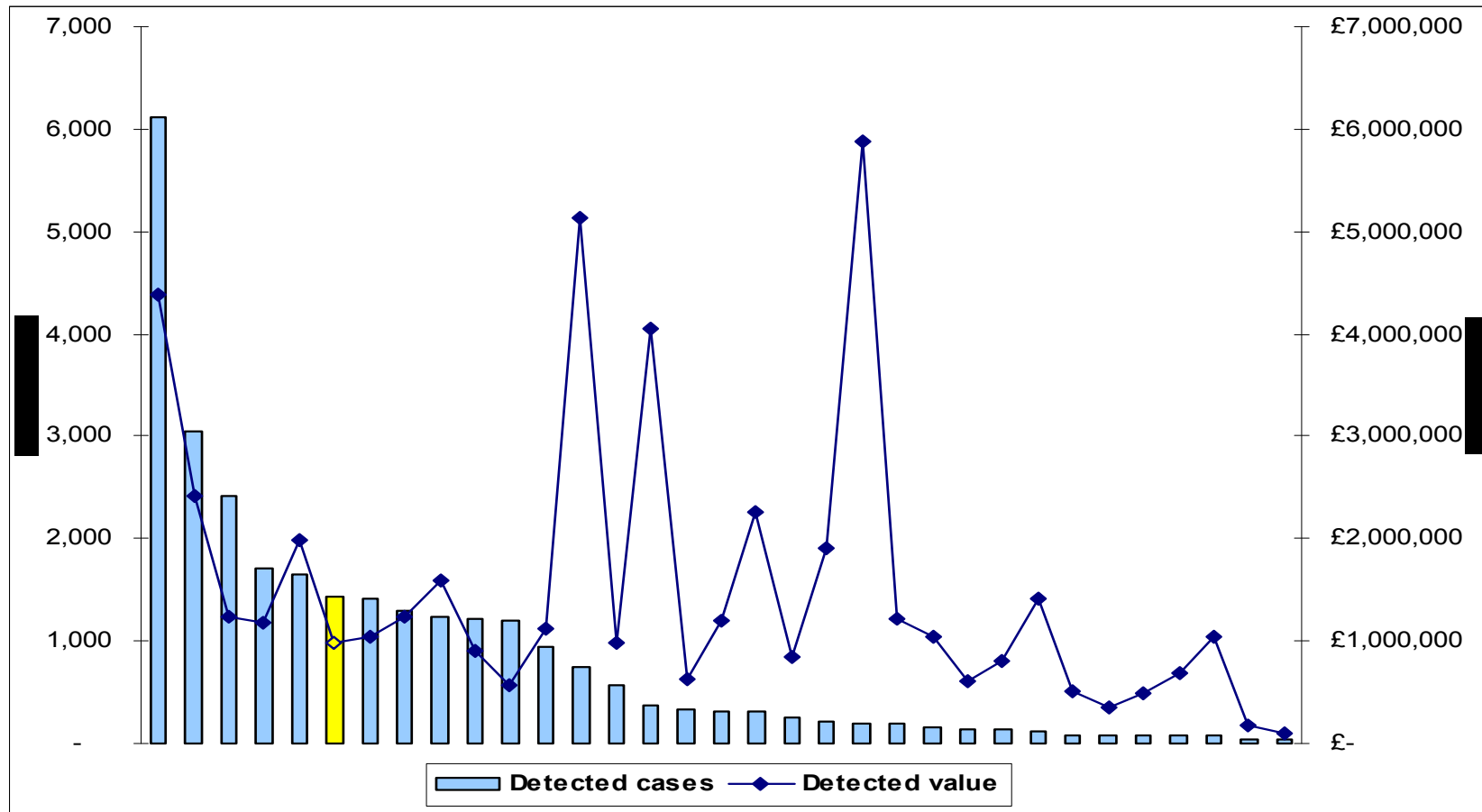
- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

The local picture

Your council compared to other London Boroughs.

Total detected cases and value 2012/13 (excluding social housing fraud)

