

AUDIT COMMITTEE

Tuesday, 17 March 2015 at 7.00 p.m.

Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

This meeting is open to the public to attend.

Members:

Chair: Councillor Amina Ali

Vice-Chair: Councillor Ayas Miah

Councillor Ohid Ahmed, Councillor Rachel Blake, Councillor Alibor Choudhury,
Councillor Gulam Robbani and Councillor Andrew Wood

Deputies:

Councillor Craig Aston, Councillor Peter Golds, Councillor Andrew Cregan, Councillor
Julia Dockerill, Councillor Denise Jones and Councillor Candida Ronald

[The quorum for this body is 3 Members]

Contact for further enquiries:

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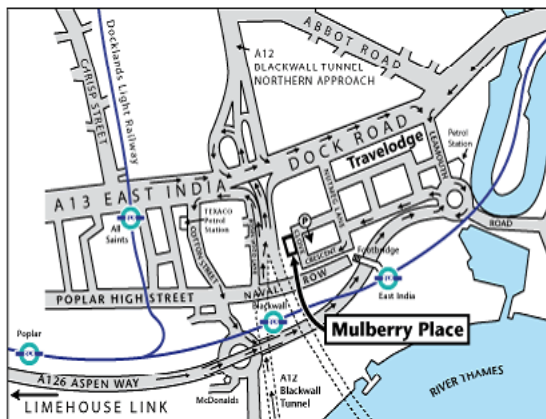
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APOLOGIES FOR ABSENCE

- 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 - 14**
- To confirm the minutes of the Audit Committee held on 04/02/2015.
- 3. TOWER HAMLETS ITEMS FOR CONSIDERATION**
- 3 .1 Quarterly Assurance Report** **15 - 44**
- To
1. note the contents of the quarterly assurance report and
 2. take account of the assurance opinion assigned to the systems reviewed during the period.
- 3 .2 Annual Internal Audit Plan 2015-16** **45 - 106**
- To:
1. endorse the Annual Internal Audit Plan for 2015/16 at Appendix 1 and the Internal Audit Charter at Appendix 3.
 2. note the remainder of the report.
- 3 .3 Anti-Fraud and Corruption Strategy and Proactive Anti-Fraud Plan 2015-16** **107 - 158**
- To
1. note the contents of the report and
 2. endorse the Council's Anti-Fraud and Corruption Strategy and the pro-active Anti-Fraud plan.
- 3 .4 Protecting the Public Purse 2014 and Transparency Code** **159 - 230**
- To note the matters raised in the report.

3 .5 Treasury Management Activity for Period Ending 31 January 2015 231 - 244

To note the contents of the treasury management activity report for period ending 31 January 2015.

4. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee:

Date Not Specified at Time Not Specified to be held in the Town Hall, Mulberry Place,
5 Clove Crescent, London, E14 2BG

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 7.30 P.M. ON WEDNESDAY, 4 FEBRUARY 2015

**MP701, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14
2BG**

Members Present:

Councillor Amina Ali (Chair)
Councillor Ayas Miah
Councillor Ohid Ahmed
Councillor Rachel Blake
Councillor Alibor Choudhury
Councillor Andrew Wood

Apologies:

None

Officers Present:

Kate Bingham – (Service Head, Resources, Education
Social Care and Wellbeing)
Barbara Disney – (Service Manager, Strategic
Commissioning, Adults Health &
Wellbeing)
Everett Haughton – (Third Sector Programmes Manager,
Third Sector Team, Development and
Renewal)
Chris Holme – (Acting Corporate Director -
Resources)
Minesh Jani – (Head of Audit and Risk Management
, Resources)
Kevin Miles – (Chief Accountant, Resources)
David Tolley – (Head of Consumer and Business
Regulations Service, Safer
Communities, Communities Localities
& Culture)
Antonella Burgio – (Democratic Services)
Nishaat Ismail – (Committee Officer, Democratic
Services, Directorate Law Probity and
Governance)

Others Present:

Mike Clarkson - (Mazars)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of Disclosable Pecuniary Interest or any other declarations of interest were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the previous meeting held on 16th September 2014 were presented for approval.

Referencing page 5, para 1 of the minute pertaining to agenda item 3.1, Chris Holme (Acting Corporate Director) requested the figure to be corrected to £250,000.

The Chair moved and it was:-

RESOLVED

That the unrestricted minutes of the meeting of the Audit Committee held on 16th September 2014, be agreed as a correct record of the proceedings, and the Chair be authorised to sign them accordingly.

Action by:

Nishaat Ismail (Committee Officer, Democratic Services, LPG)

3. TOWER HAMLETS ITEMS FOR CONSIDERATION**3.1 Quarterly Assurance Report**

The Head of Risk Management and Audit presented the Quarterly Assurance Report, which summarised the work of Internal Audit for the period September 2014 to November 2014.

The Committee heard that;

- 18 Audits were undertaken
- 9 were assigned Limited Assurance and of these 4 were school audits.
- The Audit performance against the Audit plan achieved a return of 48% as opposed to 50% as planned.
- All priority 1 recommendations will be expected to be implemented in the next quarter and priority 2 recommendations will be implemented over the next 6 months.
- Appendix 3 (page 55 of agenda pack) indicates the number of recommendation remaining to be implemented.
- It was stated that internal auditors have made recommendations that management have agreed before the recommendations are followed up.

The Committee were also told that a number of key performance indicators in relation to the audit plan were identified with delivery being slightly behind than planned however the target is to deliver plan by the end of March 2015.

Summary of Audits assigned Limited Assurance

Pest control audit(reported to the Audit Committee on 16 September 2014)

This was assigned limited assurance. Feedback was provided and it was identified that a number of services were being provided free of charge and some Service Level Agreements (SLAs) were not updated and reviewed. There were also a number of jobs which were left open on the system and showed as “outstanding”.

The Head of Consumer and Business Regulations informed the Committee that the properties listed on the management system had been updated. There were 86 properties on the system and 21 of them were chargeable. The Committee heard that there was 0.6% loss on income and 50% of the jobs recorded open at the time of the audit, 50% had been closed.

Monitoring and control of mainstream grants

This was assigned Limited Assurance. The Committee were told that although there were examples of good practice in some directorates and there was authorisation of payments in line with guidelines. However there were no documented monitoring procedures currently in place.

Specific issues on Youth Connexions

The Committee were informed that there were no documented monitoring procedures currently in place for those organisations receiving MSG funding for the Youth and Connexions projects.

Luncheon Club projects

The Committee were told that some service providers were not achieving the targeted outputs for which the grant was awarded.

The Third Sector Programmes Manager informed the Committee that there are 11 funding streams across ESCW, CLC and D&R. A number of weaknesses were found in the programmes tested however they had been addressed by setting out clear procedures guidance for officers administering grants.

The Committee heard that all grants officers had been given a Grants Procedure Manual and they are to attend a briefing so they understand the procedures. In addition, all grants officers have been asked to implement procedures give feedback to the Third Sector Programme Manager, to ensure that the manual can be improved and updated with relevant practices.

In response to Members questions, the Committee heard that;

- Officers had access to the manual before the audit however it was in draft and not implemented across the funding streams. The final draft has now been signed off and distributed to all grants officers so that they can follow the approved procedures.
- The audit was finalised in August 2014 and given the timing of this, the officers who were monitoring the grants at the time were also required to simultaneously provide information to Pricewaterhouse Coopers (PwC) inspectors.
- The Limited Assurance level indicates that there was monitoring taking place but the controls did not meet the expected standards and any deficiencies identified by internal and external audit needed to be addressed immediately and the report regarding the monitoring of grants highlighted how officers could strengthen governance of grants.

Members requested information regarding when the last audit of this area was conducted and requested a follow up of the audit be reported at its committee in June 2015:

Action by: Head of Risk Management and Audit: Minesh Jani

Members also requested that an officer attend the next meeting of the Audit Committee to explain the lack of monitoring on Youth Connexions.

Management and control of mobile phones

This audit was assigned Limited Assurance due to staff not being able to review mobile phone usage effectively.

The Committee were told that, although there was good practice in checking if employees reached threshold of usage, there was no evidence of how this was being monitored.

A usage report obtained from Agilysis for April 2014 showed that there were 1,565 accounts where "usage" charges were zero for the month.

Directorates and departments were responsible for administering pool phones, standby phones and returned phones, and the audit highlighted that this was not being done effectively.

The Chair moved and it was;-

RESOLVED

That the contents of the Quarterly Assurance report be noted taking account the assurance opinion assigned to the systems reviewed during the period.

3.2 Updated Internal Audit Plan 2014-15

This report, presented by the Head of Risk Management and Audit, provided Members with an update of audit activity planned for this financial year and reflects the amendments made to the original internal audit plan as a result of the changing priorities of the authority.

- The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for approval in March 2014.
- The Committee heard that the plan has been revised in line with the internal audit strategy and the reasons given were;
 1. Requests from officers to perform audits that were not originally planned;
 2. Requests from officers to increase the scope of audits which resulted in higher allocation of audit days;
 3. Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
 4. Make use of days provided in the original plan that had not been allocated to specific audits;
 5. To avoid duplication of work with either the external auditor or other assurance provider and
 6. Additional commitment to unplanned work.

The appendices attached to this report summarised the audits that had been added to or deferred from the original audit plan.

In response to Member's questions the Committee were informed that;

- There is a risk assessment formula used to make decisions regarding the changes made to the internal audit plan.

The Committee were also informed that key findings identified from the work of the Anti-Fraud team will be reported to the Audit Committee in Anti-Fraud Annual Report scheduled for presentation to the June 2015 Committee.

Members requested to see an action plan around processes given to PwC.

Action by:

Chris Holme (Acting Corporate Director Resources)

The Committee also asked for information about the number of whistle blows received.

Action by:

Minesh Jani (Head of Risk Management and Audit)

The Chair Moved and it was:-

RESOLVED:

- That the changes proposed and endorsed the revised 2014/15 internal audit plan attached at Appendix 2 (p62 of agenda pack) be noted.
- The resourcing of the audit plan as detailed at para.4.1of the report be noted.

3.3 Annual Internal Audit Report for Schools 2013-14

This report summarised the work of Internal Audit in relation to the audit of schools for the financial year 2013/14.

The Committee were informed that;

- During the financial year 2013/14, audit visits were carried at 27 schools.
- The report highlighted the weaknesses in financial control and management in 14 out of 27 schools visit by Internal Audit during 2013/14
- There were 12 control areas examined during the audit;
 1. Operation of Governance Processes;
 2. Financial Planning and Budgetary Control;
 3. Control and Monitoring of Schools Bank Account
 4. Procurement, including Large Single Purchases, Tendering and Value for Money;
 5. Accounting of Income and Expenditure;
 6. Charging Policy, Income Collection and Banking;
 7. Personnel and Payroll Management;
 8. School Meals
 9. Voluntary Fund and School Journey;
 10. Asset Controls and Security of Assets;
 11. Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
 12. Risk Management and Insurance.
- 14 schools were assigned Limited Assurance.
- Key findings by Audit Area were around;
 - Operation of Governance Processes
 - Financial Planning, Budget Setting, Monitoring and Forecasting
 - Control and monitoring over School Bank Accounts
 - Procurement
 - Accounting of Income and Expenditure
 - Charging Policy and Income Collection and Banking
 - Personnel and Payroll Management
 - School Meals
 - Voluntary Fund and School Journey

- Asset Controls and Security of Assets
 - Security of the IT Infrastructure, Disaster Recovery, Data Protection
 - Risk Management and Insurance
- Members were informed in detail about the schools audited ;
 - Cambridge Heath Sixth Form
 - Shapla Primary School
 - St Anne's Catholic Primary School
 - St Paul's Way Trust School

The Service Head for Resources-ESCW was present to answer Members' questions. She informed the Committee that;

- Four schools audited had been assigned Limited Assurance for the 3rd time, indicating a systematic failure over a 3 year period and failure to implement internal systems.
- There had been regular meetings with the schools concerned but it was difficult to intervene directly
- The audit has highlighted the need to provide additional support to these schools.

Further to Members' questions the Committee was informed;

- That it is for schools to monitor the number of people entitled to free school meals.
- The Council has the authority to withdraw finance delegation- but this would be the ultimate sanction
- 10 schools had been identified as needing extra support to avoid being assigned Limited Assurance for a 4th year.
- In order to assist schools who were failing financially, the entire governance system needed reviewing.
- Very few schools were in deficit and those that were, were due to specific reasons such as; school building expansion.
- There are a number of schools that had not been audited in over 4 years however they were assessed as low risk schools.
- There are currently 96 schools on the programme

Members stressed the importance of monitoring the schools in questions due to child protection issues arising in other UK authorities.

The Committee asked for a response plan from the ESCW directorate to improve internal control and governance at schools and reduce the number of limited assurance reports.

Action by:
Service Head, Resources, ESCW

The Chair moved and it was;-

RESOLVED

That the contents of the Annual Internal Audit Report for Schools be noted.

3.4 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015-16

This report was presented by the Acting Corporate Director of Resources, who informed the Committee that the Council is required by legislation and guidance to produce 3 strategy statements in relation to its treasury management arrangements.

The report also dealt with the setting of Prudential Indicators for 2015/16, which ensured that the Council's capital investment decisions remain affordable and sustainable.

The Committee were given a brief background and told that the Council is required to operate a balanced budget, which broadly means that revenue raised during the year will meet revenue expenditure.

The Committee was told the following;

- The authority was well within its' borrowing limit.
- The strategy was similar to previous years.
- A scheme was at the early stage of development that could lead to the building of additional housing in the borough.
- Higher investment returns were available from Government owned banks, Royal Bank of Scotland (RBS) and Lloyds Bank. However the credit ratings of these banks might fall if and when the Government sells its share in the future.
- The Council were exploring alternative investment opportunities at suitable credit ratings to invest in.
- The Council has a large capital programme for a local authority and it is important to manage investment balances to ensure payments are funded as they become due.

The Chair moved and it was;-

RESOLVED

That Members noted the;

- The Minimum Revenue Provision Policy Statement set out in section 7 of this report;
- The Treasury Management Strategy Statement set out in sections 8-11 of this report; and
- The Annual Investment Strategy set out in section 12 & 13 of this report.

3.5 Treasury Management Activity for Period Ending 31 October 2014

This report was presented by the Chief Accountant, which advised the Committee of treasury management activity for the current financial year up to 31st October 2014.

The Committee heard that the current average return on investment stands at 0.72%, compared with budget set of 0.80%, whilst the budgeted cash return on assets was £1.6m for 2014/15; this has been revised to 2.7m due to large cash balances.

The Committee were informed that the Council's Treasury Management Strategy was approved on 26th February 2014 by Full Council. The Strategy 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

The Committee heard the economic outlook and position for the UK, US and Eurozone. Noting that the economic outlook for the UK and US has improved but for the Eurozone the future remains uncertain.

Members were informed about the performance of investments. Figures displayed in the report showed that performance has consistently outperformed LIBID and has achieved a better rate of investment return (commensurate to risk) compared to other Councils in the benchmarking group.

The Chair moved and it was;-

RESOLVED

That the contents of the treasury management activity report for period ending 31st October 2014 be noted.

4. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 9.30 p.m.

Chair, Councillor Amina Ali
Audit Committee

Agenda Item 3.1

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.
Audit Committee	17th March 2015	Unrestricted	
REPORT OF: Corporate Director, Resources		Quarterly Assurance Report	
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2014 to February 2015.
- 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.

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 February 2015, sixteen final reports have been issued. The findings of these audits are presented as follows:
- Chart 1 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 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	1	6	3	-	10
	Moderate	1	2	3	-	6
	Low	-	-	-	-	-
Total Numbers		2	8	6	-	16
Total %		13%	50%	37%	-	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 six audits were of moderate significance and of these, one was assigned Full Assurance, two were assigned Substantial Assurance, and three were assigned Limited Assurance. All moderate significance audits receiving Limited assurance were schools.
- 5.5. Overall, 63% of audits resulted in an adequate assurance (substantial or full). The remaining 37% 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 Monitoring process. The table below shows the actual and targets for each indicator for the period:-

Performance measure	Target	Actual
Percentage of Audit Plan completed up to January 2015	80%	79%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	100% 6 out of 6
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	90% 9 out of 10

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 100%, whereas the percentage of priority 2 recommendations was 90%. This is a significant improvement on the previous quarter where the percentage of priority 1 recommendation implemented was 84% and priority 2 recommendations was 83%.
- 6.3. Details of priority 2 recommendation not implemented are set out at 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 This is a quarterly noting report covering the period December 2014 to February 2015 and thus there are no specific financial implications arising from the contents of this report.

8. Legal Comments

- 8.1 The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, 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 by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets

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

10 Risk Management Implications

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

11 Sustainable Action for a Greener Environment (SAGE)

- 11.1. There are no specific SAGE implications.

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Communities, Locality and Culture (CLC)	Management and Control of On-Street Parking Income
	Extensive	Communities, Locality and Culture (CLC)	Integrated Youth and Community Services
	Extensive	Education, Social Care and Wellbeing	Electronic Home Care System
	Moderate	Education, Social Care and Wellbeing	Guardian Angels Catholic Primary School
	Moderate	Education, Social Care and Wellbeing	Thomas Buxton Primary School
	Moderate	Education, Social Care and Wellbeing	Ian Mikardo High School
SUBSTANTIAL	Extensive	Education, Social Care and Wellbeing	Commissioning Lifecycle
	Extensive	Education, Social Care and Wellbeing	Contract Audit on Woolmore and Stebon Primary Schools New Build Programme
	Extensive	Education, Social Care and Wellbeing	Customer Journey - First Response
	Extensive	Education, Social Care and Wellbeing	Risk Management
	Extensive	Development and Renewal	Client Monitoring of Tower Hamlets Homes
	Extensive	Tower Hamlets Homes	Governance of Tower Hamlets Homes Follow Up Audit
	Moderate	Communities, Locality and Culture	Bulk Rubbish Collection

Assurance level	Significance	Directorate	Audit title
	Moderate	Communities, Locality and Culture	Horticultural Works
FULL	Extensive	Tower Hamlets Homes	Housing Rents
	Moderate	Resources	Management and Control of In-house Temporary Resource Service (ITRES) – Follow Up audit.

**Summary of Audits Undertaken
Limited Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of On-Street Parking Income	Nov. 2014	<p>This audit reviewed the systems for collecting, banking, monitoring and accounting for on-street parking income. The following issues were reported:-</p> <ul style="list-style-type: none"> • There were no contract specific procedures covering collection of cash income, monitoring and reconciliation of cash income with audit rolls. In addition, there were no management / supervisory checks built into the procedures to monitor compliance; • There were no effective systems in place for monitoring that income collected by the contractor is banked intact; that this income reconciled against the audit rolls for each machine and that variances above tolerance are investigated. This increased the risk of errors, omissions, theft, fraud and irregularity in the collection and banking of cash income; • There was no system for recording and controlling of counterfeit and foreign coins and accounting for it; • We reported concerns around the effectiveness of contract monitoring and payment system resulting in possible overpayments to the contractor; and • There were no clear performance indicators and targets for the contractor. <p>All findings and recommendations were agreed with the Service Head, Public Realm and a copy of final report was issued to the Head of Paid Services and Corporate Director Communities, Localities and Culture.</p>	Extensive	Limited

Management Comments

Due to the system and organisational structure changes there appeared to be a number of gaps in managing this process end to end without any evidence that there was any impact to the service. Having subsequently looked at it, it does not appear that there was any impact to the Service however there could have been potential. We have already put all systems in place and invited internal audit to review it.

The steps that have been put in place are as follows to address each of the issues:

- The procedures have been rewritten and the whole process has now been moved to sit within Parking & Mobility Services, with an additional resource tasked to carry out the daily task of recording the till rolls, audit tickets and banking sheets. With this then being reviewed by the Services & Technical Equipment Manager and spot checks being carried out by the Parking Business Unit and Finance.
- There is now 100% reconciliation with every variance recorded and reported to management.
- A system is now in place recording and controlling and disposing of both counterfeit and foreign coins
- 15 new P&D machines have now been installed with anti-blocking chutes and with real time recording to assist with tackling fraud and concerns highlighted by the audit.
- There is now a two-step process for reconciling the invoice against the collected schedule
- It has been confirmed that the collection schedules are the KPI's that the contractor has to adhere to and due to the cash needing to be collected on a rolling weekly basis. This being reviewed against the value of the collection from each machine to ascertain usage verses value.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Integrated Youth and Community Services	Nov 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Integrated Youth and Community Services 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>We noted that at the time of the audit, the borough's Youth Service was only the second to be awarded the National Youth Agency Quality Kite mark. We also noted that a strategy for Children and Young People's Participation in Tower Hamlets is in place which contains objectives which align with the objectives of the Council as a whole. Stakeholders were consulted in the formulation of the strategy.</p> <p>The main weaknesses identified from the audit were as follows:-</p> <ul style="list-style-type: none"> • Testing found that DBS checks for 17 of the 224 staff within Youth Services had expired. In addition, no DBS records could be evidenced for a further 23 staff. • We reviewed the training records for 20 staff in Youth Services for completion of Information Governance training and could find no evidence that 18 of these staff had undergone this training. <p>All findings and the recommendations made were agreed with the Service Head Safer Communities, and reported to the Head of Paid Services and Corporate Director – Communities, Localities and Culture.</p>	Extensive	Limited

Management Comments

The IYCS Head of the service, since the inspection, has introduced a rigorous checking system for the service. All service managers have been given an instruction to ensure that all staff members have current DBS checks in place Work has been undertaken with HR to ensure that regular performance data is provided to the Head of Service to ensure compliance. All outstanding issues are in hand and being progressed and individuals waiting for the check to be returned have been removed from direct front line contact.

All 18 members of staff have now completed information governance training.

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Electronic Home Care System	Feb 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Electronic Home Care 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 identified were as follows:-</p> <ul style="list-style-type: none"> • Through review of the management reports for electronic logging generated by EziTracker from July 2013 (when the system was initiated) to March 2014 it was observed that none of the 24 service providers had logged in all their visits electronically. • Through discussion with management and review of reports generated it was established that management reports for utilisation rates for block providers (providers with which the Council has a contract for 60,000 plus hours per annum) are not consistent between EziTracker and Frameworki. • For a sample of 25 cases selected between July 2013 and February 2014, it was established that in six cases, the payment period target of a month after the logging period end was not met. <p>It should be noted that the Council ceased using the IT system referred to in this report in September 2014, and the contract came to an end on 31 December 2014. Agilysis have procured a new solution on the Council's behalf (supplied by a company called Ulysses) and the Council is currently working on its implementation. We understand that the specification against which the new product was evaluated was designed to address all of the areas of weakness identified in this audit.</p> <p>All findings and the recommendations made were agreed with the Programme Director: Special Projects, and reported to the Interim Service Head – Commissioning and Health, and the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

Management Comments

The implementation and operation of the previous Electronic Home Care Monitoring solution, procured in 2009, generated a number of significant operational difficulties that meant intended efficiencies were not being fully realised. In particular, the original business case for the solution did not properly take into account the relatively high proportion of households in the borough where no accessible landline (the default means for carers to log in and out of the system at beginning and end of visits) was available. This meant a larger than expected proportion of less suitable alternative logging methods being used. This, allied with a number of other factors (including choices LBTH had made about the level of detail at which visits would be monitored), led to a significantly greater than expected number of individual visits that had to be arbitrated before payment could be determined. This in turn meant significantly greater manual intervention was required by the Brokerage Teams than had been envisaged. There was also a period of time (from November 2013 to July 2014) when a key component of the system was not working, which added to the manual effort required (and for which LBTH negotiated compensation with the system supplier).

The contract for the previous solution was due to expire in December 2014, and Agilysis were engaged to evaluate options for a new system in early 2014. A new supplier was chosen as a result of this process, and their solution is in the process of being implemented. The chosen solution offers a greater range of visit logging options, better management information, and is being implemented in a way that seeks to avoid the difficulties experienced with the previous solution. In particular, we are implementing the system in a way that will mean much lower levels of arbitrations.

Given the ongoing difficulties with the previous solution a management decision was made in September 2014 to cease using it with immediate effect and to instruct providers to submit invoices with supporting timesheets. While this left a gap between the ending of the old system and the introduction of the new system, this was considered preferable to continuing with the previous solution which had lost all credibility with service providers and internal staff

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Guardian Angels Catholic Primary School	Nov 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and General Purpose Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Guardian Angels Teaching and Learning Development Plan (GAT&LDP) does not include financial details in respect of relevant resources required to achieve targets recorded in the Plan. • Examination of a sample of 10 transactions established that in six instances a purchase order was not available and in one case the order had not been signed. • There was no evidence that the Head Teacher carried out spot checks on the school payroll. • The inventory records were found to be incomplete. It was noted that five items that had recently been purchased had been duly recorded in the inventory. However, out of a random selection of five items from the inventory four items could not be physically located. Additionally, from a random selection of five items from around the school, four items could not be traced back to the inventory, as these had not been recorded. We were informed that the previous Premises Manager had not kept the record appropriately, in some instances duplicating serial numbers and in some instances showing incorrect serial numbers. • The loan record was found to be incomplete as it did not include key data such as make/ model, serial number and there was no evidence that the loans were appropriately authorised. Furthermore, a loan form was not completed for a laptop and it was also noted that details of the items on loan had not been recorded in the inventory. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Thomas Buxton Primary School	Nov 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an adequate governance structure in place. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Through testing a sample of three higher value transactions (over £5,000), we noted for one transaction worth £6,962, there was no evidence that three quotes were obtained, as per the Financial Procedures. For another transaction worth £7,968, we were advised that three quotes could not be obtained as this was very specific work for moving equipment hence the school could not find other contractors that would do this work. There was no evidence; however, that dispensation had been obtained from the Governing Body in this instance. • A sample of five new starters since April 2013 was tested and we noted that in one case there was no contract of employment present, only one reference was present for two employees, and proof of qualification was not present for one employee. • From our examination of a sample of 10 transactions we noted that in nine cases there was no evidence that an official order had been raised; in nine cases, there was no evidence that a goods/services received check had been completed; in nine cases, there was no evidence that the invoice or confirmation of purchase had been evidenced as checked by a delegated independent officer; In five cases, purchases included staff refreshments, cards, gift vouchers and flowers for staff leaving. Whilst the school has noted that collections had been carried out towards the cost of these items, it is deemed inappropriate to use school funds for such purchases; and two instances where an invoice had not been provided by the supplier; instead an e-mail confirmation of the order was held. This may have VAT implications where a valid invoice is not retained. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo High School	Jan 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Premises Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From our examination of a sample of 10 general purchases, we noted that a purchase order had not been raised for three out of 10 purchases made. In addition, for one out of six applicable purchases, the purchase order had not been signed in line with the Scheme of Delegation. Furthermore, there was no evidence that a goods receipt check had been carried out for all 10 purchases (or evidence of receipt). • We noted that for one higher value payment tested, there was no evidence of sufficient quotes being obtained. It was noted that a 'Chair's Action' was raised for authorisation to proceed with the purchase. This detailed the rationale for selecting the supplier, although it did not provide any alternative options, costs or suppliers for value for money purposes. In addition, there was no evidence in subsequent Finance and Premises Committee minutes that the Chair's decision to approve the purchase was formally ratified. For another higher value payment, whilst it was noted that the Governing Body had approved the supplier selection for the new MIS software, there was no evidence that the invoice concerned had been authorised, or subsequently reported to the Governing Body. • The Private Fund Account was last audited in June 2013 for the year ended 31 March 2013. There was no evidence of the audited accounts being presented to the Governing Body. In addition, there was no evidence of any interim financial statements for the funds being presented to the Governing Body or the Finance and Premises Committee. At the time of the audit, the Private Fund Account balance was £5,508.19. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

Management Comments

The Education, Social Care & Well-being Finance Directorate have put the following systems and processes in place:-

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

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

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

The schools and the governing bodies are fully committed to the recommendations made in the Audit report by:

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

Schools Finance Manager will contact the school and their bursar to review and support the school in its recommendations with additional signposting them to the guidance procedures to follow.