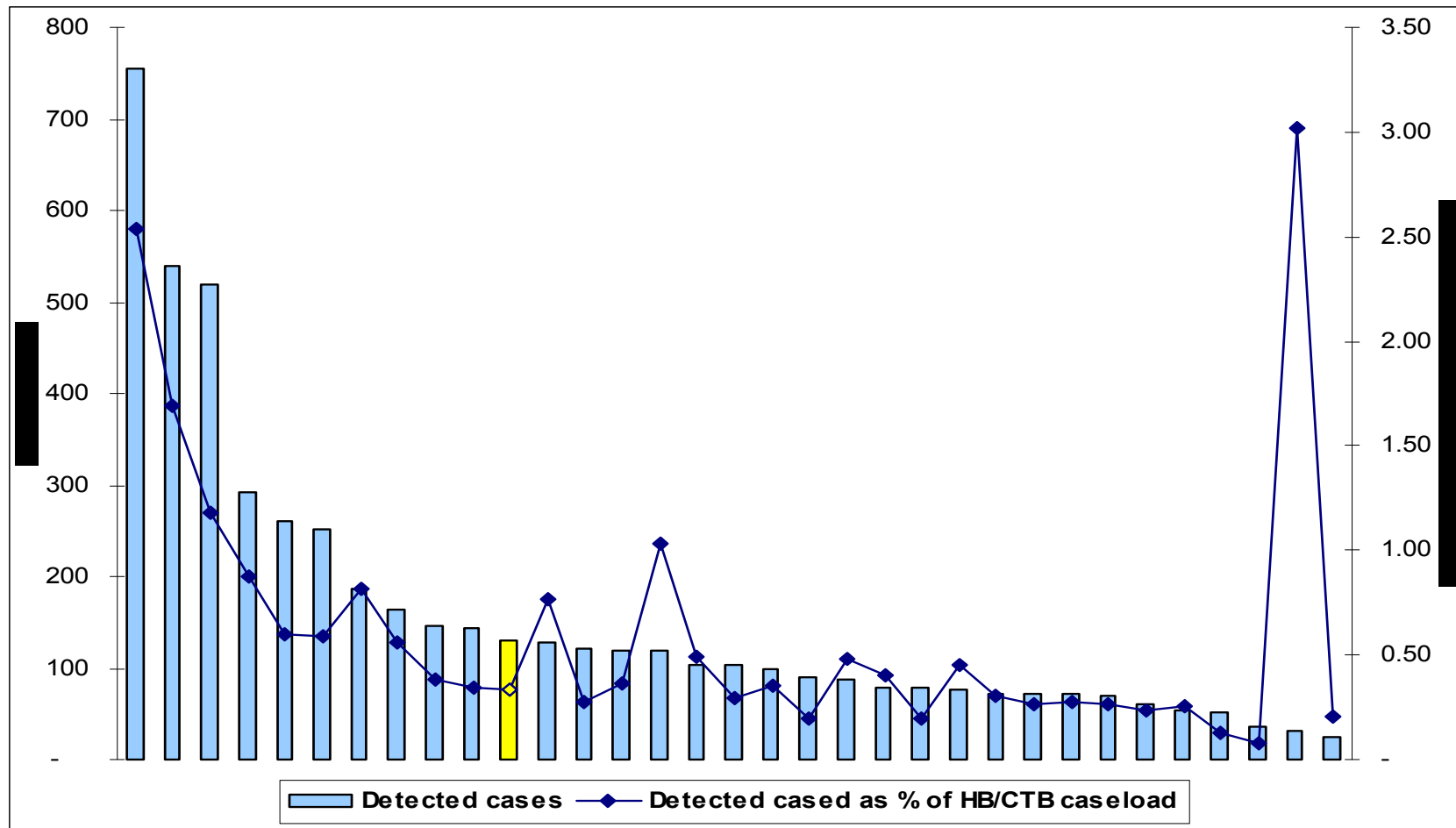


Tower Hamlets detected: 1,440 cases, valued at £989,656

London Boroughs 2012/13

Housing benefit (HB) and Council tax benefit (CTB) fraud

Detected cases and detected cases as a percentage of HB/CTB caseload



Tower Hamlets detected: 131 cases, valued at £599,674

London average: 153 cases, valued at £874,394

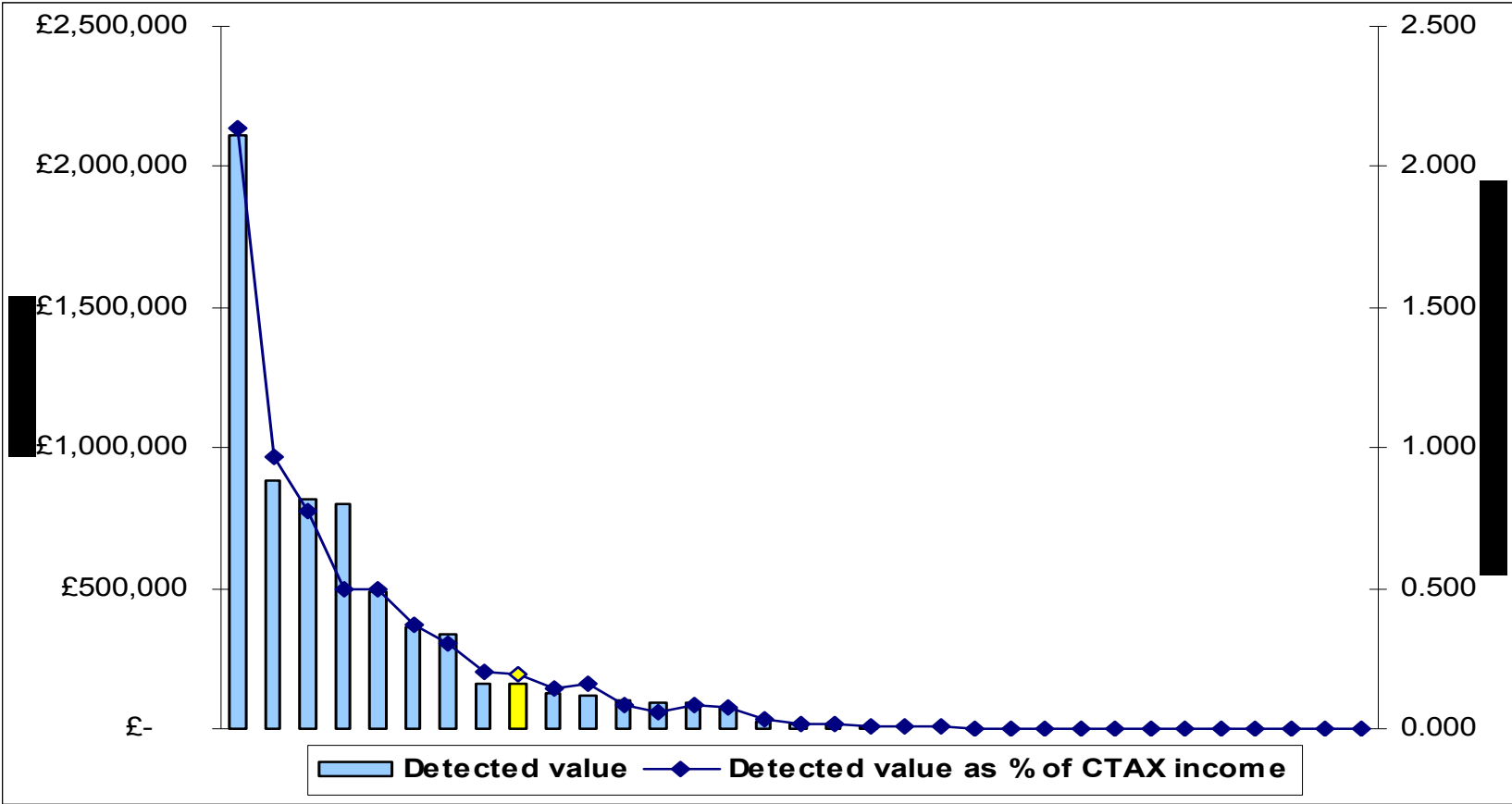


London Boroughs 2012/13

Council tax (CTAX) discount fraud

Detected value and detected value as a percentage of council tax income

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Tower Hamlets detected: 1,199 cases, valued at £161,482

London average: 586 cases, valued at £201,451

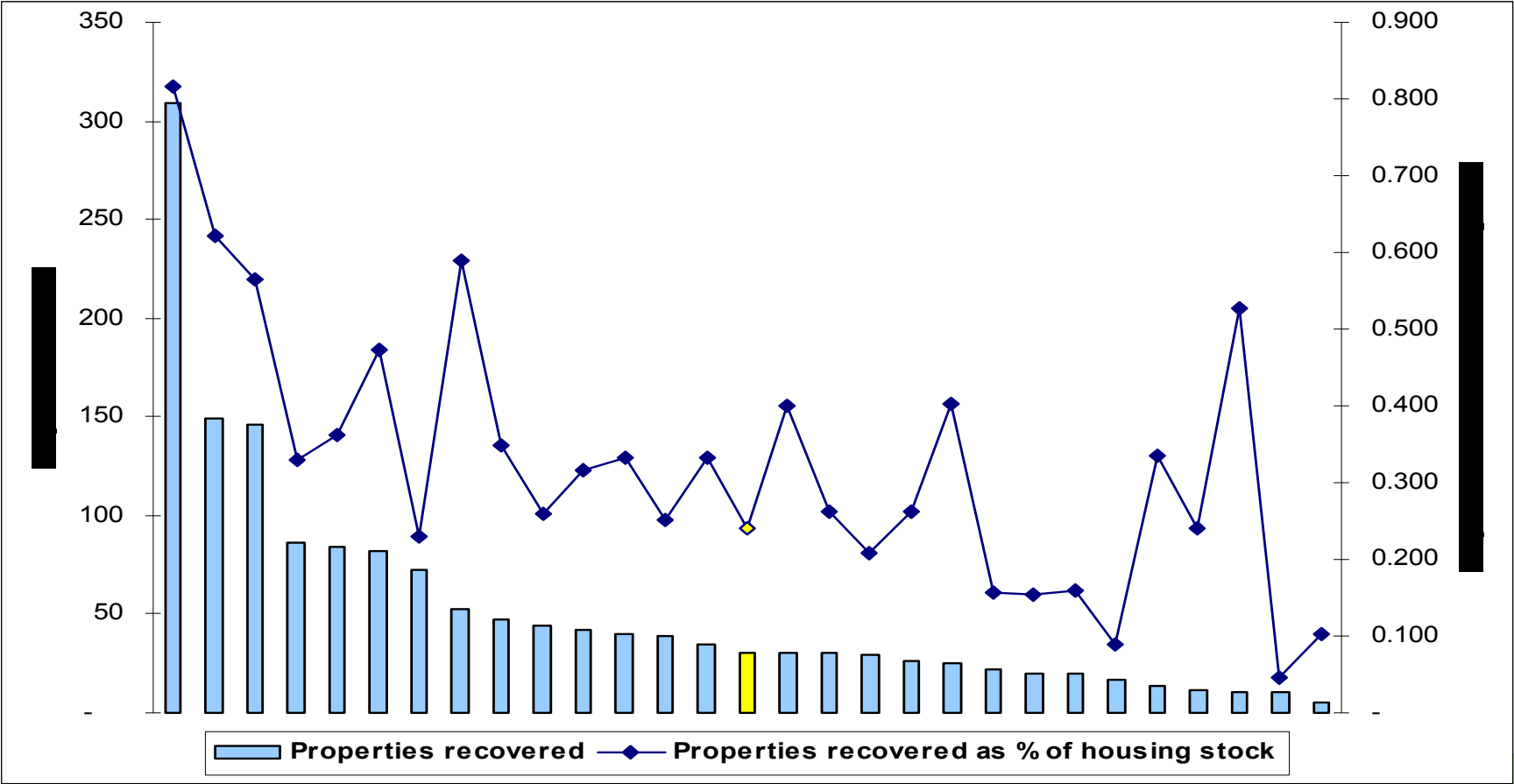


London Boroughs with housing stock 2012/13

Social housing fraud

Properties recovered and properties recovered as a percentage of housing stock

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Tower Hamlets recovered: 30 council homes (and a further 17 housing association properties)

London average: 53 properties

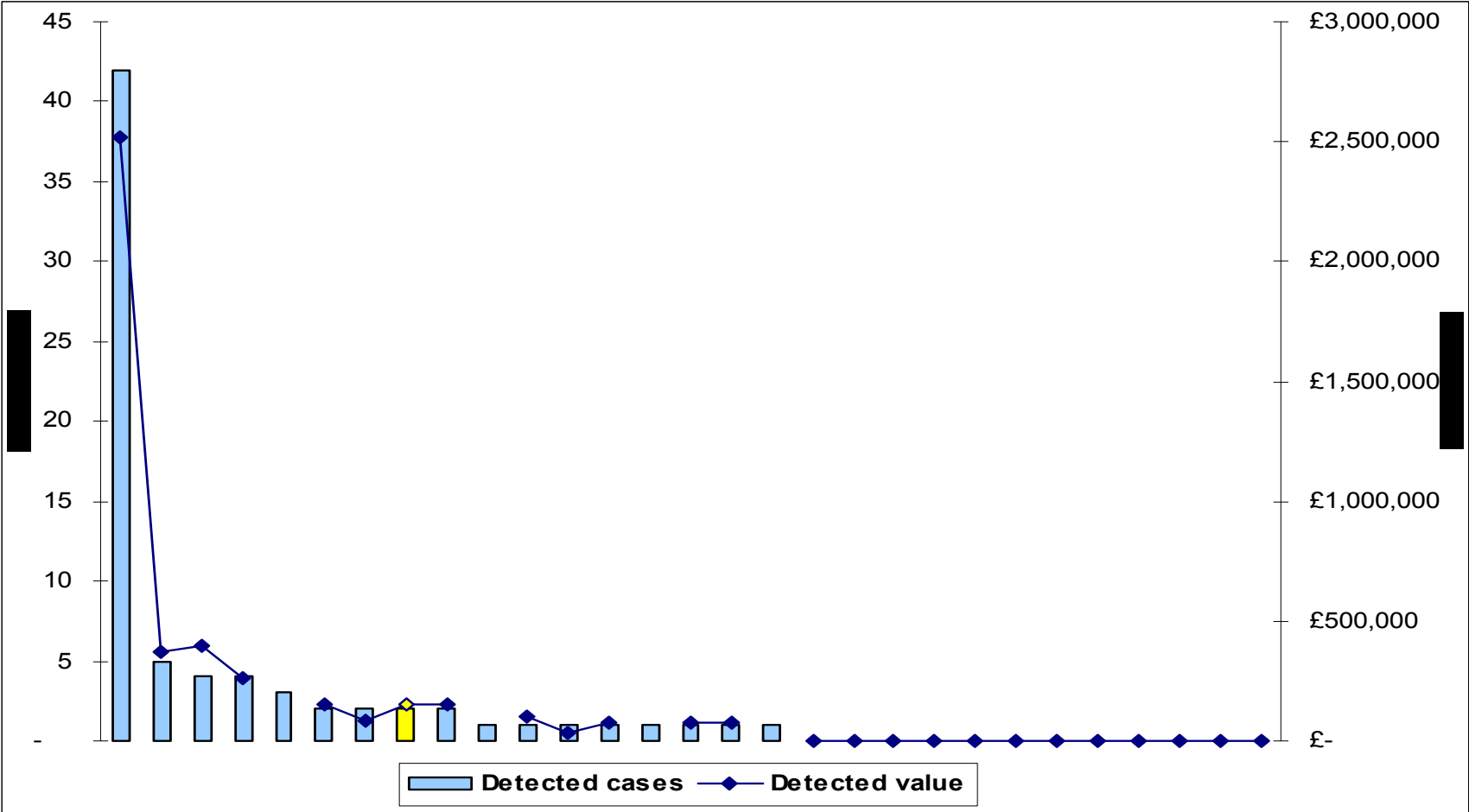


London Boroughs with housing stock 2012/13

Right to buy fraud

Detected cases and detected value

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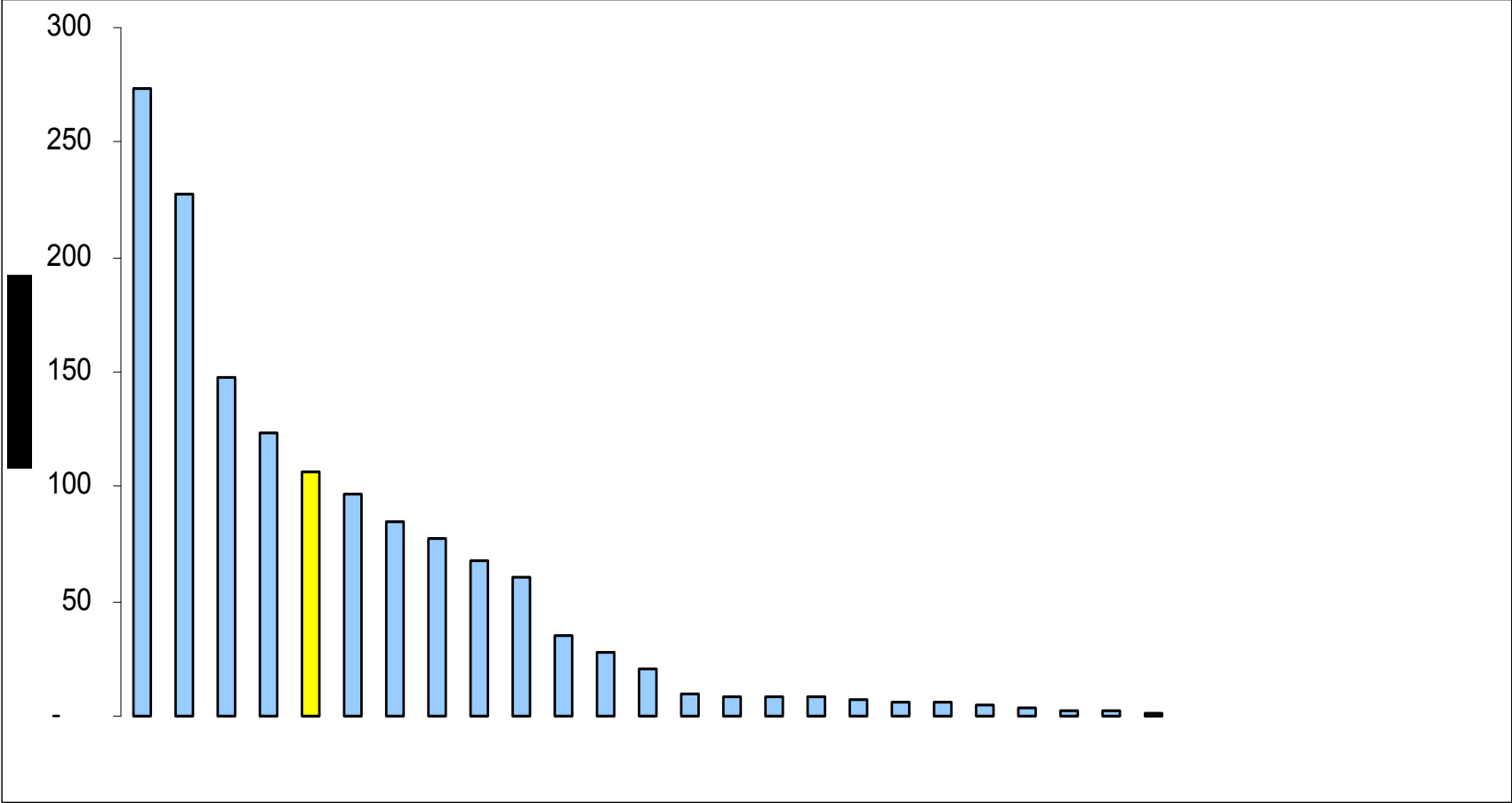
Tower Hamlets detected: 2 cases, valued at £150,000

London average: 2 cases, valued at £134,976



London Boroughs 2012/13 Disabled parking (Blue Badge) fraud Detected cases

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Tower Hamlets detected: 107 cases

London average: 40 cases



London Borough of Tower Hamlets

Other frauds

- Procurement: no cases
(Ave per London Borough: 1 case valued at £11,695)
- Insurance: no cases
(Ave per London Borough: 1 case valued at £35,274)
- Social care: 1 case, valued at £25,000
(Ave per London Borough: 2 cases valued at £10,067)
- Economic & Third sector: no cases
(Ave per London Borough: 1 case valued at £16,846)
- Internal fraud: No cases
(Ave per London Borough: 10 cases valued at £302,255)

*Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case*

Any questions?



Agenda Item 4.1

REPORT TO: Audit Committee	DATE 17 December 2013	CLASSIFICATION Unrestricted	REPORT 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 to November 2013.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

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

Brief description of "background papers"

N/A

Contact :

Minesh Jani, 0207 364 0738

3. Background

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

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

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

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

4. Overall Audit Opinion

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

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2013, 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 20011 and the Public Sector Internal Audit Standards 2013.

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	1	6	3	-	10
	Moderate	-	5	-	-	5
	Low	-	-	-	-	-
Total Numbers		1	11	3	-	15
Total %		7%	73%	20%	-	100%

- 5.4. From the table above it can be seen that of the ten finalised audits which focused on high risk or high value areas; one was assigned Full assurance, six were assigned Substantial Assurance and three were assigned Limited assurance. A further five audits were of moderate significance and all of these were assigned Substantial 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 2013	53%	47%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	20% 1 out of 5
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	100% 4 out of 4

The table above shows that the proportion of internal audit work completed to October 2013 is below target. This is due to some of the audits scheduled for quarters one and two have not progressed as planned due to requests from management to defer audits until the third and fourth quarters of the financial year. Revised quarterly plans have now been put in place so that planned audits are completed in time.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 20%, whereas the percentage of priority 2 recommendations was 100%. The performance for priority 1 recommendations was entirely due to one audit viz. the follow up on Management and Control of Probationary Tenancies, where four out of 5 recommendations were not implemented. Details of all priority 1 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. There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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)

There are no specific SAGE implications

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APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Tower Hamlets Homes	Management and Control of Probationary Tenancies - Follow Up audit
	Extensive	Communities, Locality and Culture	Commercial Waste – Systems Audit
	Extensive	Corporate review	Competitive Tendering – Systems Audit
SUBSTANTIAL	Extensive	Tower Hamlets Homes	Service Charges – Systems Audit
	Extensive	Tower Hamlets Homes	Tenancy Successions and Exchanges
	Extensive	Resources	General Ledger
	Extensive	Resources	Email and Exchange
	Extensive	Resources	Disaster Recovery
	Extensive	Development and Renewal	Building Schools for the Future -Post-Contract Audit

Assurance level	Significance	Directorate	Audit title
Substantial	Moderate	Education, Social Care and Wellbeing	Troubled Families Programme
	Moderate	Education, Social Care and Wellbeing	Careers Services Follow Up
	Moderate	Education, Social Care and Wellbeing	Elizabeth Selby Infant School
	Moderate	Education, Social Care and Wellbeing	Columbia Market Nursery School
	Moderate	Education, Social Care and Wellbeing	Wellington Primary School
Full	Extensive	Communities, Locality and Culture	Food Inspection and Control

Summary of Audits Undertaken

APPENDIX 2

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Probationary Tenancies</p> <p>Follow Up audit</p>	<p>Sept. 2013</p>	<p>A full systems audit on Management and Control of Probationary Tenancies was undertaken in May 2011. Following this, a follow up audit was undertaken in May 2012 and this found that a number of agreed recommendations had not been implemented. The objective of the second Follow Up audit was to assess the progress made in implementing those recommendations agreed at the conclusion of the first follow up.</p> <p>Our review showed that of the five high priority recommendations made at the conclusion of the first follow up audit, only one had been fully implemented. Whilst Management had put controls in place to implement the remaining four recommendations, these controls were not effective due to non-compliance with procedures together with lack of good quality random checks by Team Leaders, weak records of settling in visits, poor scanning of records on Comino and weak monitoring by management. We were concerned that on the basis of our sample testing, the quality of statutory settling in visits, management checks and associated records would not support the awarding of secure tenancies. We have recommended that the quality of monitoring checks carried out by team leaders and absence of key documents on the Comino system should be fundamentally reviewed by management.</p> <p>All findings and recommendations were agreed with the Director of Neighbourhood Services and the Interim Head of Neighbourhood Services and final report was issued to the THH Chief Executive.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments

New workflows and associated configurations have been designed and built on our Comino EDRMS/Workflow system according to business specifications. Final business sign off meetings have been scheduled for November 2013. This process change will ensure that there is robust system in place for Team Leaders and Area Housing Managers to carry out quality checks of records that can be monitored, controlled and evidenced. This action should lead to improvement in the control environment.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Commercial Waste	Sept 2013	<p>The main objective of the audit was to provide assurance to management over the systems and controls for managing the Commercial Waste service and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. As of January 2013, the Council had 3,437 commercial waste customers. The commercial waste collection service generated income of approximately £3.1M during 2012/13 while the Council paid Veolia a management fee of £717,500.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> • There was no evidence available to confirm that the Council verified the sales income reports provided by Veolia. • Key Performance Indicators (KPIs) were not measured against targets. • There was no evidence available to confirm that Veolia provided the Council with a complaints report on a monthly basis as required by clause 43.3 of the waste management contract. • There was no evidence available to confirm that the 2012/13 management fee of £717,500 was formally agreed by both parties. <p>All findings and recommendations were agreed with the Service Head, Public Realm, and the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Extensive	Limited

Management Comments

The Council's Finance Officer has requested that Veolia submits detailed working papers with all Sales/Income transaction identifying how income due to the Council has been calculated on a quarterly basis i.e

- A detailed Portfolio Valuation report
- Bank Statements
- Cashbook and
- Bank Reconciliation Statements.