It is proposed that a member from schools finance, Audit, HR and learning and achievement will meet with the Head and Chair of Governors to support and ensure the recommendations are completed to a high standard.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Commissioning Lifecycle	Feb 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Commissioning Lifecycle 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 identified were as follows:-</p> <ul style="list-style-type: none"> • The Council has a number of groups to manage procurement of services. However, there is no overarching body to bring together the commissioning efforts of the Council. • A Contract Management Framework has previously been proposed to establish a standardised and uniform approach for monitoring providers of commissioned services across service areas. This was in draft form and was not being progressed at the time of the audit. • There is currently no formalised procedure in place to be followed where services are to be decommissioned mid-contract due to failure to meet the required performance standards. • Examination of the Adults Social Care Complaints Procedure found it to be out of date, having been established in 2009 and revised in May 2010, with no evidence of further review to date. <p>All findings and the recommendations made were agreed with the Service Manager – Commissioning and Strategy, and Programme Director: Special Projects, and reported to the Interim Service Head – Commissioning and Health, and the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contract Audit on Woolmore and Stebon Primary Schools New Build Programme	Dec. 2015	<p>This audit involved review of contract control during the currency of building works. The contract value for the Stebon and Woolmore schemes were £5.5m and £10.4m respectively. Both the projects were procured through the LEP Framework contract.</p> <p>Our testing showed that funding for the two schemes was agreed by Cabinet. An approved Health and Safety Plan was in place. An effective cost control mechanism was operating and all interim payments made were supported by an independent certifier's (IC) certificate of valuations and bona fide VAT invoices.</p> <p>We noted that although a value for money exercise was carried out and both were deemed as VFM, the inflation rate applied to base costs for Woolmore could not be reconciled with the "BCIS All-in indices" or the VFM report. There was confusion over the periods/quarters that were used for the base cost and the midpoint. It appeared that the inflation rates were not checked for correctness and this issue was being investigated with the contractor.</p> <p>Our review also found that the authority notices to variations (ANVs) were not signed by all parties concerned to confirm that the variations had been fully agreed. Issues raised as part of the contract administrators' monitoring were not recorded in a formal way. In addition, minutes of the monthly progress meetings were not produced to evidence actions points and the agreed timescales to rectify these.</p> <p>All findings and recommendations were agreed with the Service Head, Resources and final report was issued to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Customer Journey - First Response	Feb 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around Customer Journey – First Response are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From testing undertaken on a sample of 20 First Response Service cases from the previous 12 months, in three cases the contact or initial assessment was not sent for review and approval by a senior officer, in three cases, the case was not assessed and progressed within the 28 day timeframe in place, where no reason for this was recorded on the system, in nine cases, a signed consent form was not retained on file, In one case, there was no record on the system of a phone call or S2 (referral) form having been received, and so the date of the referral and the information provided were unknown, and In one case, a carers assessment was created on the system but was not completed; additionally, there was no record of the source, cause, or referral. It was established through enquiry that this record was created in error and therefore did not require completing, however this was not noted on the record. • Instances were noted where staff were working without valid Disclosure Barring Service (DBS) checks being held. • Although the safeguarding timescales performance indicators are being monitored, the performance of the service against the key indicators identified as per the Team Plans for 2014/15 is not currently being monitored, recorded and reported on to senior management. • Examples were identified where complaints made by service users were not responded to in a timely manner. <p>All findings and recommendations were agreed with the First Response Team Manager and reported to the Interim Service Head – Adult Services, and the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Risk Management</p> <p>Education, Social Care and Wellbeing</p>	<p>Jan. 2015</p>	<p>This audit sought to provide assurance over systems in place for an effective risk management within the Education, Social Care and Wellbeing Directorate.</p> <p>Our review showed that Risk Management policies, procedures and guidance were in place and readily available to all staff who also received the relevant training. Roles and responsibilities for the Directorate Risk Champion were clearly defined and a comprehensive Risk Register was maintained by the Directorate. We have , however, raised the following issues</p> <ul style="list-style-type: none"> • Controls around risk identification needed to be strengthened. A number of emerging risks had not yet been considered for inclusion in the risk register. • The risk scoring and assessment process was not consistent across the Directorate and needed to be challenged by the DMT, Service Managers and the Risk Champion. There was a concern that an inconsistent approach when scoring the risk, could impact on the overall ranking of the risk, its mitigation, reporting and escalation of the risk to either Directorate Register or Corporate Risk Register. • Our testing of a sample of control measures documented in the Directorate Risk Register showed that in some cases the control measures had not been properly considered. • Progress updates within the risk register needed to be detailed. <p>All findings and recommendations were agreed with the Service Head, Resources and final report was issued to the Corporate Director - Education, Social Care and Wellbeing.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Client Monitoring of Tower Hamlets Homes Management Agreement	Jan. 2015	<p>This audit examined the systems in place to manage and monitor the Management Agreement between LBTH as parent organisation and Tower Hamlets Homes (THH) as an Arm's Length Management Organisation for the delivery of housing management services.</p> <p>Our review showed that there appeared to be an adequate level of Client monitoring arrangements to ensure that Tower Hamlets Homes were conducting their business in line with the Management Agreement and the Business Plan. We were satisfied that there was scrutiny and challenge to ensure that targets and business critical indicators were achieved and reported upon. Financial arrangements were in place and being reported on a monthly basis. Payments of the Management fee was supported by sufficient supplementary information to show an adequate audit trail of the build up to the monthly payments made. Approval and certification was found to be in accordance with the scheme of delegation and financial regulations.</p> <p>We however identified some issues around the updating and controlling of operational procedures and strengthening of the Accounting Protocol to ensure that TH Homes are accountable to the Client with respect to the Internal Audit reports issued directly to THH and that audit findings and recommendations are reported to the Client Monitoring Officer for monitoring purposes. We have also recommended that the Client Team Manager should ensure that THH Business Continuity Plans have an annual review and there is evidence that the plans are periodically tested.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy, Regeneration and Sustainability and final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Governance of Tower Hamlets Homes</p> <p>Follow Up Audit</p>	<p>Jan. 2015</p>	<p>This audit followed up recommendations made at the conclusion of the original audit finalised in July 2013.</p> <p>Our testing showed that out of two high priority recommendations made in the original report, both had been progressed. Of the six medium priority recommendations, five had been progressed. The remaining recommendation on the provision of training and development of members of the Board was not progressed at the time, due to the resignation of some members of the Board, including the independent Chair.</p> <p>Our testing showed that Financial Regulations and Scheme of Delegations had been reviewed, approved by the Board and updated on THH website. The THH Risk Management strategy and policy statement had been reviewed and published including a version control. The THH Staff Code of Conduct and the Declaration of interest was being completed and signed by new employees. A system was put in place for recording staff gifts and hospitalities. However, we made further recommendations to improve the control environment in this area.</p> <p>The report was agreed with Director of Finance and Customer Services and copy of the final report was issued to the THH Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bulk Rubbish Collection	Dec 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Bulk Rubbish Collection 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 identified were as follows:-</p> <ul style="list-style-type: none"> • No confirmation is obtained by the Council that people requesting collections are in receipt of Housing Benefit and therefore are not required to pay the £15 fee. • Our review of the contract between Veolia and the Council did not identify any key performance indicators (KPIs) against which the performance of Veolia can be monitored. <p>All findings and the recommendations made were agreed with the Service Head, Public Realm, and reported to Head of Paid Services and Corporate Director – Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Horticultural Works	Jan 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Management of Horticultural Works 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 weakness identified was as follows:-</p> <ul style="list-style-type: none"> • Signed copies of the contracts in place suppliers were not available in two cases, and it was noted that the annual amount currently paid to one contractor differs slightly from the total as per the uplifts detailed in the original contract dating from October 2011. <p>All findings and the recommendations made were agreed with the Head of Clean and Green, and reported to the Head of Paid Services and Corporate Director – Communities, Localities and Culture.</p>	Moderate	Substantial

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents	Jan 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Housing Rents system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures.</p> <p>The following areas of good practice were identified:-</p> <ul style="list-style-type: none"> • Comprehensive procedures for Housing Rents have been produced which detail the rent recovery procedures for current and former tenants. • Housing benefit receipts that are due to Tower Hamlets Homes are received in a timely and accurate manner. • There is an effective process in place to confirm that the rent increase is applied correctly. • There are appropriate procedures in place for debt recovery. • Reconciliations are conducted regularly and checked independently. • There is effective segregation of duties within the Housing Rents system. • Access to the Housing Rents system is restricted to authorised users. • Performance of the Housing Rents service is reviewed and assessed. <p>All findings were agreed with the Assistant Rents Manager and reported to the Director of Neighbourhood Services, the Director of Finance and Customer Services, and the Chief Executive.</p>	Extensive	Full

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of In House Temporary Resource Service (ITRES) Follow Up Audit	Jan 2015	<p>This audit followed up the progress made in implementing the recommendations made at the conclusion of the original audit finalised in April 2014.</p> <p>Our testing showed that out of four Medium priority recommendations made, all had been progressed. Our review showed that the iTRES team now use the standard baseline personnel security application form for all new employees recruited. The Team has access to the Employer Checking Service provided by the UK Visas & Immigration Section of the Home Office, for checking the work eligibility of non EU Nationals to confirm the applicants' right to work in the UK. We noted that this service has not been used yet, as no new recruitment has fallen within the scope.</p> <p>The team has been given performance targets which are monitored and reported to the Performance and Efficiency Board as well as the Directorate Management Team and CMT. A new short listing scoring matrix has been devised to record the scoring marks for each candidate to demonstrate the basis on which candidates are short listed for interviews. Interview assessment forms now show evidence of the title of the post being interviewed, the name of the candidate, the name of the panel member completing the form, the date of the interview and scores awarded for each question.</p> <p>All findings were agreed with the Service Head, Human Resources and Workforce Development and a final report was issued to Acting Corporate Director, Resources.</p>	Moderate	Full

APPENDIX 3

Follow Up Audits – List of Priority 2 Recommendations still to be implemented

Audit Subject	Recommendation	Service Head	Officer Name
Governance of Tower Hamlets Homes	Once all the positions on the Board are filled, an annual Members Training and Development Programme should be implemented thus ensuring that Members of the Board receive adequate training on an on-going basis.	Les Warren	Les Warren

Agenda Item 3.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	17th March 2015	Unrestricted		
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Head of Risk Management and Audit	Annual Internal Audit Plan 2015-16 Ward(s) Affected: N/A			

1. Introduction

- 1.1 This report presents the proposed Annual Internal Audit Plan for 2015/16 at Appendix 1 of this report. The plan was compiled using the Governance Based Audit Assessment Methodology and the Internal Audit Charter approved by the Audit Committee in June 2014.
- 1.2 The Internal Audit Charter at Appendix 3, details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the Governance Based Audit Assessment Methodology are attached at Appendix 2 for information.

2. Recommendation

- 2.1 That the Audit Committee endorses the Annual Internal Audit Plan for 2015/16 at Appendix 1 and the Internal Audit Charter at Appendix 3.
- 2.2 The Audit Committee is also asked to note the remainder of the report.

3. **Background / Methodology**

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

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

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

Resources

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

Audit Resources 2015/16		Days	Days
In-house	5 auditors @ 195 days	975	
	Management	150	
			1,125
Mazars	Core Audits	405	
	Computer Audit	100	
TOTAL			505
PLAN TOTAL			1,630

Please note – the analysis shown in the table above is subject to review. The Head of Audit and Risk Management will assess the audit plan and profile the plan in consultation with the Council's S151 officer and the Audit Manager.

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's corporate priorities. The proposed plan was consulted with each Directorate Management Team (DMT) and the Corporate Management Team (CMT).
- 3.6 In summary, for 2015/16, the Internal Audit Plan comprises of 1,630 days across all directorates. In line with the established protocols, all changes to the agreed 2015/16 plan will be reported to the Audit Committee in December 2015. The increase of 164 days over the original 2014/15 audit plan relates to the creation of a temporary post to carry out procurement and contract related audits and audit work around grants, for 2015/16.

	Original plan 2014/15	Revised Plan 2014/15	Audit Plan 2015/16
Corporate systems	50	30	257
Law, Probity and Governance	45	30	60
Education, Social Care and Welfare	290	350	250
Communities, Localities and Culture	165	170	145
Tower Hamlets Homes	130	130	130
Development & Renewal	150	150	174
Resources	286	296	264
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	250	185	250
Total	1,466	1,441	1,630

- 3.7 In developing the internal audit plan for 2015/16, consideration has been given to the matters raised in the PWC report issued in November 2014 and the subsequent directions from DCLG in December 2014. Discussions are also underway with the Council's external auditors, KPMG, to ensure the work of internal and external audit is joined up. In light of the above, the Head of Audit will continue to monitor the audit plan and where necessary amend the plan. All changes will be reported to the Audit Committee highlighting any significant change being raised with the Corporate Director, Resources and the Chair of Audit Committee.

4. Comments of the Chief Financial Officer

This report presents the proposed Annual Internal Audit Plan for 2015/16 and recommends that the Audit Committee endorse the plan for 2014/15 as detailed in Appendix 1.

- 4.2 The Audit plan is expected to be delivered within existing resources and thus there are no additional financial implications arising from endorsing the plan attached.

5. Legal Comments

- 5.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 5.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 5.3 Under Regulation 3 of the Accounts and Audit Regulations 2015, 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 by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

6. One Tower Hamlets

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

7. Risk Management Implications

- 7.1. In preparing this audit plan, due consideration has been given to the Council's present systems of governance, risk management and control. Internal Audit has also carried out its own risk assessment on all audit activities within the Audit Universe by applying the governance based risk assessment methodology detailed at Appendix 2. In addition, the Council's Directorate and Corporate Risk Registers were considered and consultations with Service Heads were carried out to review specific risks facing their services.

8. Sustainable Action for a Greener Environment (SAGE)

8.1. There are no specific SAGE implications.



London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2015/16



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Foreword

The role of internal audit is important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective arrangements of audit activity is essential, whether planned or unplanned. The annual audit plan for 2015/16 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

For 2015/16, the audit plan has been developed to include findings arising from the PWC report issued in Oct 2014 to support the Council achieves its goals. The audit plan will continue to be monitored actively to ensure key risks are being managed.

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

Minesh Jani
Head of Risk Management and Audit

Context

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

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

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

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

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

Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are 9 corporate risks which are being monitored by the CMT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ESWRS0001	Council's inability to meet demand for school places.
DRA0016	Failure to meet the borough's housing targets.
ESW0001	Death or serious harm to a child or vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
RSB0019	Failure to maintain financial viability/financial balance in 2016/17 and future years through to 2020.
PPM0016	Failure of the Council's supply chain.

No.	Risk
LPGCOM0003	Failure to effectively manage the reputation of the Council.
LPGSE0001	Failure to achieve "One Tower Hamlets" and community cohesion.
LPGLS0001	Non-compliance with corporate governance procedures.
CLSCEH0002	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response.

The Role of Internal Audit

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

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

Internal Audit is defined by the Institute of Internal Auditors’ International Professional Practices Framework as “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 findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion and form part of the Council’s Annual Governance Statement.

London Borough of Tower Hamlets 2015/16 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	257	2-4
Director of Law, Probity and Governance	60	5
Education, Social Care & Wellbeing	250	6-8
Communities, Localities & Culture	145	9-11
Tower Hamlets Homes	130	18-20
Development & Renewal	174	12-14
Resources & core financial systems	264	15-17
Information technology audits	100	21-23
Follow up, management and reactive fraud provision	250	23
Total Provision	1,630	-

Internal Audit plan 2015-16

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Corporate Audits				
Management and Control of Sickness	This audit will examine controls in place for an effective management and monitoring of sickness absences across the Council.	20	Audit Need Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Establishment Control	We will review systems and processes in place to provide assurance around the effective management of the Council's establishment levels.	15	Audit Need Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Transparency Code – Compliance	This audit will test compliance with various aspects of the Transparency Code to ensure that the Council has a sound system in place for collecting, quality checking and publishing the necessary information.	12	Corporate Risk Ref. LPGLS0001 Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Taxis/Cabs	This audit will provide assurance over controls in place for controlling and monitoring of the use of taxis and minicabs by staff and members.	10	Audit Need Analysis Corporate Risk Ref. LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Use of Purchase Cards – Compliance Testing	This will be compliance testing of how purchase cards are used, controlled and monitored across the Council to provide assurance that the Council's procedures on Purchase cards are followed and complied with.	30	Audit Needs Analysis Corporate Risk Ref. PPM0016	One Tower Hamlets Working efficiently and effectively as One Council
Procurement Procedures – Compliance audit	This will be a detailed testing of how Directorate staff comply with the Council's Procurement procedures to ensure that goods and services are procured, ordered and paid in accordance with the Council's approved procedures.	30	Audit Needs Analysis Corporate Risk Ref. PPM0016	One Tower Hamlets Working efficiently and effectively as One Council
Control and Monitoring of Best Value Action Plan	We will provide assurance that the progress of Best Value Action Plan for securing the Council's compliance with its best value duty is controlled and monitored.	25	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Regularity Audits of Grant Funded Third Sector organisations	We will carry out probity audits to a sample grant funded organisations to provide assurance that the grant funding is properly used in accordance with the grant conditions and that value for money is secured in the use of public money to achieve the objectives and priorities of the Council.	100	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Control, Monitoring and Reporting of Executive Decisions	This audit will examine the Council's procedures for recording, monitoring and reporting of Executive decisions taken by officers.	15	Management request. Corporate Risk Ref. LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Total		257		

Law, Probity and Governance	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Contract Signing and Sealing	To examine procedures for finalising, signing and sealing of legal contracts.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Communications Strategy – Compliance with the Protocol	This will be a review of the Council's Communication Strategy to ensure that it is up to date and key requirements are delivered and monitored effectively.	15	Audit Needs Analysis Corporate Risk Ref. LPGCOM0003	One Tower Hamlets Working efficiently and effectively as One Council
Registrar's Office	We will examine the systems and controls for income generation initiatives to provide assurance that the new business model is delivered effectively.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Data Quality	This audit will examine a sample of high risk corporate performance indicators identified by the Performance Management team to provide assurance over the accuracy of the indicator.	10	Management request	One Tower Hamlets Working efficiently and effectively as One Council
Monitoring of Contracts for Mayor's Advisors	We will examine systems and procedures for monitoring the various contracts for advisors to ensure that they deliver good value for money and that payments are controlled and monitored in accordance with Council procedures.	10	Request by the CMT	One Tower Hamlets Working efficiently and effectively as One Council
Total		60		

Education, Social Care and Wellbeing	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Resource Allocation for Individual Budgets for Adults Social Care	We will review the systems and controls for allocating and approving resources for Individual Budgets to ensure that care plans for individual service users are costed and budgeted correctly and accurately.	10	Audit Needs Analysis Corporate Ris Re ESW0001.	A Safe and Supportive Community Empower Older and Vulnerable People
Recovery of Unspent Funds from Individual Budgets for Adults Social Care	We will test the procedures for identifying, monitoring and recovering unspent individual budgets and funds that have been used for activities outside the support plan.	10	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention
Financial Safeguarding	We will undertake sample testing of the effectiveness with which financial safeguarding of vulnerable adults in supported and other accommodation is managed, controlled and monitored.	20	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Quality of Care Audits	Review and testing of procedures in place for ensuring that the quality of care received by vulnerable adults from their care providers is to the expected standard of care.	15	Audit Needs Analysis Corporate Risk Ref. ESW0001	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention
Better Care Fund – Planning and Governance	We will review the planning and governance arrangements for delivering an effective system for integrating health and social care services to local people to receive better care.	10	Audit Needs Analysis Corporate Risk Ref. ESW0001	A Safe and Supportive Community Focus on Early Intervention
Contract Management of School Expansions	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk Ref. ESWRS0001	A Prosperous Community Support lifelong learning opportunities for all.
Management of Missing Children's Register	We will review procedures for identifying, recording and monitoring cases of children missing from schools and other establishments.	10	Audit Needs Analysis Corporate Risk Ref. ESW0001	A Safe and Supportive Community Focus on Early Intervention
Management and control of "No Recourse to Public Fund" cases – Children's and Adults services	We will review the verification framework for controlling and managing cases falling within the terms of "No recourse to Public Funds", but receiving services from the Council.	15	Management Request	A Safe and Supportive Community Focus on Early Intervention

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	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Management of the Action Plans resulting from Serious Case Reviews – Adults and Children’s services	We will review the robustness of systems in place for implementing and embedding lessons learnt from Serious review Cases.	15	Audit Needs Analysis Corporate Risk Ref. ESW0001	A Safe and Supportive Community Focus on Early Intervention
Schools audits	The school probity audits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; ICT security and other key areas of business within schools.	135	Annual Programme	One Tower Hamlets Working efficiently and effectively as One Council
Total		250		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Communities, Locality and Culture				
Control and Monitoring of Education and Development of Staff	This will be an audit of procedures in place for approving, controlling and monitoring of education and development of staff within the Directorate and its services.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Flare – Data Quality	We will undertake testing of the Flare system operated by the Health and Housing Team to provide assurance that cases are managed and dealt with efficiently and effectively.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Licence Applications	How applications for various licences are managed, including effectiveness of publicity and consultation before granting the licence.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Trading Standards	We will review the systems and procedures for case management, ensuring that the Council's residents and consumers benefit from the programme of work undertaken by the Trading Standards Service.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Park and Phone Cashless Parking Income	This audit will review systems and procedures for controlling and monitoring the contract for Park and Phone service to ensure that all income due to the council is collected and accounted for efficiently and service provided is compliant with the contract.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Tendering for the new Waste Contracts	We will review and provide advice on the tendering arrangements for the procurement of the new Waste contract.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Highways Contract	This audit will test the effectiveness of controls over the ordering, inspecting and paying for planned and responsive Highways Maintenance works undertaken as part of the Measured Term Contract.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Community Language Service	We will examine systems for governance, recruitment, quality control of teaching and paying for staff to ensure that Council procedures and standards are complied with.	15	Management Request Corporate Risk ref. LPGSE0001	One Tower Hamlets Working efficiently and effectively as One Council
Community Champions Programme	We will review the governance and systems and procedures in place for managing the community champions programme to ensure that the Council's objectives are met.	10	Audit Needs Analysis Corporate Risk ref. LPGSE0001	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Youth Centres – Probity Audits	This will be probity audit on Youth Centres to provide assurance that the centres are operating within the Council's rules and procedures, and that the service objectives and priorities are achieved economically, efficiently and effectively.	30	Audit Needs Analysis and Management Request Corporate Risk ref. LPGSE0001	One Tower Hamlets Working efficiently and effectively as One Council
Total		145		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Development and Renewal				
Asset Management	This will be a review of systems and controls for management of Council's assets to achieve the key priorities and objectives.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Temporary Accommodation	We will provide assurance over the systems and procedures for placing and paying for homeless families in temporary accommodation including B&B establishments to ensure that the government regulations are complied with and that Council's objectives are achieved.	20	Audit Needs Analysis Corporate Risk ref. DRA0016	One Tower Hamlets Working efficiently and effectively as One Council
Monitoring of Faith Buildings Grants	We will review the systems for monitoring the grants for the Faith Buildings programme to ensure that the funding secures value for money.	15	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
Management and Monitoring of Emergency Funds	We will review the systems for allocating and monitoring the grants awarded from the Emergency Fund to ensure that the funding is released to organisations meeting the agreed criteria and that it secures the principles of sound probity and value for money.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Annual Evaluation of Grants Programme	This audit will provide assurance that as required by the Council's procedures the various grant programmes and initiatives are evaluated on an annual basis to ensure that they have achieved their objectives effectively and that lessons learnt are cascaded to the next round of the programme.	10	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
Mainstream Grants Programme— Allocation and Assessment	This work will shadow the new round of the grants programme to provide assurance that grant application, eligibility, assessment and allocation systems achieve best value principles and achieve Council objectives.	20	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
Repairs and Maintenance of Administrative Buildings	We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Contract Audit	We will review the effectiveness of systems and controls for managing and monitoring various capital projects delivered by the Capital Delivery group.	30	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council
London Mayor and LBTH Community Infrastructure Levy (CIL)	We will test the effectiveness of the systems for collecting and paying for the London Mayor's Community Infrastructure Levy. We will use the results of these tests to evaluate the systems proposed for the LBTH CIL.	15	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Delivery of Economic Benefits and Outputs	This review will provide assurance that the Council has effective systems and controls in place for managing and monitoring the various Economic Benefits to the community designed in various agreements and contracts.	12	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Land Acquisitions and transactions	We will review the governance and controls around the Council's land acquisitions programme and land related transactions with developers and other stakeholders to ensure that these are within the Council's powers.	12	Audit Needs	One Tower Hamlets Working efficiently and effectively as One Council
Total		174		

Resources	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Management of VAT	We will review systems and controls for VAT management to ensure that VAT regulations are complied with.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Medium Term Financial Plan	We will test the system for compiling and updating the Council's Medium Term Financial Plan to ensure that the Council's medium term financial planning is sound, secure and resilient.	10	Audit Needs Analysis Corporate Risk Ref. RSB0019	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Programme	Review of systems and controls for managing and monitoring the Council's savings programme.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Payroll Account Reconciliation	We will test the soundness of the procedures for payroll account reconciliation to provide assurance that payroll transactions are reconciled with the Council's accounting system.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
One Stop Shops – Regularity Audit	We will undertake planned visits to One Stop Shops to provide assurance that Council's rules and regulations e.g, data security and protection control etc. are complied with in carrying out various front line customer service functions.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Processing of Suppliers Credit Notes	We will test the soundness of controls over the timely and accurate processing of Credit Notes received from the Council's suppliers.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Insurance Claims	We will provide assurance over the adequacy of systems and procedures for managing various insurance claims received by the Council from residents, tenants, staff and other parties to whom the Council has duty of care.	10	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
Management of the Council Tax Reduction Scheme	We will review the controls over the local Council Tax reduction scheme to ensure that systems are sound and secure and achieve the objectives of the Council.	15	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
Bailiff Contract	We will test the effectiveness with which the Bailiff contract is controlled and monitored to ensure that the key deliverables in the contract are monitored and objectives are achieved.	10	Audit Needs Analysis.	One Tower Hamlets Working efficiently and effectively as One Council
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Budgetary control	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Capital Programme and Accounting	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Control and Monitoring of cash income C&D	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Pensions	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Housing Rents	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Total		264		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Tower Hamlets Homes				
Major Works	We will provide assurance over the systems and controls in place for the correct capturing and identification of major works, undertaking the necessary consultations with Leaseholders, billing, collection, recovery and other key processes.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Unauthorised Occupancy	We will review the effectiveness with which unauthorised occupancy is controlled and managed.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Corporate Health and Safety	We will review the various aspects of Health and Safety requirements falling within the remit of the company to provide assurance that the required H&S standards and regulations are complied with and monitored.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Specialist Repairs Contracts	This audit will review the controls for managing and monitoring the specialist repairs contract for repairs, maintenance and servicing gas installations and equipment.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Voids and Lettings	We will review the effectiveness of the systems and controls for managing void Council dwellings to ensure that these are re-let efficiently and effectively and the required policy, procedures and standards are followed.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Management and Control of Declaration of Interests by Staff	This will be a review of the company's policy and procedures for managing and controlling declaration of interests by staff.	7	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	8	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of SLAs	We will review the systems and controls for effective management of various SLAs the company has entered with LBTH.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Bancroft TMO	This will be a regularity audit of the TMO to provide assurance that the TMO is managed and controlled within the contractual framework and that functions carried out by the TMO are in accordance with Management Agreement.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Contract Audits	We will review the effectiveness of systems and controls for managing and monitoring various building and maintenance works planned and delivered by the company under the Delegated powers from LBTH.	15	Audit Needs Analysis Corporate Risk Ref. DRA0016	One Tower Hamlets Working efficiently and effectively as One Council
Total		130		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Information Technology				
Problem Management	This audit will give assurance over the system of control over processes to identify service issues and the arrangements to mitigate risk of repeat issues. The audit will take account of root cause analysis, evaluation and steps taken to address problem.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Backups and Recovery	The purpose of this audit is to provide assurance that a back and recovery plan is in place to enable the Council to recover data and computer operations from loss of data.	10	Audit Needs Analysis Corporate Risk ref. CLSCEH0002	One Tower Hamlets Working efficiently and effectively as One Council
ICT Governance	This audit will seek to understand how the ICT strategy has been formulated linked to the Council's strategic plan and agreed (acknowledged that the strategy is draft and being finalised). The audit will also seek to understand how the enterprise architecture framework has been set up and whether this is in line with good practice and controls are in place to ensure the architecture aligns with business and IT strategy and delivering value for money. The audit will review governance controls and reporting arrangements to ensure ICT is delivering in line with business expectations, including how customer satisfaction is assessed.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Project Management	This audit will examine the arrangements in place for developing and delivering the Council's strategic priorities from change management projects including the methodology for, planning, processing (Council and Agilisys), delivery and Deliverables, and effective management of progress and budgets etc. A sample of projects will be reviewed.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
ITIL Security Management – ISO 27001	The audit will examine the arrangements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a documented information management system. The audit will also examine the IT partner's arrangements for managing its ITIL standards.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Web Management and Security	The purpose of this audit is to ensure management controls are in place to ensure the Council's internet and e-mail policy is complied, particularly around arrangements to prevent access to inappropriate sites and for regular reporting of web usage.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Patch Management – OS (hardware) and software	This audit will review the arrangements in place for Patch management of hardware and software to protect the Council from IT threat.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Threats and vulnerability management	Controls in this area are important to safeguard the Council from cyber risks; in particular, internet based attacks. This audit will review arrangements in place to protect the Council from such threats.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Other				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		One Tower Hamlets Working efficiently and effectively as One Council
Management Requests	Contingency set aside to service Management requests during the year.	50		One Tower Hamlets Working efficiently and effectively as One Council
Reactive Fraud	Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.	50	Annual	One Tower Hamlets Working efficiently and effectively as One Council
Management Time	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
Grand Plan Total		1,630		

Governance-based Audit Assessment Methodology

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.					
Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	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.

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	O r	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	O r	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.

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

Internal Audit Risk Assessment Matrices

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

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

LONDON BOROUGH OF TOWER HAMLETS

INTERNAL AUDIT CHARTER

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "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."

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Responsibility

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit

Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.

- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the AC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

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.

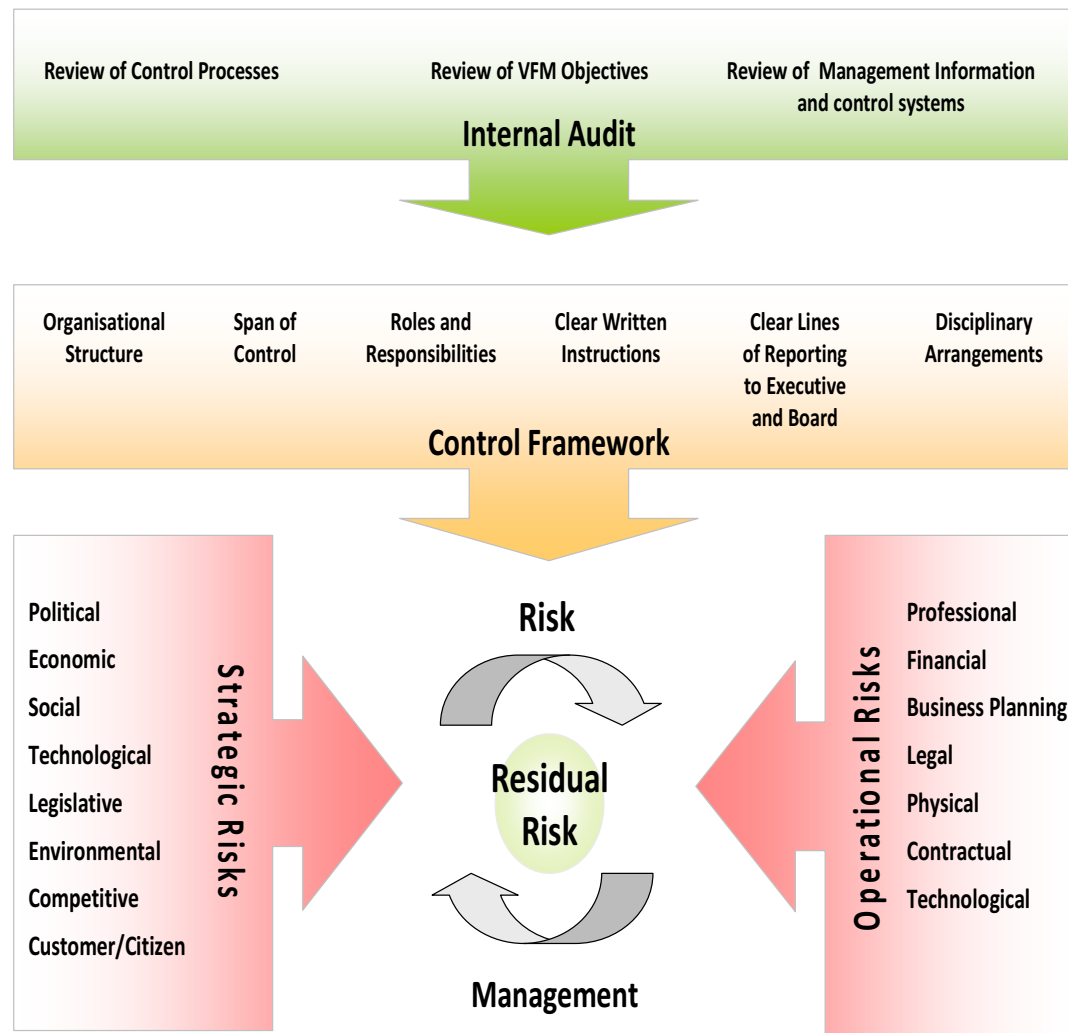
Internal Audit recommendations are classified as follows:

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

Appendix 6



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

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

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

Risk Management Framework

Definitions

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

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

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

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



Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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

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

Classification of Risk

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

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Agenda Item 3.3

REPORT TO: Audit Committee	DATE 17th March 2015	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director, Resources	Anti-Fraud and Corruption Strategy and Proactive Anti-Fraud Plan 2015-16		
ORIGINATING OFFICER(S): Tony Qayum Corporate Anti-Fraud Manager	Ward(s) Affected: N/A		

1. SUMMARY

- 1.1 This report provides the Audit Committee with an updated Anti -Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti-Fraud Plan for 2015-16.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the contents of the report and endorse the Council's Anti-Fraud and Corruption Strategy and the pro-active Anti-Fraud plan.