These will be reviewed and agreed between Service and Finance on a quarterly basis prior to raising invoices. Disputes will be raised by Service with Veolia at Senior Strategy meetings. The senior strategy meetings which occur bi-monthly now have a process where all reports and agreements are agreed throughout the year. We will now add this audit report to the next agenda and it will form a regular part of future agendas with deadlines to ensure that all income due to the Council has been paid in full and that all income due to the council is signed off by senior strategy meeting and then by finance officers.

KPI's are now being measured against last year's targets and are regularly discussed at monthly contract meetings.

The KPI reports now include a complaints report specifically for Commercial Waste as opposed to previously where they were included within the general complaints reports.

The agreed costs were signed off at the September Senior strategy meeting and are attached as evidence. This will now become part of the annual review meeting for signing off by senior managers from LBTH and Veolia each year.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Competitive Tendering – Systems Audit	Sept. 2013	<p>The objective of this audit was to provide assurance that systems for managing and controlling competitive tenders for the purchase of goods, works and services were sound and secure and that EU Regulations were being complied with.</p> <p>Our review showed that contracts were generally being tendered in accordance with EU Regulations and forward plans were being presented to the Cabinet. Advertisements had been placed on the OJEU and Council’s web pages. Pre-Qualification procedures were in place and Questionnaires were being assessed.</p> <p>However, comprehensive and coherent procedures and processes for both Directorate staff and for procurement staff needed to be put in place. From a sample of 10 procurement exercises we selected for testing across the Council, we found audit testing difficult in some areas as clear audit trails were not present within Directorate and Corporate Procurement. Our review also showed that Tollgate reviews could not be evidenced in some cases, and decisions made had not been clearly documented or retained within the contract files held within the shared M-Drive. Although, both PQQ and tender evaluations had been undertaken, it was not always clear which officers were on the evaluation panel. Our review identified two contracts which had been tendered by external consultants, however there no LBTH Officer present at the tender.</p> <p>Although Directorate staff had devolved responsibility for managing the tendering process, there was no evidence of monitoring by Procurement as to whether procedures were being complied with by Directorate staff.</p> <p>All findings and recommendations were agreed with the Head of Procurement and final report was issued to the Interim Corporate Director – Resources.</p>	Extensive	Limited

Management Comments

The existing Procurement Procedures were introduced in 2009 along with two procurement governance boards; Competition Board and Competition Planning Forum. Contracting strategy over £250,000 is reported to competition board on a monthly basis for review and approval. Since 2009 procurement service has undergone a number of re-structures and has had three service heads. Absence of this stable strategic direction for procurement has resulted in some operational failures.

Following the launch of the Procurement Policy Imperatives in January 2013, a number of projects have been initiated to help transform the procurement service to deliver these imperatives. In May 2013, the terms of reference for Competition Board and Competition Planning Forum was refreshed to reinforce and enhance their influence in the procurement process and in June 2013, Tollgate 3 (Gateway Review) was introduced to review the performance of key strategic contracts.

With the support of Competition Board, an 'end to end' review of the existing procurement procedures and governance process was launched in July to ensure they are clear, robust and coherent whilst potentially improving the pace of the procurement process. This work also involved the development of a new Contract Management Toolkit for use by commissioners and contract managers across the organisation.

The existing manual PQQ process was fully automated and went live from 1st November in line with a Pan London PQQ (Pre-Qualification Document) to support SME's, increase compliance and further streamline our procurement process and address audit concerns. In addition to the existing detailed audit trail, including date, time and names of person releasing the sealed bids as well as the officer verifying the release, a Contract Lawyer is also now present to witness this tender release process.

The key changes to the revised Procurement Procedures was presented to and agreed at Competition Board meeting in October and subsequently at the November meeting. The new Procurement Procedures is scheduled to go live in January 2014 along with a leaner Tollgate process.

The recommendations from this audit have either already been implemented or is on schedule to be implemented within the agreed timescale.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Service Charges – Systems audit	Sept. 2013	<p>The objective of this audit was to provide assurance to management that the systems of control around the collection and recovery of service charges debts were sound, secure and adequate. Our testing showed that there were approved and documented strategies, policies and procedures covering the key processes for collection and recovery of debts. Management information (e.g. age and profile of debt, collection rate, provision for bad debts, complaints etc.) was produced and reported to senior management. There was regular reporting of the level of outstanding debt to senior management so that appropriate remedial actions could be taken.</p> <p>However, we found that reconciliations with the GL system for 2012/13 financial year had not been undertaken since week 16 (end of period 4). This was due to incorrect postings of rent on the SX3 system not having been resolved since August 2012. From a sample of six disputes since April 2011, in three instances disputes had not been resolved in a timely manner. There was evidence of prolonged time periods from the receipt of disputes to the initiation and conclusion of the investigation process. In addition, the arrears database needed to flag up accounts which required escalation at different stages in the arrears cycle automatically, to ensure that arrears were followed up promptly.</p> <p>All findings and recommendations were agreed with the Acting Head of Leasehold Services and final report was issued to the THH Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes - Tenancy Successions and Exchanges	Nov 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the administration, management, control and approval of mutual exchanges and tenancy successions system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Review confirmed that policies and procedures in relation to mutual exchanges of and successions to tenancies were in place and had been made available to staff. However, they have not been reviewed or updated since August 2010. • From sample testing of ten mutual exchange cases between July 2012 and October 2013 we identified one case in which evidence of personal identity verification checks, such as passport and/or driver's licence was not on file. Instead, a copy of the customer's Halifax bank card and TV licence card was on file as evidence of the customer's identification. • From sample testing of 10 succession cases between June 2012 and July 2013 we could not confirm the approval of three S1 forms (application form completed by customers for successions which is also completed by Tower Hamlets Homes staff to approve the right to succession). We were informed the second page of the S1 forms which contains the approval section was not scanned onto Comino by the service responsible for scanning. • From discussions with management, we were informed that at present there are no set key performance indicators in place to assess the performance of the successions and mutual exchanges services. <p>All findings and the recommendations made were agreed with the Interim Head of Neighbourhoods at Tower Hamlets Homes (THH), and reported to the Chief Executive of THH, Director of Finance & Customer Services of THH, and Acting Director of Neighbourhoods of THH.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	Sept 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the General Ledger system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The request form that officers completed when requesting a new cost centre to be set up was out of date; and • Sample testing of 20 budget virements since April 2012 identified 10 instances where the signature of the budget holder and/or Corporate Director had not been obtained on the virement form. <p>All findings and recommendations were agreed with the Chief Accountant, and reported to the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Email and Exchange	Sept 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Email and Exchange system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There was no separate exchange server testing environment. Where changes are applied directly into the live Exchanger Server 2010 environment prior to testing in a separate test environment, there is an increased risk of systems and services being affected or potentially creating vulnerabilities in the Exchanger Server 2010 infrastructure which could significantly disrupt the messaging service; and • A disaster recovery plan and disaster recovery failover test for the Microsoft Exchange Server 2010 has yet to be formally undertaken to provide management with assurance that the Exchange messaging service can effectively failover from Welwyn Garden City to Bethnal Green without any issues. <p>All findings and recommendations were agreed with the Business Solutions Architect, and reported to the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Disaster Recovery	Oct 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Disaster Recovery system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The disaster recovery arrangements may not be aligned to business needs and we recommended that copies of the updated 2013 Business Risk Impact Assessments for each of the Council's five directorates should be reviewed to identify any changes in the business risks and requirements that affect the disaster recovery arrangements. • The actual and desired recovery time frames are not in alignment for all systems under current arrangements. • Some systems identified in the disaster recovery arrangements have not been tested recently. <p>All findings and recommendations were agreed with the Business Solutions Architect, and reported to the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Building Schools for the Future -Post-Contract Audit		<p>The objective of this audit was to provide assurance that adequate post-contract arrangements were in place for projects within the BSF Programme and that systems for monitoring contractor's and consultants' performance, for undertaking post-completion assessment and for preparing and auditing Final Accounts were sound and secure. The only project which reached post contract stage was Bethnal Green Technical College, now Bethnal Green Academy. Post contract review, was therefore undertaken on this project. The original contract sum was £17,045,742 and the final account was approved in the sum of £17,620,000. This was due to Authority Notices of Variations (ANVs) amounting to £574,258, which was 3.37% of the original contract sum. All the variations had been approved and funded.</p> <p>Our review showed that procedures for compiling and reviewing final account were developed to ensure consistency for all projects within the BSF programme. However, the procedure note was not dated and needed to be formalised. The lessons learned had been documented and passed to all project officers within the BSF team to enable officers to be informed of issues encountered. A detailed report had been prepared for the Strategic Partnering Board on the final out-turn. A reconciliation had been undertaken from expenditure coded on the Council's General Ledger system to contractual payments recorded by the Project Manager, which took a considerable amount of work due to the mis-coding and apportioning of expenditure due to single invoices being provided for multiple projects by the Local Education Partnership (LEP). We have recommended that the LEP should be requested to invoice for each scheme individually to avoid journal transfers. In addition, we reported that the Council has not made any arrangements for monitoring of the BSF projects to assess the success of the programme in improving building performance and other associated objectives. We recommended that a system be developed to allow all projects within the BSF programme to be monitored against their original objectives in terms of building performance and other key outcomes.</p>	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Troubled Families Programme	Oct 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Troubled Families Programme are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • We identified a number of cases (significant cases include £50k and £19k procurements) whereby expenditure had been incurred but insufficient quotations had been obtained and no tender waiver had been completed, which represents a breach of the Council's Financial Regulations. • There is a lack of local policies and procedures in relation to the identification, monitoring and processing of data for the scheme; and • No independent sample checks are undertaken in respect of the eligibility of identified families for the scheme in place. <p>All findings and recommendations were agreed with the Service Manager Family Interventions/Troubled Families Coordinator, and reported to the Interim Corporate Director of Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Careers Services Follow Up	Sept. 2013	<p>The objective of this follow up audit was to assess the progress made in implementing the agreed recommendations at the conclusion of the original audit finalised in October 2012.</p> <p>Our testing showed that out of four priority 2 recommendations made, all had been progressed. The Careers Service team plan was in place and Partnership Agreements with individual schools had been developed and signed. As a part of this Agreement, new termly reports were in place which provided feedback from the careers advisors assigned to education intuitions. The reports included a summary of activities delivered to the institution together with feedback from clients and priorities for next terms. However, we noted that the completed termly Partnership Agreement Review forms were not signed and dated. A system of data quality checks was implemented as part of Quality Strategy. However, these checks needed to be carried out on a timely basis and various dates needed to be fully shown on the checklist. We raised two further recommendations.</p> <p>All findings and recommendations were agreed with the Acting Service Head of Secondary Learning and Achievement and final report was issued to the Acting Corporate Director of Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Elizabeth Selby Infant School	Oct 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Resources Committee which have overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. The school generally has effective controls over payroll management. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Testing identified that the school's Financial Management Procedures, terms of reference for committees and annual budget were presented to the Resources Committee for approval. However, from our review of the Governing Body meeting minutes, from January 2012, we were unable to confirm that the full Governing Body had further ratified these documents. • Testing a sample of 10 purchases made since April 2012 found that a purchase order was raised in seven out of 10 instances where a purchase order was required. In the remaining three instances a purchase order was not raised. In two instances where a purchase order was raised, this occurred after receipt of the invoice. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Columbia Market Nursery School	June 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance, Personnel and Health and Safety Committee which have overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. The school generally has effective controls over payroll management. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • All Governing Body meetings should be fully minuted. The minutes should provide an appropriate level of detail in respect of issues discussed, reports presented and decisions made, specifically highlighting ratification of policies or official documents. • Official order forms should be raised and authorised for all purchases, where appropriate, and retained on file. Furthermore, the order forms should be raised prior to receipt of the invoice. • The school should maintain an up to date copy of the bank mandate which matches the authorised signatories for the school's bank account. • All official order forms and/or invoices should include the cost centre/budget code which the costs are associated with. • Minutes of the Curriculum Committee should be signed at the start of the next meeting by the Chair as an accurate record of the discussions of the previous meeting. • Evidence of budget monitoring review should be appropriately documented and retained to confirm review. The budget monitoring reports should be signed and dated by the preparing officer and the reviewing officer. • A petty cash claim form should be fully completed and certified before any petty cash claim is reimbursed. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Wellington Primary School	Sept 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Resources Committee which have overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. The school generally has effective controls over payroll management. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Review of the minutes for the Governing Body identified that key policies which needed additional ratification were discussed, such as the School Development Plan, but not specifically ratified by the Governing Body. • Although review of the Governing Body minutes showed that the meetings are used for discussion surrounding policies and any reviews of them, audit testing revealed that several policies are out of date and require an update. • Review of the Standards Committee meeting minutes revealed that the sub-committee minutes were not signed off for the meeting on 21st November 2012. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Food Inspection and Control	Nov 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Food Inspection and Control system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>From our audit work, we identified that comprehensive policies and procedures are in place. For the sample of 20 premises tested, risk ratings were completed and scored in accordance with the guidance in the Code of Practice. In addition, for the same sample of premises, testing confirmed that an adequate system of control is in place and working effectively in respect of interventions, re-inspections and reporting. We also noted that, for the sample tested, non-complying businesses were successfully prosecuted. We also identified that regular performance meetings were undertaken and management information was regularly communicated to senior management.</p> <p>The only weakness identified was as follows:-</p> <ul style="list-style-type: none"> • From sample testing undertaken in respect of 20 premises that have been closed down and re-inspected prior to being re-opened, we identified one case in which the re-inspection pro forma that is completed by the inspection officer was not on file. <p>All findings and the recommendation made were agreed with the Head of Consumer and Business Regulations, and reported to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Extensive	Full

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
Management and Control of Probationary Tenancies	Management should investigate the reasons for poor compliance with the agreed processes for data storage and scanning. Necessary action should be taken to ensure that all staff comply with the required procedures.	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.
Management and Control of Probationary Tenancies	<p>Instructions should be issued to Team Leaders to ensure that the quality of random checks carried out and recorded by them in the spread sheets are of good standard, complete, accurate, evidence based and timely. There should be clear accountability for all staff, including team leaders and the consequences of failure should be clearly communicated and agreed with all staff.</p> <p>In order to provide further assurance to Management, consideration should be given to carrying out a second tier random sample check by the Interim Head of Neighbourhood, Director of Neighbourhood and the Performance team for a specific period of time.</p>	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.

Audit Subject	Recommendation	Service Head	Officer Name
Management and Control of Probationary Tenancies	<p>Instructions should be issued to all relevant housing officers to ensure that settling in visits are undertaken on a programmed basis to all probationary tenants and that the date of the visit and the results of the visits are recorded clearly on the standard settling in visit form and the form is signed and dated by both the tenant and the housing officer and that all forms are scanned on Comino promptly. In cases where further action is required to address issues like rent arrears, anti-social behaviour, complaints and suspicion of illegal tenancy – all these should be clearly recorded and referred to the appropriate agencies and officers for investigation before decision is made to grant secure tenancy.</p> <p>There should be clear accountability for all staff, including team leaders and the consequences of failure to comply with set procedures should be clearly communicated and agreed with all staff.</p> <p>In order to provide further assurance to Management, there should be robust monitoring of compliance with procedures by top Management to guard against the risk of error, omissions, irregularity and fraud.</p>	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.
Management and Control of Probationary Tenancies	<p>Instructions should be issued to Team Leaders to ensure that the quality of random checks carried out and recorded by them in the spreadsheets are of good standard, complete, accurate, evidence based and timely. There should be clear accountability for all staff, including team leaders and the consequences of failure should be clearly communicated and agreed with all staff.</p> <p>In order to provide further assurance to Management, consideration should be given to carrying out a second tier random sample check by the Interim Head of Neighbourhood, Director of Neighbourhood and the Performance team for a specific period of time</p>	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.

Agenda Item 4.2

REPORT TO: Audit Committee	DATE 17 December 2013	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Revised Internal Audit Plan for 2013/14		
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 note the changes proposed and to endorse the revised 2013/14 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 2013. 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:

- 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;
- 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;
- Make use of days provided in the original plan that had not been allocated to specific audits e.g. for contract audits and management requests.
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

4. Updated Internal Audit Plan for 2013/14

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 takes account 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	1,405
Add: Additional audits added to the plan (Please refer to Appendix 1)	191
Less: Audits to be considered as part of 2014/15 Audit Plan (Please refer to Appendix 1)	85
Less: Use of previously unallocated days to specific audits	76
Less: Use of reactive fraud allocation	20
Number of days per the Revised plan	1,415

5. Comments of the Chief Financial Officer

- 5.1 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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 – 2013/14

	Directorate	No. of days	No. of days
Original 2013/14 Audit Plan			1,405
<i>Audits Added to the Original Plan</i>			
Route Manager Inquiry	CLC	10	
Pre-contract audit – Bancroft Library	CLC	20	
Information Governance compliance	ACE	20	
Schools Audit	ESW	46	
Children’s Homes	ESW	20	
Ben Jonson School	ESW	15	
Children Education Group	D&R	20	
Tower Hamlets Somali Organisations Network	D&R	10	
Competitive Tendering	RES	15	
Contract Monitoring	CORP	15	
<i>Sub Total</i>			191
			1,596
Less			
Audits amended or considered as part of 2014/15 Audit Plan			
Post implementation of new Financial Information system		15	
Management of Cash and Deposit Income		15	
Management of Business Rate Retention Scheme		15	
Development Control		10	
ESW Budgetary Control		15	
Management and Delivery of Homelessness Strategy		15	
Use of Management Request contingency		36	
Use of Reactive Fraud provision		20	
Use of Provision for contract audit		40	
<i>Sub Total</i>			181
Total Revised Plan			1,415

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London Borough of Tower Hamlets Revised 2013/14 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	75	2-3
Chief Executives'	30	4
Resources	280	5-9
Development and Renewal	120	10-11
Education, Social Care and Wellbeing	336	12-15
Communities, Localities & Culture	135	15-17
Tower Hamlets Homes	135	18-19
Information technology audits	100	20
Follow up, management and reactive fraud provision	204	20
Total Provision	1,415	

REVISED INTERNAL AUDIT PLAN – 2013/14

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

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate systems and Council-wide reviews</u>					
Contract Monitoring	This audit will examine systems for monitoring various revenue funded contracts	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Chief Executive's</u>					
Management of Freedom of Information requests	The objective is to review systems for managing Freedom of Information requests.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Information Governance Compliance testing	The objective of this audit is to undertake compliance testing to ensure that information governance requirements are complied with	H	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2013/14

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
In-house Temporary Resources Service	This audit will examine systems and controls over the effective operation of the in-house temporary resources service.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Competitive Tendering	To provide assurance over the soundness and adequacy of the Councils' systems for competitively tendering of contracts for works, supplies and services.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Implementation testing of the new Financial Information System	We will carry out a series of tests over the effectiveness of the Agresso Financial system.	H	20	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.