3. INTRODUCTION

- 3.1 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. This minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 3.2 The need for effective anti fraud work within local authorities has also been reflected by the Audit Commission, through the Use of Resources Assessment and Protecting the Public Purse publications as well as the CIPFA Better Governance Forum. The requirements highlight the expectations around the framework local authorities have in place in respect of the prevention and detection of fraud. As such, it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption activities.

4. ANTI FRAUD AND CORRUPTION STRATEGY

4.1 As part of our ongoing efforts to ensure the strategy and systems in place within the Council remain relevant and meet best practice the Anti Fraud and Corruption Strategy has been reviewed and attached at Appendix 1 is the revised strategy that picks up key changes resultant from new legislation and best practice as identified by CIPFA.

4.2 The strategy is based upon the following key areas of coverage as outlined by the following key tests that were set by the CIPFA Publication-Protecting the Public Purse, which has been issued annually since 2009 and new legislation including the Criminalisation of Social Housing Subletting in October 2013.

4.3 The key tests were:-

4.3.1 Adopting the right strategy

Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the Effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place.

4.3.2 Measuring Fraud and Corruption Losses

Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements.

4.3.3 Creating and Maintaining a strong structure

Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's counter fraud and corruption strategy.

4.3.4 Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action.

4.3.5 Defining Success

Relevant officers and Committees are made aware of investigations which may affect their Services.

4.4 It is considered that by updating the Anti-Fraud and Corruption Strategy in this way it will remain in compliance with best practice.

5. ANNUAL CORPORATE ANTI FRAUD PLAN 2015/16

5.1 The overall aims and objectives of this plan reflect the Council's Anti-Fraud and Corruption Strategy. The key aims are to:

- Highlight and promote the Council's commitment to stop fraud and corruption;
- Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
- Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
- Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.

5.2 The key drivers used to compile the corporate anti- fraud plan for 2015/16 has built on experience and takes account of the: -

- Continued development of a single Corporate Anti-Fraud resource under one managerial structure.
- Management requests and priorities;
- Local Knowledge;
- Joint working arrangements - external (DWP, UKBA, Police and other Local Authorities);
- Resourcing the Government's initiative to examine instances of unlawful sub letting of Social Landlord properties
- Joint Working arrangements – internal (payroll, pensions, parking services, benefits services, housing services; and
- Issues identified from planned audit work;
- Good Practice checklists from the Audit Commissions- Protecting the Public Purse.
- New government initiatives including the DWP Single Fraud Investigation Service and national Blue Badge scheme for disabled people
- Emerging risk areas as identified from national research from the Audit Commission, the National Fraud Authority and publications such as the "The Local Government Fraud Strategy" produced by Fighting Fraud Locally.

5.3 Our plan is attached as Appendix 2. The focus of the plan is to cover :-

- Planned activities for the Council and Tower Hamlets Homes that will include pro active and reactive work and along with ongoing reviews of access to accommodation, including nominations, transfers, successions and management determinations; as part of the on-going work of the Social Housing Fraud resource

- Continue management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements under the Audit Commissions Code of Data Matching Practice and that the NFI exercise is appropriately resourced and finalised within prescribed deadlines;
- Ensure that the work of those engaged in Anti Fraud work supports the Council's Strategic Plan;
- Work jointly internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to lead on pro-active Anti-Fraud initiatives that bring together all services within the Council and with the Police, UKBA and NHS responsible for enforcement and financial governance thus maximising opportunities to share intelligence and joint working.
- Continue to provide anti fraud training and awareness to members and officers;
- Continue to produce monthly reports on Governance issues for consideration by the Acting Director of Resources and Interim Monitoring Officer;
- Ensure that appropriate training and development on ethical governance matters is rolled out to staff and members as appropriate;
- Publicise all our successes; and
- Ensure that all agreed timescales prescribed for the completion of investigation work are met and that all cases are adequately reported to senior management as part of our ongoing reporting procedures.
- Further develop mechanisms for categorising and quantifying fraud for more accurate reporting to enable better informed risk assessments

5.4 Social Housing Fraud Team – Key activities

- to recover unlawfully let properties
- Jointly investigate Housing Benefit Fraud where the accommodation is un lawfully let
- Investigate and support THH on suspicious Assignments, successions and Mutual exchanges

- Investigate and support THH on suspicious Right to Buy's where there may be unlawful letting issues
- Work with RP's on un lawful lettings and assist in recovery of property for release to the Common Housing Register
- To work closely with Legal Services to ensure Prosecutions are brought against tenants who have made unlawful profit from subletting their properties and apply for Proceeds of crime financial recoveries where applicable.
- Participate in Pro-active exercises with support from other enforcement agencies including the Police, UKBA etc.

5.5 The Parking Fraud Team was transferred to Risk Management in February 2011 to undertake the day to day management and co-ordinate their work, the key activities, being

- Investigation, recovery and prosecution of blue badge abuse
- Investigation, recovery and sanctions as appropriate on Parking permits (residents and business) and parking scratch cards abuse
- Investigate and support parking services on persistent offenders
- Investigate and consider action as appropriate on abuse of parking meter income
- Participate and support joint working exercises with the Police, Safer Neighbourhood teams and Anti Social Behaviour initiatives as required.

5.6 The Housing Benefit Fraud team transferred to Risk Management in July 2011 following a reorganisation of the arrangements for the management and investigation of allegations of Fraud, Corruption and Impropriety with the expectation that a Corporate Team would accrue a broader and collectively better response than maintaining individual teams all under different management arrangements and without a single focus.

5.7 The Government initiative to revise welfare benefits by the introduction of Universal Credit has meant that a Single Fraud Investigation Service is being established within the DWP to investigate benefit related fraud cases thus replacing local Housing Benefit fraud investigation teams. In the case of Tower Hamlets the service will transfer to the DWP in February 2016. Therefore there will be works currently undertaken by the Housing Benefit Fraud Team that will require resourcing separately. This will include Resident Parking abuses, Single Person Discount abuse, Council Tax Reduction cases and Student Discount false claims.

- 5.8 The plan makes provision for the existing resource plus a buy in of circa 50 additional days from the Internal Audit plan to be utilised as emerging issues arise.
- 5.9 The following table shows the Corporate Anti-Fraud Team resources for 2015/16 and the resource required to complete the anti - fraud work in 2015/16.

Reactive resources	Days
Corporate Anti-Fraud Manager	80
Corporate Anti-Fraud Team Leader and support	470
Allocation from Internal Audit Plan	50
	600
Housing Benefit Fraud Investigation *	1175
3 x Social Housing Fraud Officers	585
2 x Parking Fraud Officers (one term time)	330

- *Six investigators for 10 months

6. Comments of the Chief Financial Officer

- 6.1 This report provides the Audit Committee with an updated Anti-Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti - Fraud Plan for 2015-16.
- 6.2 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.

7. Legal Comments

- 7.1. The legislative framework in respect of the Council's anti-fraud policy is detailed in the body of the Anti-Fraud and Corruption Strategy and appendices.

- 7.2. The Local Audit and Accountability Act 2014 will abolish the Audit Commission from 1 April 2015 and introduces a new local audit framework. The Local Government Association will set up a new company to take on responsibility for management of the Audit Commission's contracts until the legal introduction of local appointment in 2017.
- 7.3. Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies.
- 7.4. Under Regulation 3 of the Accounts and Audit Regulations 2015, 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 by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. 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.

8. One Tower Hamlets Considerations

- 8.1 This report identifies areas of significant risk and arrangements to combat incidence of Fraud and Corruption. It should allow the Audit Committee to assess the Council's arrangements to deal with Fraud and Corruption in consequence to perceived risk.

9. Anti-Poverty Considerations

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

10. Risk Management Implications

- 10.1 This report highlights risks relating to the coverage of Anti-Fraud within the Council and the arrangements to respond to allegations of Fraud and Corruption. It demonstrates how the Council is responding to potential risks to the control framework that may be exploited by fraudsters.

11. Sustainable Action for a Greener Environment (SAGE)

- 11.1 There are no specific SAGE implications.

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ANTI FRAUD AND CORRUPTION STRATEGY

This document should be read in conjunction with the Council's Anti-money laundering, Anti-Bribery and Enforcement Policy

INTRODUCTION

The London Borough of Tower Hamlets has a revenue and capital budget of in excess of £1.4 billion and employs around 10,000 staff, inclusive of those employed within our schools. It works with an extensive number of partners including the third sector and private sector. The scale, complexity and profile of the Council put it at potential risk from fraud and corruption, both from within & without.

We are committed to making sure that the opportunity for fraud and corruption is reduced the lowest possible risk. Where there is the possibility of fraud, corruption and other problems, we will deal with it in a firm and controlled manner.

It is essential that the Council is able to prevent and detect fraud, thus ensuring that services are provided honestly and efficiently and Public funds are administered properly. The Anti-Fraud and Corruption Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption. It should be noted that the scope of this document is concerned only with matters associated with potential cases of fraud and corruption and does not consider other matters of malpractice which are properly covered by other policies within the Council's procedures.

Definitions of Fraud and Corruption

Fraud The intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain."

Corruption "The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions of any person."

BACKGROUND

The Committee on Standards in Public Life, Chaired by Lord Nolan strengthened the need to have clear procedures for staff to raise concerns if they feel that malpractice has occurred.

The Council expects all of its staff, partners and Members to comply with the seven principals of public life in all of its activities. These are

Selflessness

Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in their performance of the official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contract, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

The Council is committed to delivering an Anti-Fraud culture within the authority and among people and organisations that deal with it. It will attempt to raise the awareness of fraud, both within the authority, and in the community. It will encourage the reporting of suspected fraud and will take appropriate action when fraud, corruption or irregularity comes to light.

The strategy set out in this document covers the following areas:

- Legislative framework
- The anti-fraud environment
- Preventing fraud and corruption
- Detecting, investigating and recovery
- Training and awareness

This document should be read in conjunction with the Council's Anti-Money Laundering Policy and response to the Bribery Act 2010.

THE LEGISLATIVE FRAMEWORK

Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies and the Accounts and Audit Regulations 2015.

There is a requirement under the 2015 Regulations for an annual governance statement to be prepared and approved by resolution of a committee, or by Full Council. The annual governance statement must be prepared in accordance with proper accounting practices and approved before the annual statement of accounts can be approved.

From time to time there will be a need to examine allegations and incidents that may have regard to fraud, corruption or financial malpractice.

In these circumstances the Council will ensure that any inquiry is legal, meets professional standards and that whistleblowers raising a genuine concern are afforded protection in accordance with the law.

Relevant Legislation

The following is an outline of some of the primary legislation that covers investigation of fraud and corruption:-

- The Fraud Act 2006
- The Theft Acts 1968 and 1978 (as amended)
- Social Security Administration (Fraud) Act 1997
- The Public Interest Disclosure Act 1998
- The Bribery Act 2010
- Data Protection Act 1998
- Human Rights Act 1998
- Regulation of Investigatory Powers Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2007

- The Identity Documents Act 2010
- The Prevention of Social Housing Fraud Act 2013
- Local Audit and Accountability Act 2014

Further information on a number of these can be found at Appendix 2.

THE ANTI- FRAUD ENVIRONMENT

We expect all people and organisations that are in any way associated with the Council to be honest and fair in their dealings with us, our clients and customers. We expect our members and employees to lead by example in these matters.

To support this we have a number of procedures and rules to make sure that our financial, working and organisational procedures are properly controlled. These are an important part of our internal control process, and it is important that all members and staff know about them.

The most important of these are as follows:

- Standing Orders
- Financial Regulations
- Code of Conduct for Employees
- Code of Conduct for Members
- Scheme of Delegation
- Risk Management Strategy and Local Code of Corporate Governance
- Anti money laundering policy
- Anti-bribery policy

Where regulations are breached the Council reserves the right to take formal action which may include ending their employment with the Council and civil and /or criminal proceedings being commenced.

In the case of elected members the Council's Monitoring Officer will be responsible for reporting matters to the appropriate authority.

We believe our members and employees have an important part to play in dealing with fraud and corruption and we will encourage our staff and members to report suspected fraud or corruption.

Where money laundering is suspected, staff and members must follow the Suspicious Activity Reporting procedures set out in the Council's anti-money laundering policy.

We will deal with all information fairly and confidentially. We will endeavor not to reveal the names of the people who gave us the information. Our Fraud Response Plan (Appendix 3) gives more advice on this issue.

We expect our Directors and Heads of Service to deal firmly and quickly with anyone who is responsible for fraud or corruption. Head of Paid Service/Director of Resources in consultation with the Corporate Anti- Fraud Manager may refer matters to the police if there is suspicion of any criminal activity having taken place.

The conduct of an investigation is a serious, expensive and disruptive business. Therefore where it is found that allegations are unfounded and vexatious or malicious, this will be taken very seriously and dealt with under the Council's disciplinary code.

PREVENTING FRAUD AND CORRUPTION

The diversity and scope of the Council's business functions and services exposes the authority to the risk of fraud. We are committed to fighting fraud and corruption, whether attempted from inside or outside the authority. We will take appropriate action against the perpetrators. The Council's strategy for fighting fraud and corruption is based on four cornerstone principles as follows:

Anti -fraud culture

The Council believes that the on-going development of a culture of honesty and openness is a key element in tackling fraud. The Council expects all elected members and employees to carry out their duties in accordance with appropriate legal requirements, internal codes of conduct including Human Resource Strategy guidance, procedures and regulations and to act at all times with honesty and probity in the discharge of their duties. The Council expects that all outside individuals and organisations, including partners, suppliers, contractors and claimants will act towards the authority with honesty and integrity.

Where IT systems are being utilised all parties are required to comply with the requirements of the Data Protection Act 1998, Acceptable Use Policy and the Computer Misuse Act 1990.

Internal Controls

The Council has in place a framework of controls and procedures to deter fraud from taking place and detect it when it does. It is the responsibility of all members and employees to work within this framework. These controls include codes of practice, schemes of delegation, standing orders and financial regulations and a risk management strategy.

Effective Action

Corporate Directors and Service Heads will report all suspicions of fraud or corruption to the Corporate Anti-Fraud Manager via the Head of Paid Service and the Director of Resources (in his role of Section 151 officer or Chief Finance Officer). If elected members are suspected then the Head of Paid Service and Monitoring Officer will co-ordinate the investigation. Following investigation, the appropriate action will be taken which may include disciplinary action, civil recovery and referral to the police.

As set out in paragraph 4.6 above, where money laundering is suspected, the procedures set out in the Council's Anti-Money Laundering Policy will apply. This may entail making a report in appropriate cases to **the Council's Anti-Money Laundering Reporting Officer and Corporate Anti-Fraud Manager (Tony Qayum)**.

Publicity

Where evidence of irregularity has been found and prosecuted all cases will be publicised through press articles etc. to maximise awareness and to act as a deterrent to others.

DETECTING, INVESTIGATING AND RECOVERY

This section should be read with our Fraud Response Plan (see Appendix 2) and also our Enforcement Policy (Appendix 4).