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

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

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

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

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Management and control of Planning Decisions	The objective is to provide assurance over the soundness of systems and controls in place for planning permissions.	H	15	Risk Register DRP0002	One Tower Hamlets. Working efficiently and effectively as One Council.
Repairs and maintenance of Administrative buildings	This audit will examine the council's arrangements for managing repairs and maintenance of its administrative buildings.	M	15	Risk Register RSE0002	One Tower Hamlets. Working efficiently and effectively as One Council.
Children's Education Group Regularity Audit	The objective is to provide assurance over the soundness and adequacy of systems within this voluntary funded organisation.	H	20	Management Request	One Tower Hamlets. Great Place to Live Working efficiently and effectively as One Council.
Management of Mainstream Grants	This audit will review systems and controls for managing and monitoring the award of mainstream grants to voluntary organisations.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Tower Hamlets Somali Organisations Network	To carry out regularity audit in order to assess implementation of the agreed recommendations.	H	10	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council

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

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Education, Social Care and Wellbeing</u>					
Youth Offending team	This will be a review of the management and control around the Youth Offending service.	H	15	Management Request	A Safe and Supportive Community Focus on Early Intervention
Emergency Duty Team (Adults and Children's)	This audit will examine systems in place for planning, controlling and managing the work of the Emergency Duty team for Adults and Children's.	H	15	Management Request	A Safe and Supportive Community Focus on Early Intervention
Norman Grove and Bishops Way Children's Homes	To carry out a regularity audit of the two homes.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
End of Year School Accounts Reconciliation	This audit will examine systems and controls for end of year reconciliation of school accounts.	H	15	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Excluded Children	We will examine the soundness and adequacy of the Councils' systems and support for excluded children	H	15	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Schools Probity audits	This will be a programme of regularity audits to primary, secondary, special and nursery schools.	H	136	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all.
Management and control of Direct Payments for Adults	This audit will examine systems and controls for managing and monitoring direct payments for social care provision for the Adults.	H	15	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Review of the Commissioning Lifecycle	We will examine the effectiveness of the commissioning lifecycle for a sample of recent social care contracts let out to a range of providers.	H	20	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People

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

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Ben Johnson School	To carry out a full regularity audit	H	15	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Troubled Families Programme	This will be a review of the programme and any other work required by the DCLG around this programme.	H	10	Audit Needs Analysis and Management request	A Safe and Supportive Community Empower Older and Vulnerable People

Communities, Locality and Culture

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Management and control of Horticulture works	This audit will examine systems and controls for managing horticulture works.	H	15	Audit Needs Analysis	A Great Place to Live Improve the environment and tackle climate change
Food Inspection and Control	We will review the systems and controls over food safety and inspection process.	H	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Highways Inspection programme	This audit will review the systems and controls for the highways inspection programme.	H	15	Risk Register TDTA0006	One Tower Hamlets. Working efficiently and effectively as One Council.
Leisure Management Contract	We will review the systems and controls for effective monitoring of the leisure management contract.	H	15	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Pest Control	The objective of this audit is to examine the systems and procedures for pest control in the borough.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management of Youth Service	We will review the arrangements for delivering an effective and efficient youth service within the council.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Appointment of Route Manager -Inquiry	To carry out an inquiry into the appointment of Route Manager within the Transport Services Unit	H	10	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Pre-contract Audit of Bancroft Library Roofing works	To carry out an assessment of the pre-contract procedures for tendering and letting the contract for roofing works.	H	20	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.
Bulk Rubbish Collection service	This audit will examine systems and controls for managing bulk rubbish clearance within the Council.	M	10	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council.
Management of Locality Hubs	The objective of this audit is to provide assurance over the effectiveness of the management and control of locality hubs.	H	15	Management Request	One Tower Hamlets. Working efficiently and effectively as One Council.

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

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

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>	A separate computer audit plan will be devised to review key ICT operations and systems.	H	100	Audit Needs Analysis	One Tower Hamlets. Working efficiently and effectively as One Council
<u>Other</u>					
Follow Up Audits	Follow up review of recommendations raised during 2012/13 audit plan.		100		One Tower Hamlets. Working efficiently and effectively as One Council.
Provision for Contract Audits	We will carry our pre-contract, current contract and post contract audits on some key building construction projects.		10		One Tower Hamlets. Working efficiently and effectively as One Council
Management Requests	A provision for servicing various management requests for advice and other systems development work.		14		One Tower Hamlets. Working efficiently and effectively as One Council.
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud.		30		One Tower Hamlets. Working efficiently and effectively as One Council.
Management Time	This is a provision for management time to direct, control and monitor the work of the team.		50		One Tower Hamlets. Working efficiently and effectively as One Council.

Governance-based Audit Assessment Methodology

Appendix 3

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

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

Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	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

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.

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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

Internal Audit Risk Assessment Matrices

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

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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.

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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:

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 96 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:
- Risk based reviews of financial systems;
 - Advice on the adequacy and effectiveness of controls in new and developing systems;
 - Promotion of best practice across the Authority;
 - 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.

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.

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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.

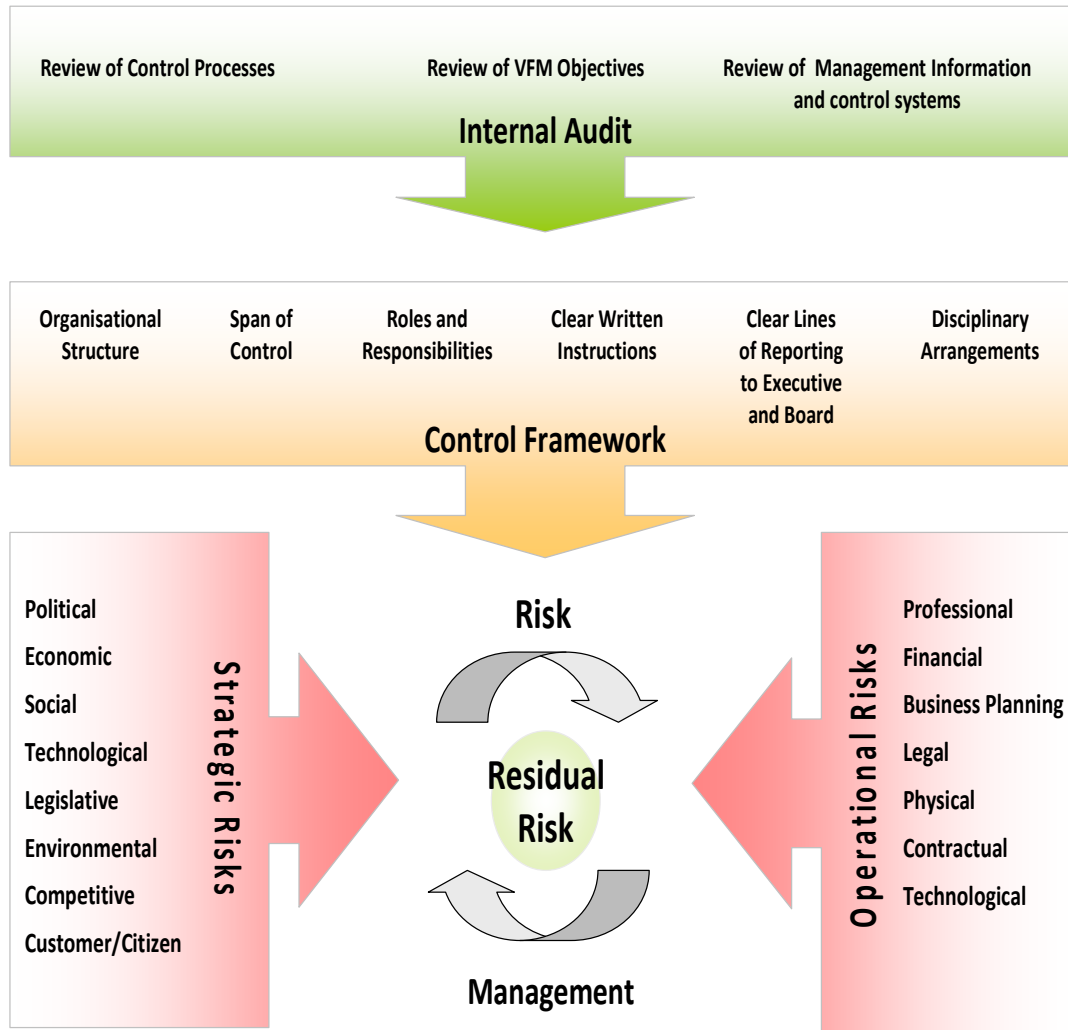
The Monitoring Process

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.

Appendix 3: Risk Management Framework

Definitions

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

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

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

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

Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

Audit Committee	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
Corporate Management Team	<p>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.</p>
Corporate Director of Resources	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
Corporate Directors	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>

Risk Management Action Plans

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

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

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

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

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

Classification of Risk

Strategic Risks		Operational Risks	
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 4.3

Report To: Audit Committee	Date 17 December 2013	Classification Unrestricted	Report No.
REPORT OF: Corporate Director, Resources		Treasury Management Activity for Period Ending 31 October 2013	
ORIGINATING OFFICER(S): Paul Thorogood, Service Head, Finance & HR Development		WARD(S) AFFECTED: N/A	

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 31 October 2013 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns. The current average rate of return on investment stands at 0.83%,

2. **DECISIONS REQUIRED**

- 2.1 Members are recommended to:
 - note the contents of the treasury management activity report for period ending 31 October 2013.

3. **REASONS FOR DECISIONS**

- 3.1 Legislation requires 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.

- 4.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

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 Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

6. TREASURY MANAGEMENT STRATEGY 2013/14

- 6.1 The Council's Treasury Management Strategy was approved on 13 February 2013 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2013-14 and it covers the following:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
 - Prudential and Treasury Indicators;
 - 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 31 October 2013

- 7.1 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 31 October 2013.

8 MARKET UPDATE

- 8.1 Economic recovery in the UK has continued with GDP growth in Q2 confirmed at 0.7% with expectation of a further acceleration in Q3. Economic data indicate that growth of over 1% is likely in Q3. .
- 8.2 In its latest quarterly Inflation Report this month, the Bank of England shortened the expectation of a first increase in Bank Rate to as early as the end of 2014. Financial markets have also moved their expectations back to Q2 2015. However, the BOE has emphasised that reaching a 7% unemployment rate is not a trigger for the first increase in Bank Rate but is only an assurance that they will not increase Bank Rate before the 7% unemployment rate is reached. Given the disconnect between improving economic performance and reduction in jobless numbers, expectations of a Q2 2015 interest rate rise may be somewhat optimistic.
- 8.3 The Eurozone economy continues to show signs of modest recovery but remain heavily dependent on the performance of Germany. Exports from the Eurozone are being hampered by the slowing down in global demand and the strength of the Euro. However, there are still ongoing concerns with the economies of some of the countries in the Eurozone.
- 8.4 Ireland has made very good progress towards probably being able to exit from its bail out soon, but it looks increasingly likely that Greece is now going to need a third bailout package, though not one on the same scale as the first two. Concerns are also rising over Portugal requiring another bailout. Slovenia looks increasingly like it is heading towards a bailout. A growing lack of confidence in the EZ austerity programmes could cause bond yields to rise for EZ countries. This could help maintain UK gilts as a safe haven and so keep gilt yields depressed for longer at current levels.
- 8.4 In the US, the Federal government went into temporary shutdown after the Democrats and Republicans failed to reach a sustainable compromise on the dual fiscal problem of the budget setting and agreement on a new debt ceiling - the shutdown lasted for eighteen days. The US government agreed to delay a longer term decision on these issues until early 2014 with bi-party negotiations continuing in the interim. Initial forecast indicate that the shutdown had far less impact on the economy than had been predicted - Analysts expect that growth could slow down in Q4 2013 as a result of the shutdown, but expect this to be made up in Q1 of 2014.
- 8.5 There has been more positive data coming out of China which suggest that the authorities have managed to arrest the slowing down of the economy and achieved stability. However, growth will be dependent upon conditions in other countries and regions to maintain and improve this position

9.1 The following credit criteria for investment counterparties were established by the Council in February 2013 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.

10. INVESTMENT STRATEGY

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

Definitions of credit ratings (which now incorporate Fitch's viability ratings) are attached at [Appendix 1](#).

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	No Limit	N/A
Local Authorities	Not applicable	£30m*	1 year
Bank/Building Society - (High Credit Quality)	Short-Term F1 Long-Term AA-	£30m	1 year
Bank/Building Societies - (Medium Credit Quality)	Short-Term F1 Long-Term A+	£15m	1 year
Bank/Building Societies - (Lower Credit Quality)	Short-Term F1 Long-Term A	£10m	6 months
Part Nationalised / Wholly Owned Banks	N/A	Lesser of £70m or 40% of portfolio**	1 year
Council's Own Banker***	N/A	£10m	7 days
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	£15m	Liquid

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

** Percentage of portfolio at the time of investing.

*** Limit applied where bank's rating is below minimum required for external investment

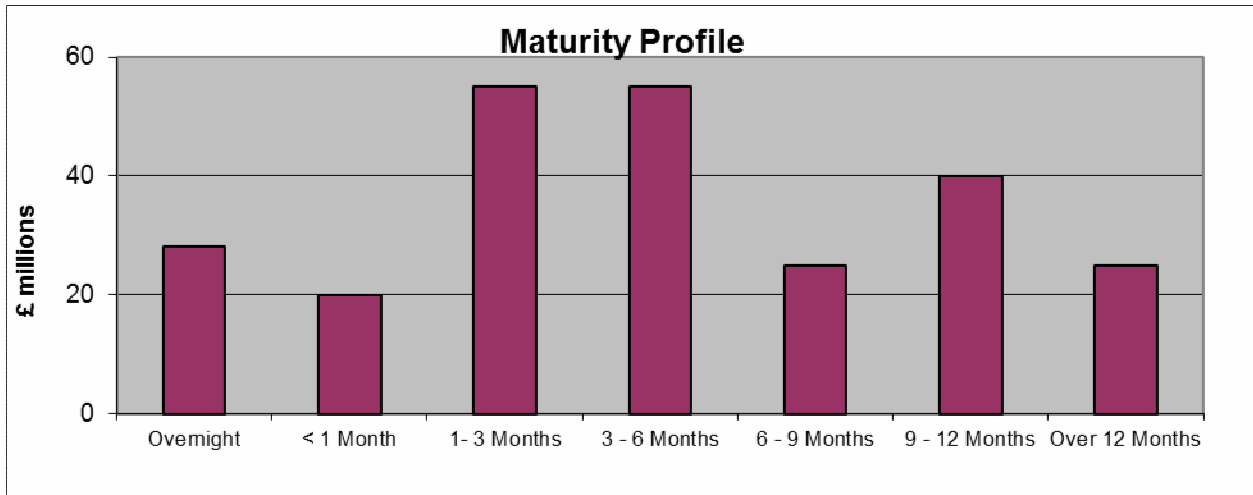
10.2 In addition to providing cash management services, Capita also provides treasury consultancy/advisory service to the Council.

10.3 Capita's latest view of the first increase in Bank of England base rate has now marginally moved forward from Q3 2015 to Q2 2016, forecasting Bank Rate to reach 1.25% in Q1 2017. Capita believe that this is a slow rate of increase because as there are still major reservations about the strength and sustainability of the UK's recent economic growth which was down largely to increases in consumer spending and an uplift in borrowing to buy property.

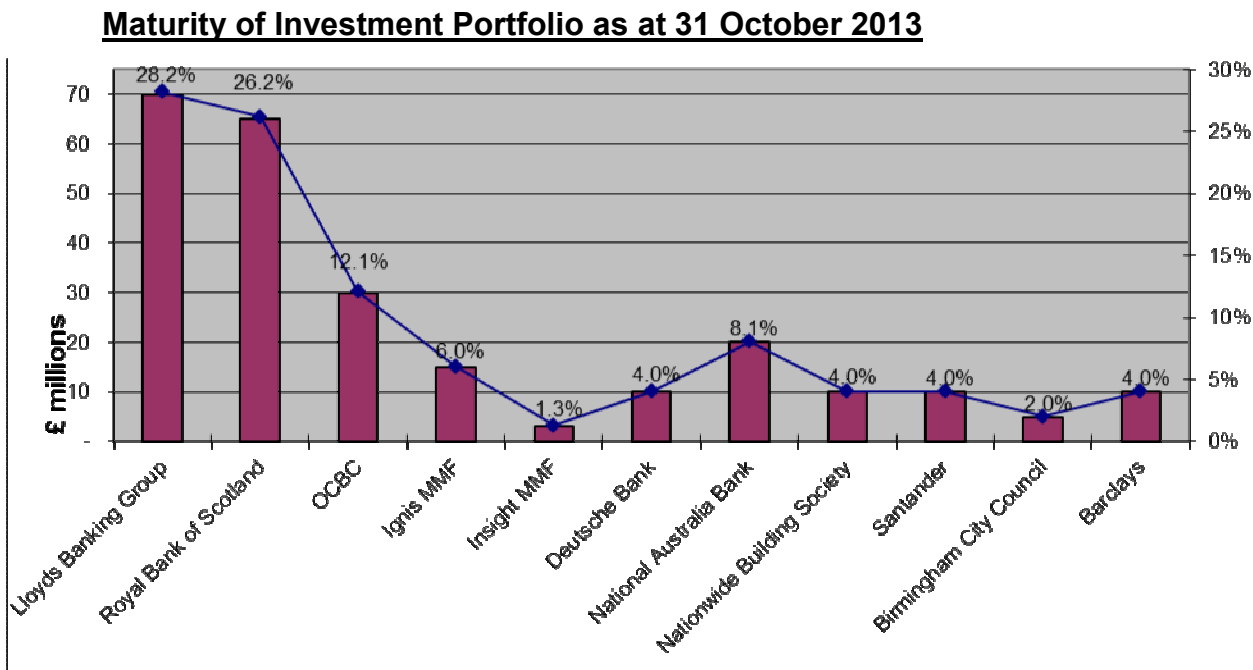
10.4 The current cash balance of £248.2m is £68.2m higher than the projected average cash balance of £180m. This is mainly attributable to slippage on the capital programme and an increase in earmarked reserves. It is envisaged that cash balances will reduce in the medium term as expenditure on the capital programme and earmarked revenue expenditure catch up.

10.5 Current investment portfolio is as set out below.

Investment Portfolio at 31 October 2013



10.6 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 31 October 2013.



10.7 Money Market Fund deposits which, though technically classed as overnight investments, are in reality, used as longer term investment vehicles. Of the £28.2m in overnight instruments, £18.2m is held with money market funds and the balance of £10m in a call account. This allows the Council to maintain liquidity whilst still being able to secure reasonable return on its assets.

10.8 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 31 October 2013.