The Council has robust processes designed to reduce the risk of fraud and corruption these include regular management review of systems and procedures to ensure compliance with financial control, a risk based internal audit review cycle, risk management review process and governance guides including hospitality procedures and declarations of interests.

Where appropriate and in accordance with the fraud response plan the Internal Audit Service will undertake formal investigations into fraud and corruption. The process utilised in undertaking an investigation is covered by established professional practice as prescribe by CIPFA and in compliance with the Council's Fraud Response Plan and legislative guidance.

All cases referred either by the Whistle blowing telephone line or via an internal referral are risk assessed by the Corporate Anti-Fraud Manager and approval sought from the Head of Risk Management. Each case is then recorded for tracking on a database maintained by Risk Management. It is important that transparency is maintained in all decision making and consequently there is a process verification and review of the basic elements of the enquiry throughout the investigation process.

(Whistleblowing process – see Appendix 3)

It is important to note that the investigator receiving the complaint will not be the sole investigator of the enquiry, therefore ensuring the utmost independence is maintained during the currency of an investigation.

Data Matching

As a proactive commitment to the prevention and detection of fraud the Authority has actively participated in the National Fraud Initiative, which is a data matching exercise carried out by the Audit Commission under their powers within the Audit Commission Act 1998. This data match looks at wide variety of data sources and compares them to each other to identify potential fraud and irregularity. The potential fraud and irregularity areas include:-

- Benefits
- Payroll and Pensions
- Creditors
- Street Traders
- Insurance
- Private and Voluntary Adult Homes
- Child Minders
- Blue badge misuse

In addition data matching is also carried out with the Benefit Agency (Department of Works and Pensions) and the Inland Revenue under their own statutory powers.

Data matching is conducted within the requirements of the current Data Protection legislation, and the Audit Commission protocols and staff side consultation.

Housing and /or Council Tax Benefit Fraud

This Service is managed by the Corporate Anti-Fraud Team within the Resources Directorate.

The framework for benefits related investigations and sanctions is contained within Appendix 4

Concerns regarding possible Housing or Council Tax Benefit Fraud, these can be reported using the Benefit Fraud Hotline on (0207 364 7443 – 24 hour answer phone service) or you can speak to a Benefit Investigator direct on 0207 364 7425 or 7426 or 7442

Other possible fraudulent activity includes the following (see Appendix 5 for more details):-

- Tenancy fraud
- Grants
- Insurance claims
- Parking permits including Blue Badge Scheme
- Identity theft fraud
- Protect yourself
- Advance fee fraud

Training and Awareness

All staff in the authority will be trained in fraud awareness and anti-fraud and corruption procedures, and this training will be reinforced regularly. It is the responsibility of chief officers to ensure that staff are properly trained. The Director of Resources will provide advice and assistance in the provision of training in fraud awareness to staff.

Future training will include;-

- Organised workshops will continue to be delivered during for 2015/16
- Induction training to new Investigating Officers under the Council's Disciplinary Code.
- Departmental management team training
- Regular on-line alerts and training
- Multimedia anti-fraud/anti-money laundering training

Conclusion

Tower Hamlets Council is committed to tackling fraud, corruption and money laundering whenever it happens. Our ongoing response relies heavily on the principles included in this document and our Anti-Money Laundering policy.

We will continue to review our processes and procedures to ensure these strategy documents remains effective and up to date following endorsement of the current approach by the Audit Committee and Standards Advisory Committee.

APPENDIX 1

The Fraud Act 2006

The Fraud Act 2006 came into effect on 15th January 2007 and replaces all the deception offences in the Theft Acts of 1968 and 1978 with a single offence of Fraud, as outlined in Section 1 of the 2006 Act. The Act targets fraudulent behaviour, not the consequences of that behaviour. The Act also requires an assessment of what the person intended to happen as a result of their dishonest behaviour.

The offence can be committed in three different ways thus-

- False representation (Section 2)
- Failure to disclose information when there is a legal duty to do so (Section 3)
- Abuse of position (Section 4)

The Act also creates new offences of possession (Section 6) and making or supplying articles for use in frauds (Section 7).

The offence of fraudulent trading (Section 993 of the Companies Act 2006) will apply to sole traders (Section 9). Obtaining services by deception is replaced by a new offence of obtaining services dishonestly (Section 11).

Further information on this legislation can be found at <http://www.opsi.gov.uk/acts.htm>

The Bribery Act 2010

The Bribery Act 2010 creates offences of offering or giving a bribe; and requesting, receiving or agreeing to accept a bribe; and bribing foreign officials. A relevant function or activity includes any function of a public nature; any activity connected with a business or performed in the course of a person's employment; or any activity performed by or on behalf of a body of persons whether corporate or unincorporated.

The Act also creates a new offence which can be committed by commercial organisations which fail to prevent persons associated with them (including third party providers) from bribing another person on their behalf. The commercial organisation will have a defence if it can show that it had adequate

procedures in place to prevent persons associated with it from committing bribery. To ensure that adequate procedures are in place six principles should be adhered to: proportionate procedures; top level commitment; risk assessment; due diligence; communication; monitoring and review.

The Identity Documents Act 2010

The Identity Documents Act 2010 defines what constitutes an identity document and includes

- an ID card
- a designated document
- an immigration document
- a UK passport
- a passport issued by or on behalf of the authorities of a country or territory outside the UK or by or on behalf of an international organisation
- a document that can be used instead of a passport- for example a visa
- a UK diving licence or a driving licence issued by or on behalf of the authorities of a country or territory outside the United Kingdom

Under this legislation it is an offence to hold a false identity document. A person found guilty of this offence could be sentenced to up to two years' imprisonment and a person convicted of having apparatus or material to create false identify documents may face up to ten years imprisonment or a fine, or both.

The Proceeds of Crime Act 2002

The Proceeds of Crime Act 2002 and Money Laundering Regulations 2007 place some important obligations upon professional advisers from a wide range of sectors, including tax advisers, accountants, auditors, insolvency practitioners and legal advisers. Such professionals who carry on relevant business are required to fulfil a range of obligations to prevent money laundering. In particular they are required to report their knowledge or suspicion of money laundering to the) Serious Organised Crime Agency (SOCA). This covers the proceeds of all crime including all acts of tax evasion and fraud.

At Tower Hamlets we have followed the guidance of CIPFA and the Corporate Anti-Fraud Manager, Tony Qayum fulfils the role of Money Laundering reporting officer. There is a process and procedure for reporting concerns to the Police via prescribed documentation. The area's most likely to be exposed to Money Laundering are physical cash, asset transactions, revenue overpayments and planning gain receipts.

If you have a concern regarding this you have a duty to report your concern to the Corporate Fraud Manager who will investigate the matter.

Regulation of Investigatory Powers Act 2000

Section 6(1) of the Human Rights Act 1998 provides that it is unlawful for a public authority to act in a way that is incompatible with a Convention right. Article 8 of the European Convention of Human Rights provides that “*Everyone has the right to respect for his private and family life, his home and his correspondence.*”

There can be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

The Regulation of Investigatory Powers Act 2000 (‘RIPA’) was therefore introduced, to ensure that surveillance and certain other intelligence gathering complies with the European Convention of Human Rights. Specifically, Part II of RIPA provides a statutory framework that is compliant with the European Convention of Human Rights when using intrusive surveillance techniques and by introducing national standards that apply to the Police and other Law Enforcement Agencies. The London Borough of Tower Hamlets is committed to maintaining these principles.

To demonstrate the Council’s commitment to open and transparent government, it has adopted the Home Office guidelines and documentation for Directed Surveillance and Covert Human Intelligence Sources-Informants/whistleblowers. The Office of Surveillance Commissioners (‘OSC’) are tasked with carrying out regular inspections of Law Enforcement Agencies to ensure compliance with RIPA in so far as directed surveillance and the use or conduct of a covert human intelligence source is concerned. As part of that implementation, the OSC advise that Law Enforcement Agencies, including this Council, develop a Corporate Policy. To comply with this requirement, this Policy was introduced from July 27th 2004 and has been updated regularly since then in accordance with good practice.

The Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998, which came into force in 1999, provides whistleblowers with statutory protection against dismissal and victimisation. The Act applies to people at work raising genuine concerns about crime, civil offences, miscarriage of justice, and danger to health and safety or the environment. It applies whether or not the information is confidential and extends to malpractice overseas.

The Act distinguishes between **internal disclosures** (a disclosure in good faith to a manager or the employer is protected if the whistleblower has reasonable suspicion that the malpractice has occurred or is likely to occur), **regulatory disclosures** and **wider disclosures**. Regulatory disclosures can be made in good faith to prescribed bodies such as the Health and Safety Executive, the Inland Revenue and the Financial Services Authority.

Wider disclosures (e.g. to the police, the media, and MPs) are protected if, in addition to the tests for internal disclosures, they are reasonable in all the circumstances and they meet one of three conditions.

Provided they are not made for personal gain these conditions are, that the whistleblower:

- reasonably believed he would be victimised if he raised the matter internally or with a prescribed regulator;
- reasonably believed a cover-up was likely and there was no prescribed regulator; or
- had already raised the matter internally or with a prescribed regulator.

For protection from victimisation to be afforded under the Public Interest Disclosure Act, it is necessary in the first instance to consider the nature of the information revealed, and decide whether the disclosure is a 'qualifying disclosure' within Section 43(B) of the Employment Rights Act 1996.

The question is whether the worker concerned honestly believes that the information revealed tends to show that there has been, or is, or is likely to be a relevant failure - past, present or future.

The relevant failure may be:-

- a criminal offence;
- a failure to comply with any legal obligation;
- a miscarriage of justice;
- a danger to the health and safety of any person;

[Extract from Internet Report prepared by 'Public Concern at Work']

APPENDIX 2

Fraud Response Plan

As part of the Borough's Anti-Fraud and Corruption Strategy, it is best practice to have a Fraud Response Plan in place. The plan offers staff direction and help in dealing with matters of suspected Fraud and Corruption indicating responsibilities, and sources for guidance.

RISK MANAGEMENT

The Risk Management Service is usually the most appropriate unit to investigate suspected fraud. It is essential, therefore, that every case of suspected fraud is reported to the Corporate Anti-Fraud Manager.

The Director of Resources will advise and decide on how an inquiry will be progressed and, in conjunction with the Head of Paid Services, whether external agents such as the Police need to be informed.

Experienced Investigation staff will be assigned to manage fraud and/or corruption investigations. Such investigations by Risk Management will give due regard to Audit Commission Guidelines, Codes of Practice and relevant legislation.

At the conclusion of the investigation, management of the service concerned will be informed as to the outcome together with recommendations as to proposed action. The Planned Audit Team will ensure that all recommendations agreed are fully implemented following an actual follow-up audit within six months of the conclusion of the investigation. This will therefore inform the risk based audit approach and the local/corporate risk registers.

REPORTING SUSPECTED FRAUD AND CORRUPTION

Staff are at the forefront in helping the authority to detect fraud. It is often members of staff who are the first to notice suspected cases of fraud and corruption.

The authority encourages staff to report issues concerning fraud or corruption. Financial Regulations and the Officers Code of Conduct require staff to raise their concerns where irregularity is suspected.

When the employee first uncovers a case of suspected fraud or corruption the action they initially take can often be vital to the success of any investigation that ensues. It is essential that their actions be in line with the guidance given in this document.

Guidance on 'What to do' when you suspect fraud and/or corruption are given in the Sections headed 'Action by Employees' and that on 'Action by Managers'

NB. Your suspected fraud and/or corruption matter should be reported to one of the following :-

- Your Line Manager - (where appropriate)
- Your Head of Service- (where appropriate)
- Your Corporate Director- (where appropriate)
- The Corporate Anti-Fraud Manager - Tony Qayum Ext. 4773
- Corporate Fraud Team – Corporate Fraud Team Leader – Sue Oakley Ext. 7423
- Head Risk Management and Audit - Minesh Jani Ext 0738
- Interim Monitoring Officer - Meic Sullivan-Gould Ext 4800
- Acting Director of Resources – Chris Holme Ext 4700
- Via the Confidential Staff Whistleblowing Hotline on Free phone 0800 528 0294 (See Whistleblowing process – Appendix 3)
- Public Concern at Work- 020 7404 6576

ACTION BY EMPLOYEES

Where fraud or corruption is suspected:

- Write down your concerns immediately
- Make a note of all relevant details e.g. telephone conversations, dates times, names, actions
- Any notes or evidence in their possession, which supports what is being reported, must be kept intact and placed in a secure location
- Report the matter immediately to either your line manager or your Service Head. If this is not possible/or appropriate due to your concerns potentially about your own service or line

manager, it can be reported to the Risk Management Service (Tony Qayum on Ext. 4773 email tony.qayum@towerhamlets.gov.uk or Sue Oakley Ext. on 7423 and email sue.oakley@towerhamlets.gov.uk). Alternatively, the Council's confidential Staff Whistleblowing telephone line can be used for this (0800 528 0294). Give that officer any notes you have made or any evidence that you have gathered.

- Do not tell anybody else about your suspicions
 - Be prepared to assist Internal Audit or any authorised body in any investigation
 - Do not attempt to carry out an investigation yourself as this may jeopardise any future enquiry and compromise your evidence
- Where money laundering is suspected, follow the guidance set out in the Council's Anti-money laundering policy

Please note that under no circumstances should a staff member speak to or write to representatives of the press, TV, radio or to another third party about a suspected fraud without the express authority of the Head of Paid Services.

Suspicions of money laundering must not be discussed with any person save for the Council's Money Laundering Reporting Officer as set out in the Council's Anti-Money Laundering policy.

It is paramount that officers do not act in a manner that may give rise to an action for slander or libel, or which may amount to an offence of "tipping-off" under the Proceeds of Crime Act 2002.

ACTION BY MANAGERS

Where fraud or corruption is suspected:

- Listen to the concerns raised by staff and treat every reported case seriously, sensitively and confidentially. Never give members of staff the impression that their well-meaning concerns are being treated with anything other than the utmost seriousness

- All staff concerns should be given a fair hearing, along with reassurance that their report of such issues will not affect them adversely
 - Attempt to gain as much information as possible from the member of staff reporting the concern. This should include any notes or evidence in their possession, which supports what is being reported. Such evidence must be kept intact and placed in a secure location
 - Assess whether the suspicions may have some foundation before taking the matter further
 - All suspected concerns involving suspected fraud and corruption must be reported in compliance with Financial Regulations to the Director of Resources or to the Corporate Fraud Manager and give that officer any notes or evidence that has been gathered
 - Be prepared to assist Internal Audit or any authorised body in any investigation
 - Do not attempt to carry out any investigation.
- Where money laundering is suspected, follow the guidance in the Council's anti-money laundering policy.

APPENDIX 3

Whistleblowing Process

The Public Interest Disclosure Act 1998 (see appendix A for further information) has enhanced the need for an Anti Fraud culture to be present in all Public Service environments. This entails meaningful and accessible means for Staff, Members and Partners to raise concerns in confidence.

The cornerstone of an Anti-Fraud and Corruption Strategy is a Whistleblowing facility which would **enable staff, contractors, third sector and voluntary providers and Members** to raise concerns of a serious nature in confidence and with assurance that if the matters reported are well-founded they will be investigated without fear of comeback to the whistleblower

The Council launched a confidential Whistleblowing telephone line in September 2000 and has regularly publicised this via articles in internal news publications, the Council's Intranet and within the Authority's Corporate Governance arrangements, including the Authority's Financial Regulations

"Do you have a genuine concern about Unlawful or improper conduct by Council officers or Councillors"?