Counterparty Exposure as at 31 October 2013

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Santander		Call	10.00	0.55%
Overnight	Ignis MMF		MMF	15.00	0.44%
Overnight	Insight MMF		MMF	3.20	0.40%
	SUB TOTAL			28.20	
< 1 Month	OCBC	02/08/2013	04/11/2013	5.00	0.40%
	Deutsche Bank	02/08/2013	04/11/2013	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/11/2013	5.00	0.95%
	Birmingham City Council	18/02/2013	18/11/2013	5.00	0.50%
1 - 3 Months	Lloyds Banking Group	04/12/2012	04/12/2013	5.00	1.50%
	Lloyds Banking Group	04/09/2013	04/12/2013	5.00	0.70%
	Royal Bank of Scotland	12/06/2012	12/12/2013	5.00	2.00%
	OCBC	12/09/2013	12/12/2013	10.00	0.42%
	Royal Bank of Scotland	09/01/2013	09/01/2014	10.00	0.85%
	Royal Bank of Scotland	11/01/2013	13/01/2014	5.00	0.89%
	Lloyds Banking Group	11/04/2013	13/01/2014	5.00	0.95%
	OCBC	12/08/2013	12/02/2014	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/02/2014	5.00	1.10%
3 - 6 Months	Lloyds Banking Group	04/03/2013	04/03/2014	5.00	1.10%
	Barclays	05/09/2013	05/03/2014	10.00	0.53%
	Lloyds Banking Group	11/04/2013	11/04/2014	5.00	1.10%
	Nationwide Building Society	11/10/2013	11/04/2014	5.00	0.53%
	Lloyds Banking Group	15/04/2013	15/04/2014	5.00	1.10%
	Royal Bank of Scotland	16/04/2013	16/04/2014	5.00	0.73%
	Nationwide Building Society	16/10/2013	16/04/2014	5.00	0.53%
	OCBC	17/10/2013	17/04/2014	10.00	0.45%
	Deutsche Bank	29/10/2013	29/04/2014	5.00	0.50%
6 - 9 Months	Lloyds Banking Group	04/06/2013	04/06/2014	5.00	1.05%
	Royal Bank of Scotland	12/06/2013	12/06/2014	5.00	0.65%
	Lloyds Banking Group	04/04/2013	04/07/2014	10.00	1.01%
	Lloyds Banking Group	11/10/2013	11/07/2014	5.00	0.83%
9 - 12 Months	National Australia Bank	18/09/2013	18/09/2014	10.00	0.58%
	National Australia Bank	03/10/2013	03/10/2014	10.00	0.58%
	Lloyds Banking Group	07/10/2013	07/10/2014	5.00	0.98%
	Royal Bank of Scotland	09/10/2013	09/10/2014	10.00	0.59%
	Lloyds Banking Group	29/10/2013	29/10/2014	5.00	0.98%
Over 12 Months	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	28/02/2013	26/02/2016	10.00	1.90% *
	SUB TOTAL			220.00	
	TOTAL			248.20	

* This is a structured deal, the terms of which could change during the duration of the deal.

11. INVESTMENT RETURNS

- 11.1 Investment returns since inception of the cash management arrangement with Capita have been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Year to date return on investment is 0.83% compared to the full year average of 1.24% in 2012/13.
- 11.2 The Strategy is proving extremely valuable given the challenge of a counterparty list that continues to contract in the face of credit worthiness downgrades by the ratings agencies. The latest counterparty list is attached at Appendix 2.
- 11.3 The portfolio outperformed the benchmark of LIBID + 0.25% in the first seven months of the year and returns are significantly above the 7 day London Interbank Bid Rate (LIBID), which currently stands at 0.36%. Cash balances have fallen, with the average year to date falling to £283m and range of balances remained fairly wide at £248m to a high of £318m. Nevertheless, the average rate of return over the month of October (0.81%) was helped by reduced balances on the low paying Money Market Funds.
- 11.4 The table below details performance of investments. It shows that performance has consistently exceeded benchmark (LIBID + 0.25%).

Performance Against Benchmark

Period	LBTH Performance	7 Day LIBID + 0.25%	(Under)/Out Performance
Full Year 2012/13	1.24%	0.64%	0.60%
April 2013	0.92%	0.62%	0.30%
May 2013	0.83%	0.61%	0.22%
June 2013	0.82%	0.61%	0.21%
July 2013	0.79%	0.61%	0.18%
August 2013	0.81%	0.61%	0.20%
September 2013	0.82%	0.61%	0.21%
October 2013	0.81%	0.60%	0.21%
Average for 2013/14	0.83%	0.61%	0.22%

12 DEBT PORTFOLIO

- 12.1 The table below sets out the Council's debt as at the beginning of the year and 31 October 2013.

	31 March 2013 Principal	31 October 2013 Principal
£'000		
Fixed Rate Funding:		
-PWLB	12,908	12,406
-Market	13,000	13,000
Total Fixed Rate Funding	25,908	25,406
Variable Rate Funding:		
-PWLB	-	-
-Market	64,500	64,500
Total Variable Rate Funding	64,500	64,500
Total debt	90,408	89,906
CFR	225,849	225,849
Over/ (under) borrowing	(135,441)	(135,943)

- 12.2 No borrowing has been undertaken in this financial year to date and the Council repaid £0.502m of PWLB loans in June 2013, with a further £0.343m to be repaid in March 2013. Total debt outstanding now stands at £89.906m against a CFR of £225.85m, resulting in an under-borrowing position of £135.94m.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 13.1. The comments of the Acting Corporate Director Resources have been incorporated into the report of which he is the author.

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

- 14.1 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 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". 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. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.

- 14.4 When discharging its treasury management functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information is contained in section 15 of the report relevant to these considerations.

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***

*October 2013 Investment Portfolio Analysis
Report*

*Paul Thorogood Ext 2106
Mulberry Place, 3rd Floor.*

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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 (August 2003)
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.

CREDIT RATINGS

Name	FITCH RATINGS				MOODY'S RATINGS			S&P RATINGS	
	Short Term	Long Term	Viability	Support	Short Term	Long Term	Fin Strength	Short Term	Long Term
Australia (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Australia and New Zealand Banking Group	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
National Australia Bank Limited	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Canada (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Bank of Montreal	F1+	AA-	aa-	1	P-1	Aa3	C+	A-1	A+
Bank of Nova Scotia	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1	A+
Canadian Imperial Bank of Commerce	F1+	AA-	aa-	1	P-1	Aa3	C+	A-1	A+
National Bank of Canada	F1	A+	a+	1	P-1	Aa3	C	A-1	A
Royal Bank of Canada	F1+	AA	aa	1	P-1	Aa3	C+	A-1+	AA-
Toronto-Dominion Bank	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Denmark (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Finland (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Nordea Bank Finland	F1+	AA-		1	P-1	Aa3	C	A-1+	AA-
Pohjola Bank	F1	A+		1	P-1	Aa3	C-	A-1+	AA-
Germany (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	F1+	A+		1	P-1	A1	C-	A-1+	AA-
Deutsche Bank AG	F1+	A+	a	1	P-1	A2	C-	A-1	A
KfW	F1+	AAA		1	P-1	Aaa		A-1+	AAA
Landwirtschaftliche Rentenbank	F1+	AAA		1	P-1	Aaa		A-1+	AAA
Luxembourg (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
BGL BNP Paribas SA	F1	A+		1	P-1	A2	C	A-1	A+
Banque et Caisse d'Epargne de l'Etat					P-1	Aa1	C	A-1+	AA+
Clearstream Banking	F1+	AA	aa	1				A-1+	AA
Netherlands (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Bank Nederlandse Gemeenten	F1+	AAA		1	P-1	Aaa	A	A-1+	AAA
ING Bank NV	F1+	A+	a	1	P-1	A2	C-	A-1	A+
Rabobank Group	F1+	AA	aa	1	P-1	Aa2	B-	A-1+	AA-
Norway (Sovereign)	F1+	AAA				Aaa		A-1+	AAA
DnB NOR Bank	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Singapore (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
DBS Bank Ltd.	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
United Overseas Bank Limited	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Sweden (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Skandinaviska Enskilda Banken	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Svenska Handelsbanken	F1+	AA-	aa-	1	P-1	Aa3	C	A-1+	AA-
Swedbank AB	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Switzerland (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Credit Suisse AG	F1	A	a	1	P-1	A1	C-	A-1	A
UBS AG	F1	A	a	1	P-1	A2	C-	A-1	A
United Kingdom (Sovereign Rating)	F1+	AA+				Aa1		A-1+	AAA
Bank of Scotland Plc	F1	A		1	P-1	A2	D+	A-1	A
Barclays Bank	F1	A	a	1	P-1	A2	C-	A-1	A
Co-operative Bank plc	B	BB-	bb-	5	NP	Caa1	E		
DMO									
Goldman Sachs International Bank	F1	A						A-1	A
HSBC Bank plc	F1+	AA-	a+	1	P-1	Aa3	C	A-1+	AA-
Lloyds TSB Scotland plc									
Local Authorities									
National Westminster Bank	F1	A		1	P-2	A3	D+	A-1	A
Nationwide Building Society	F1	A+	a+	1	P-1	A2	C	A-1	A
Prudential Plc	F1	A+			P-1	A2		A-1	A+
Royal Bank of Scotland	F1	A	bbb	1	P-2	A3	D+	A-1	A
Santander UK Plc	F1	A	a	1	P-1	A2	C-	A-1	A
Schroders Plc	F1	A+						A-1	A+
Standard Chartered Bank	F1+	AA-	aa-	1	P-1	A1	B-	A-1+	AA-
UBS Ltd	F1	A		1	P-1	A2		A-1	A
Ulster Bank Ltd	F1	A-	ccc	1	P-2	Baa2	D-	A-2	BBB+
Money Market Funds		AAA				Aaa			AAA

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