- If you do, we need to know about it
- You are not a snitch, if you raise a genuine concern you will be helping the Council
- You will not be asked to prove your concern is true, only that it is honestly raised
- You must have a concern about unlawful conduct for example possible abuse of authority or dishonest activity
- Your concern should not be a grievance or complaint about services. These have different routes for redress
- You should not raise malicious or false concerns
- If you raise a genuine, but, unfounded concern, you will not be involved in any follow up

action

- You can remain anonymous and be treated with strict confidence if you request

A Supplement not a Substitute – The Usual Channels for Complaint

It is important to note that the Whistleblowing strategy is not intended to replace any of the complaint/concern mechanisms already in place at Tower Hamlets.

Anyone, including elected members, staff, service users, partners and members of the Public are encouraged to raise genuine complaints or matters of concern with the Council through existing procedures.

Where an appropriate avenue exists people should use it. The Whistleblowing procedure is designed to supplement, rather than replace the existing procedures wherever practicable. These channels are:

The Council's Complaints Procedure

The Grievance Procedure

Line Management

The Housing Benefit Fraud Hotline (0207 364 7443)

The Council General Inquiry number (020 7364 5000)

The External Auditor

Public Concern at Work 020 7404 6576

SAFEGUARDS

The Council recognises that a decision to “blow the Whistle” can be a difficult one to make. This may be influenced by the fear of reprisal from those who may have perpetrated the alleged malpractice or from the organisation as a whole.

The Council will not tolerate any victimisation and will take appropriate action to protect any person who raises a concern in good faith, including any necessary disciplinary action.

Wherever possible, the Council will protect the anonymity of any member of staff who raises a concern and who does not want his/her name to be disclosed.

However, this may not always be possible, as any investigation process may in itself reveal the source of information and a statement by the Whistleblower may be a necessary part of evidence, particularly if it is thought the matter may lead to a criminal prosecution.

The Council will protect individuals and the organisation from false, malicious and vexatious expressions of concern. If staff make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered and implemented. To protect staff who maybe the subject of a false, malicious and vexatious expression of concern or a mistaken belief, the Council will investigate the complaint in a timely manner and in accordance with the following timescale:

- A professional investigator will review and classify the matter within 15 days;
- If, following an investigation it is determined that there is a case to answer a decision will be made for an independent confidential investigation to be carried out, under the Council's Disciplinary Code. This will be communicated to the person who is the subject of the complaint in accordance with the Council's existing Disciplinary Investigation procedures as will all timescales outlined in the appropriate HR strategy.

The Council will do its best to protect an individual's identity when s/he raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence. The Council will try to ensure that the negative impact of either a false or unfounded allegation on any "accused" person is minimised. This entails acting with the strictest independence and professional confidentiality.

In determining if action to investigate will take place, the Council will consider the following:-

- whether it is the Council's business
- the credibility of the concern

the seriousness of the issues raised

the likelihood of obtaining the necessary information

the experience of previous related reports

Anonymous concerns will be investigated at the discretion of the Council

The following chart shows how to get your concerns investigated, and takes you through the agreed procedures on how each concern is dealt with to ensure transparency and that it is being treated seriously.

<ul style="list-style-type: none">• I think a fraud or unlawful act may have been committed• What should I do?• Who should I contact?	<ul style="list-style-type: none">• Is it serious and well founded?• If Yes• You can raise your concerns in confidence on the Whistleblowing Hot Line (or write to Tony Qayum – Corporate Anti-Fraud Manager - 7th Floor Mulberry Place)
<ul style="list-style-type: none">• What will happen if I ring the Hotline	<ul style="list-style-type: none">• You will be asked for details of your concern
<ul style="list-style-type: none">• Will I have to give my name?	<ul style="list-style-type: none">• NO
<ul style="list-style-type: none">• So what will happen next?	<ul style="list-style-type: none">• Your concern will be given a reference number. You can call in 10 days to check progress
<ul style="list-style-type: none">• Who does anything about it?	<ul style="list-style-type: none">• A Registration Officer will take details of your call, and a professional investigator will review and classify it.• A register of <u>all calls</u> will be kept, and the Registration Officer will report this to the Acting

	<p>Director of Resources</p> <p>A final decision will be made and if appropriate an independent confidential investigation will be carried out</p>
<ul style="list-style-type: none"> • Won't it just be covered up? 	<ul style="list-style-type: none"> • NO - there is independence between the Registration Officer and the Investigation Officer. The Investigation Officer is answerable to the Acting Director of Resources and the Acting Director of Resources must ensure that justified action is reported back to the Registration Officer.
<p><i><u>PLEASE CALL 0800 528 0294</u> if you have any concerns or would like further details of the process.</i></p> <p><i>Strict Confidentiality and Anonymity will be preserved if requested.</i></p>	

APPENDIX 4

LONDON BOROUGH OF TOWER HAMLETS BENEFIT FRAUD ENFORCEMENT POLICY

1) Background

The Benefits service positively encourages the take up of Housing and Council Tax Benefit but acknowledges its responsibility to prevent and detect benefit fraud.

Benefit offences are taken seriously by the Council and it is our aim to apply prosecutions and sanctions in cases where such action is deemed appropriate.

This policy is designed to provide a suitable framework to ensure a fair and consistent approach is applied for cases under consideration.

2) Legislative framework

The Council currently has the power to prosecute offenders under Section 111A and 112 of the Social Security Administration Act 1992 which is generally the legislation most appropriate to benefit fraud offenders. However other legislation such as the Fraud Act 2006 may be used where appropriate.

It is important to note that the section 112 of the Welfare Reform Act 2012 will remove the Council's powers to prosecute housing and council tax benefit fraud, and this is being progressively rolled out across the UK. Tower Hamlets will stop prosecuting new offences from February 2016, except where an investigation is already underway.

Currently, the Council may apply sanctions in cases where prosecution is feasible, but is not the preferred option. The available sanctions are:

- Administrative Penalty – where a penalty fine of 50% (as of May 2012) of the fraudulently overpaid benefit can be applied. The offender has the right to refuse to accept the penalty

but the Authority should then proceed with prosecution action on the case. Therefore the case must be of suitable quality for prosecution action from the outset.

The legislation pertaining to Administrative Penalties is contained within Section 115A of the Social Security Administration Act 1992 (as amended by Section 15 of the Social Security (Fraud) Act 1997).

- Formal Caution – an oral warning that is administered when a claimant has admitted to an offence. These are generally used in less serious cases where lower amounts of money are involved.

The caution is offered in cases where the claimant has admitted the offence, and he/she has a choice in whether to accept or decline the caution. If the caution is declined the Authority should proceed with prosecution action. An accepted caution is recorded on the Department of Work and Pensions Central database and the record is kept for 5 years. Prior to offering Formal Cautions or Administrative Penalties the Central Database is checked. It would not be appropriate to issue more than one caution or penalty to an individual. If the check shows they have accepted a caution or penalty previously the Authority should proceed with prosecution action against that individual.

Both Administrative Penalties and Formal Cautions are offered in a special interview by an officer who has not dealt with the investigation of the case. The format of the interview is fully proceduralised by the Department of Work and Pensions (DWP) to ensure clarity, fairness and consistency.

3) **Prosecution**

Prosecutions on benefit fraud cases are generally facilitated by the Council's Legal Service, but they may also be taken by the DWP or the Police where necessary, according to circumstances.

4) **Suitability for Prosecution and Sanction Action**

Cases are scrutinised by the Investigations Manager for the suitability for prosecution or sanction action taking into account a number of factors.

Primarily evidence and the public interest test are applied before further additional details of the case are taken into account. Details of the considered criteria are given below:

A) *Sufficiency of evidence*

- Is there enough evidence to provide a realistic prospect of conviction?
- Has the evidence been collected in an appropriate manner?
- Can the evidence be used in court?
- Is the evidence reliable?

-

B) *Public interest test*

Generally it must be seen to be in the public interest to prosecute. Poor publicity surrounding an attempted prosecution can lead to criticism of the Authority. To consider whether it is in the public interest to prosecute then seven (7) questions need to be considered:

- (a) How serious is the offence committed? The more serious the offence, the more likely it is that a prosecution is required. When deciding the level of seriousness of the offence committed, prosecutors should include amongst the factors for consideration the suspect's culpability and the harm to the victim by asking themselves the questions at b) and c).
- (b) What is the level of culpability of the suspect? The greater the suspect's level of culpability, the more likely it is that a prosecution is required. Culpability is likely to be determined by the suspect's level of involvement; the extent to which the offending was premeditated and/or planned; whether they have previous criminal convictions and/or out-of-court disposals and any offending whilst on bail or whilst subject to a court order; whether the offending was or is likely to be continued, repeated or escalated; and the suspect's age or maturity (see paragraph d) below for suspects under 18).

Prosecutors should also have regard when considering culpability as to whether the suspect is, or was at the time of the offence, suffering from any significant mental or physical ill health as in some circumstances this may mean that it is less likely that a prosecution is required. However, prosecutors will also need to consider how serious the offence was, whether it is likely to be repeated and the need to safeguard the public or those providing care to such persons.

- (c) What are the circumstances of and the harm caused to the victim? The circumstances of the victim are highly relevant. The greater the vulnerability of the victim, the more likely it is that a prosecution is required. This includes where a position of trust or authority exists between the suspect and victim. A prosecution is also more likely if the offence has been committed against a victim who was at the time a person serving the public.

Prosecutors must also have regard to whether the offence was motivated by any form of discrimination against the victim's ethnic or national origin, gender, disability, age, religion or belief, sexual orientation or gender identity; or the suspect demonstrated hostility towards the victim based on any of those characteristics. The presence of any such motivation or hostility will mean that it is more likely that prosecution is required.

In deciding whether a prosecution is required in the public interest, prosecutors should take into account the views expressed by the victim about the impact that the offence has had. In appropriate cases, this may also include the views of the victim's family.

Prosecutors also need to consider if a prosecution is likely to have an adverse effect on the victim's physical or mental health, always bearing in mind the seriousness of the offence. If there is evidence that prosecution is likely to have an adverse impact on the victim's health it may make a prosecution less likely, taking into account the victim's views. However, we do not act for victims or their families in the same way as solicitors act for their clients, and prosecutors must form an overall view of the public interest.

- (d) Was the suspect under the age of 18 at the time of the offence? The criminal justice system treats children and young people differently from adults and significant weight must be attached to the age of the suspect if they are a child or young person under 18. The best interests and welfare of the child or young person must be considered including whether a prosecution is likely to have an adverse impact on his or her future prospects that is disproportionate to the seriousness of the offending. Prosecutors must have regard to the principal aim of the youth justice system which is to prevent offending by children and young people. Prosecutors must also have regard to the obligations arising under the United Nations 1989 Convention on the Rights of the Child.

As a starting point, the younger the suspect, the less likely it is that a prosecution is required. However, there may be circumstances which mean that notwithstanding the fact that the suspect is under 18, a prosecution is in the public interest. These include where the offence committed is serious, where the suspect's past record suggests that there are no suitable alternatives to prosecution, or where the absence of an admission means that out-of-court disposals which might have addressed the offending behaviour are not available.

- (e) What is the impact on the community? The greater the impact of the offending on the community, the more likely it is that a prosecution is required. In considering this question, prosecutors should have regard to how community is an inclusive term and is not restricted to communities defined by location.
- (f) Is prosecution a proportionate response? Prosecutors should also consider whether prosecution is proportionate to the likely outcome, and in so doing the following may be relevant to the case under consideration.

➤ The cost to the CPS and the wider criminal justice system, especially where it could be regarded as excessive when weighed against any likely penalty. (Prosecutors should not decide the public interest on the basis of this factor alone. It is essential that regard is also given to the public interest factors identified when considering the other questions in paragraphs 4.12 a) to g), but cost is a relevant factor when making an overall assessment of the public interest.)

- Cases should be capable of being prosecuted in a way that is consistent with principles of effective case management. For example, in a case involving multiple suspects, prosecution might be reserved for the main participants in order to avoid excessively long and complex proceedings.
- (g) Do sources of information require protecting? In cases where public interest immunity does not apply, special care should be taken when proceeding with a prosecution where details may need to be made public that could harm sources of information, international relations or national security. It is essential that such cases are kept under continuing review.

C) *Additional factors of the case*

A key consideration in the decision whether to prosecute is the level of *dishonesty* involved in the fraud. An investigated case may result in a relatively large amount of overpaid benefit, but another with a lower amount of overpayment may present as more serious because of the level of knowledge and deception involved.

Other factors taken into consideration are:

- Whether there is evidence of a previous instance of benefit fraud.
- Where the offender was in a position of trust (e.g. employee or Councillor).
- Where there is evidence of collusion (e.g. with landlord or employer)
- Where the person has declined an Administrative Penalty or Caution.
- Where Authorised Officer powers have been obstructed.
- Where there are errors or flaws in the benefit assessment process.

The facts of the case are provided by the investigating officer in summary form at the end of the investigation following a taped Interview under Caution and calculation (by the Benefit Office) of any resulting overpayment.

The Principal Investigation Officer heading the relevant team will evaluate the case and pass her/his recommendations on to the Team Manager.

The Team Manager will consider all the available evidence and determine whether any further action will be appropriate on the case in terms of criminal prosecution action, Formal Caution or Administrative Penalty. The above mentioned points are taken into consideration as are any serious social or personal factors that may have come to light during the investigation. The amount of the benefit overpaid as a result of the perceived fraudulent activity is taken into consideration but is not a definitive measure of what action is to be taken on the case.

The Authority aims to facilitate prosecution action on all cases where there is suitable evidence and supporting criteria. The team has an officer dedicated to preparing the paperwork required and liaising with the Legal department to ensure optimum results are achieved when the case goes to court.

APPENDIX 5

Concerns on the following can be reported via the Whistleblowing hotline and will be referred to the appropriate Service Head for investigation and action as necessary.

Unlawful Subletting of Social Housing Property

The Council through Tower Hamlets Homes and its Registered Partners has a limited number of homes available to let and lettings are prioritised according to housing needs. Tenancy fraud involves obtaining properties by deception (for example, individuals claiming to be homeless when they already own a property or are already living at an address), or continuing to claim to be living at a property when they have moved out and sublet it.

We have a duty to house certain vulnerable members of society (e.g. children), and are often forced to use bed and breakfast facilities due to a shortage of Council housing. In addition, families or individuals on the housing waiting list are denied housing because people are using the Council properties for profit or simply queue jumping. Fraudulently obtaining Council housing or subletting for personal gain uses up precious resources that should be available to families in need. The Corporate Fraud Team has a dedicated resource to investigate allegations of Sub Letting and the team works with all Social Housing Landlords within the borough including Tower Hamlets Homes.

If you have any information that suggests a tenanted property is being sub let please **CALL 0800 528 0294** *if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested*

Grants

The Council awards several different grants to individuals and organisations in the borough. These range from house renovation grants to voluntary organisations providing services to the community. Grant fraud usually involves either making false claims in order to obtain a grant or providing false accounts of how the money is spent.

Insurance claims

The Council receives bogus insurance claims, particularly related to trips and falls on the pavement. This is a serious problem, which drains resources away from repairing and improving the highways themselves.

Parking permits including Blue Badge Scheme

The Council has designated many neighbourhoods as controlled parking zones, many requiring a parking permit which is only available to residents. Parking in certain areas of the borough is at a premium, which causes some motorists to use fake permits, other residents' permits, or may fraudulently use a resident's address to obtain a permit from us. This kind of fraud reduces the availability of parking for residents and reduces the revenue to the Council.

Identity theft/fraud

Identity theft is the unlawful taking of another person's details without their permission. The information stolen can be used to obtain many financial services goods and other forms of identification i.e. passports and driving licenses. The information stolen can range from a copy of birth certificate to copies of discarded bank or credit card statements and utility bills.

Once the criminals have copies of someone's identity they can embark on criminal activity in your name with the knowledge that any follow up investigations will not lead to them. With your details they can obtain documents that are in essence real but contain false information thus making it difficult for organisations to know who they really are dealing with.

Protect yourself!

Be careful with your personal information. If you receive a telephone call from a credit card company, bank or other retail company asking to confirm certain details about yourself decline them and ask to call them back preferably through a central switchboard. Also, do not reveal your personal details when using your mobile phone in a public place. When destroying personal correspondence such as bank and credit card statements consider a shredder or even burning them on the garden refuse. If you cannot do either then tear the papers up into very small pieces and place in the refuse bin with other waste products.

If you move address remember to inform all of the companies that send personal information to you in the post. Always consider re-directing your post with Royal Mail. If you fail to do this people moving in might have free access to your personal details and misappropriate them.

How do you know if are victim to this type of fraud?

Are you missing your regular monthly statements?

- Have you noticed charges to your accounts that are not yours? Remember to check all statements especially bank and credit card.
- Being contacted by a debt collection agency about outstanding payments for items or services that you have not ordered.

Protect yourself act quickly

Firstly do not ignore the problem it might not be you that has ordered some goods or opened an account but the debt falls to your name and address.

Once blacklisted for credit it may take many years to fully recover from the problem and you might have difficulties in obtaining a mortgage or other bank credit.

Contact your local Police, report the crime and ask for a crime reference number to quote to the companies that allege that you have opened an account with them.

Check out the Home Office identity theft website at www.identity-theft.org.uk for more information

Advance fee fraud

Advance fee fraud is a popular crime, which involves a myriad of schemes and scams - mail, faxed, and telephone promises designed to facilitate victims parting with money. They usually claim to be from a general or politician in a foreign country who has a large sum of money (millions of pounds), which they wish to get out of a country, and need help in getting it out with the promise of a substantial share of the

cash in return. If you receive correspondence of this sort report it to the police. Remember, if it seems too good to be true, it probably is! For further crime prevention advice, visit the [BBC Crime Prevention website](#) or the [Home Office fraud prevention website](#)

Appendix 2

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Tower Hamlets Homes</u>							
Management Support and Advice	15			N/A	N/A	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Work carried forward, Whistle blows, management referrals and proactive contingency	15	Management of Whistle blows, management referrals and reactive and proactive contingency	H	£140M	0.5% - 3%	Various	One Tower Hamlets Working efficiently and effectively as one Council.
Anti Fraud Arrangements/Joint Working	10	This work includes the Fraud Forums, training with the service on Anti Fraud and Corruption Strategy, Money Laundering etc. There is also provision for in year unplanned investigations and support to management.	H	£140M	0.5% - 3%	Legislative Requirement	One Tower Hamlets Working efficiently and effectively as one Council.
Social Housing Fraud Joint Working and Systems improvement incl. Call Credit Data Matching exercise	30	Feeding back and learning from systems issues identified by the Social housing fraud team from their working with THH as added value	H	£140M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
THH total	<u>70</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Proactive Training and Development</u>							
Anti fraud liaison groups development	15	This will involve close working with a number of our external partners including the Police, DWP and PCT.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Anti fraud training and development for members and services	40	Provide continuous update and training to Members and Officers including lunchtime workshops for Directorate Staff	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>55</u>						
<u>Overall Governance</u>							
Audit Committee	20	Preparation and presentation of reports to the Audit Committee	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Standards Advisory Committee	10	Preparation and presentation of reports to the Standards Committee	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
FOI	15	Reactive responses to Freedom of Information requests for information.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Money Laundering Officer responsibilities	15	Identify and deliver training and act as the money laundering officer, providing advise, single point of contact on any issues and co-ordination with other agencies	H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Categorising and quantifying fraud	10	Continue the development of categorising and quantifying fraud to influence system controls and improvement	H	Over £1B	0.1% 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>70</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>NFI 2013/14</u>							
NFI management Key Contact Function	25	This work will involve managing the Audit Commission Web base site, provision of training and support and monitor progress. Managing NFI pilots as they arise.	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
NFI Co-ordinator and Corporate Investigations	75	Manage the NFI output with corporate risk support/train other investigators as appropriate, respond the enquiries from other LA's or agencies	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>100</u>						
<u>Joint working with other agencies</u>							
Joint working and referrals DWP	15	Provide support to DWP referrals on staff related matters	H	Circa £140M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Joint working and referrals from the Police	5	Respond to Met Police referrals from both the local and specialist police functions	H	Unknown dependant on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

	20						
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Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Anti Fraud Forums</u>							
Anti Fraud forums	5	Internal and external (other LA's, Police, DWP, PCT) anti fraud groups working on information sharing and joint working and fraud co-ordination	H	Unknown dependant on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>5</u>						
<u>Proactive</u>							
Internal data matching exercises with council services and trial of Fraud Hub with, inter alia, Social Housing providers, Housing benefit and Housing Allocations Development of new areas of investigation including C. Tax reduction scheme, SPD and Student discount reduction awards and NNDR reduction schemes.	130		H	Circa £300M	.03%-5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
Data matching - corporate assurance	40		H	Unknown dependant on matching results		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Development of FMMs fraud modules case managements systems	25	Building developing the FMMS cases management systems for Social Housing Fraud, Parking Fraud and Corporate reactive modules	H	N/A	N/A	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>195</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Contingencies</u>							
Anti Fraud Reactive contingency	<u>50</u>		H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Management of Whistle blows	<u>35</u>		H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<i><u>Reactive (audit and anti fraud) total</u></i>	<u>600</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Social Housing Fraud Team (3 full time resources)</u>	<u>585</u>	Working with THH and other RSL's on recovering of Unlawfully let properties, in appropriate successions, assignments, mutual exchanges RTBs. Joint working with LBTH to identify and learn from weaknesses. Co-ordinate associate fraud work with benefits, Council Tax, Parking Fraud, Electoral Role etc...	H	£140M plus	1% - 5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Parking Fraud Team (one full time one P/T)</u>	<u>330</u>	Investigating blue badges, parking and permits associated abuses in line with SLA with CLC	H		0.5% to 10%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Housing Benefit Fraud Team</u>	<u>1175</u>	Investigation of allegations of HB abuse, Joint working with DWP, Data matching and NFI Output investigation.	H		H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

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Agenda Item 3.4

REPORT TO: Audit Committee	DATE 17th March 2015	CLASSIFICATION Unrestricted	REPORT NO..
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Tony Qayum Corporate Anti-Fraud Manager		<i>Protecting the Public Purse 2014 and Transparency Code</i> Ward(s) Affected: N/A	

1. Summary

- 1.1 This report updates the Audit Committee of the main findings of the Audit Commission's publication "Protecting the Public Purse" 2014 and informs the Audit Committee of the requirements of the Transparency Code 2014 in regard to Fraud investigation.

2. Recommendation

- 2.1 The Audit Committee is asked to note the matters raised in this report.

3. SUMMARY

- 3.1 The attached report summarises the work of the Audit Commission in its publication 'Protecting the Public Purse' which used the mandatory returns that each local authority is required to send on fraud cases valued in excess of £10,000 to compare the reported fraud identified in local authorities during 2013/14 and makes specific comments on trends going forward and examples of good investigation work in the form of case studies. The work of the Commission focused on five specific areas of fraud, highlighted as the most common from an earlier survey of all local authorities in England, these being; Benefit Fraud, Non-benefit fraud, Housing tenancy fraud, organised and opportunistic fraud and longer term trends in frauds detected by councils.
- 3.2 The report also highlights the changing counter-fraud landscape and the main issues councils face in tackling fraud going forward particularly with the reduction of resources introduction of the 'Single Fraud Investigation Service' to be managed by the DWP.

- 3.3 In 2013 the National Fraud Authority estimated that fraud cost local government £2.1billion, excluding benefit fraud, but this is generally considered to be an underestimate.
- 3.4 The report makes the point that each pound lost to fraud reduces the ability of local authorities to provide public services.
- 3.5 At the end of the report at Appendix 2 of the Audit Commission report, there is a checklist for councillors and those responsible for governance to assess how well positioned each council is in managing the risk of fraud in their authority.
- 3.6 Further, it was intended to report separately to CMT and the Audit Committee the local picture and to request the Audit Commission Counter Fraud lead who prepared the national report to benchmark the Council and provide a presentation of how well we fare against the national picture as well as the other authorities in London. This is something we have commissioned over the last few years. However the team was disbanded from 15 December 2014 and did not transfer to the Counter Fraud Service managed by CIPFA as was generally expected, thus the opportunity could not be taken up. It is therefore intended to report against the checklist at the next Audit Committee cycle in June 2015.

4. KEY MESSAGES FROM THE NATIONAL PICTURE

- 4.1 The report focuses on fighting fraud against local government and has been written for councillors and senior officers responsible for governance. In the report, the Audit Commission highlight the fact that reported fraud had increased in value to £188 million which is the highest amount ever recorded by the Commission in the 25 year period that the commission has gathered information on counter-fraud in Local Government.
- 4.2 The report states that the extent of fraud in local government is large, but that the ability to quantify with precision is an ongoing challenge.
- 4.3 It recognises that with the changing landscape and the reduction of resources brought about by the move of investigators to the DWP there is a greater pressure on those charged with governance to ensure that the risk of fraud is adequately resourced.
- 4.4 The report also notes that in the last 5 years councils have shifted their focus from benefit fraud investigation to non- benefit fraud and by 2016 local authorities will no longer deal with benefit fraud.

- 4.5 The move away from benefit investigation nationally is in part due to the ending of incentives which for example between 1991 and 2000 represented nearly all of the fraud detected.
- 4.6 Given this change the report suggests that councils will need to focus on non- benefit fraud work.
- 4.7 To this end the report shows that in the areas of Council Tax Discount Fraud, Right to Buy fraud, Social Care fraud and Insurance there have been significant increases in cases investigated and outcomes achieved.
- 4.8 Overall it notes that there has been an increase in detecting more non-benefit frauds but that detection rates for some types of fraud have fallen. In particular business rates declined from 149 cases worth £7.2 million in 2012/13 to 84 cases worth £1.2 million in 2013/14.
- 4.9 Similarly, Procurement cases fell in numbers from 203 in 2012/13 to 127 in 2013/14 however, in the same period the value increased from 1.9 million to 4.4 million.
- 4.10 The report does however, have some positives. The number of Social Housing Tenancy Fraud recoveries has increased by 18% in the last year to 1,807 in London and by 15 % across England to 3030 from 2642 the previous year.
- 4.11 There were also increases in detection around the areas of Right to Buy up by 110 % to 193 cases, Social Care up by 119% to 438, Insurance by 205% to 226, Blue Badge (Disabled Parking) up by 33% to 4,055 and Payroll abuse up 35% to 432 cases.
- 4.12 Of particular interest was the identification of an increase of 20% in Abuse of Position cases which stood at 341 compared to 283 in the previous report and representing £4 million in value.
- 4.13 The report finalises its submission with the suggestion that a more corporate approach to tackling fraud in all areas helps effectiveness and enables Local Authorities to discharge their duty to protect the public purse.
- 4.14 The core components of which include Prevention and Deterrence arrangements, Investigation and Detection which has dropped following the reduction in FTE numbers and the report makes the point that after 2016 when central government no longer contributes funds for counter-fraud activity, councils will need to recover more losses than they do currently. One tool

to aid this being the use of Proceeds of Crime Act legislation to address Recovery and Redress.

- 4.15 The need for openness and transparency remains integral to the way we do our business and the report suggests that authorities should look for fraud and record how many frauds they detect. In doing this it will show leadership, allow councils to compare their performance with other organisations and alert them to emerging fraud risks more effectively.
- 4.16 From April 2015 the Audit Commission's Counter Fraud activities will transfer to new organisations. The National Fraud Initiative will be managed by the Cabinet Office and the remaining counter fraud staff and functions including Protecting the Public Purse and Fraud Briefings will transfer to the Counter Fraud Centre, which is run by CIPFA.
- 4.17 Attached at Appendix 1 is the full report for consideration.

5. LOCAL GOVERNMENT TRANSPARENCY CODE

- 5.1 The Audit Committee will be aware of the Local Government Transparency Code which requires Local Authorities to publish data about various areas of their activities. The new transparency code was introduced in 2014 to meet the government's desire to place more power into citizens' hands enabling demonstrable democratic accountability and ease for local people to contribute and help shape public services.
- 5.2 The council shares in the principle that data held and managed by local authorities should be made available to local people and their partners subject to specific sensitivities (e.g protecting vulnerable people or commercial and operational considerations).
- 5.3 As part of the requirement to publish data, the Corporate Anti-Fraud team have the following key areas to be transparent with:
- number of occasions Prevention of Social Housing Fraud (power to require information) (England) Regulations 2014 have been used
 - total number (full time equivalent) of employees undertaking investigations and prosecutions of fraud
 - total number (full time equivalent) of professionally accredited counter fraud specialists

- total amount spent by the authority on investigations and prosecutions of fraud
- total number of fraud cases investigated.

The following information for the period April 1 to December 31, 2014 determines the values.

The deadline for publication was 2 February 2015 and this was achieved. The information in the format above is contained in the transparency pages of the Councils Internet as well as within the Anti-Fraud page of the Risk Management pages and has been put on the Intranet.

Fraud	Totals
Prevention of social housing fraud powers	5
Total number FTE fraud officers	17
Total number FTE ACFS	14
Total amount spent on investigation	£646,998
Total amount spent on prosecution	£2,500
Total number of fraud cases investigated	900

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

6.1 These are contained within the body of this report.

7. LEGAL COMMENTS

7.1 The Local Audit and Accountability Act 2014 will abolish the Audit Commission from 1 April 2015 and introduce a new local audit framework. The Local Government Association will set up a new company to take on responsibility for management of the Audit Commission's contracts until the legal introduction of local appointment in 2017.

7.2 The Local Government (Transparency) (Descriptions of Information) (England) Order 2014 allows the Secretary of State to require information on all expenditure, all legally enforceable agreements entered into by an authority and invitations to tender

to be published more frequently than annually. The Local Government (Transparency Requirements) (England) Regulations 2014 make it a legal requirement for the Council to publish the data specified in Part 2 of the Local Government Transparency Code issued on 3 October 2014 (the Code).

- 7.3 The Code is a tool to embed transparency in local authorities and sets out the minimum data that the Council should be publishing, the frequency it should be published and how it should be published. Part 2 of the Code became mandatory when regulations, made under section 3 of the Local Government, Planning and Land Act 1980, came into force.
- 7.4 Quarterly data must first be published no later than 31 December 2014 and thereafter not less than quarterly, with the data being published no later than one month after the quarter to which it relates. The Council must publish two sets of quarterly data in 2014-15.
- 7.5 The first set of annual data must be published no later than 2 February 2015 and thereafter not less than annually, with the data being published no later than one month after the year to which it relates. Within these timescales, the Council may choose to publish at any point. However, local people have a right to see timely data about how their local authority spends money and delivers services.

8. ONE TOWER HAMLETS

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

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 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.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 10.1 There are no specific SAGE implications.

Protecting the public purse 2014

Fighting fraud against local government

October 2014



The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

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Summary and recommendations

This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before we close in March 2015. It draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

- The Commission published *PPP* reports from 1991 to 2000 and again from 2009 to 2014. *PPP* reports have:
 - raised awareness of the importance of fighting fraud;
 - promoted transparency and accountability about counter-fraud in local government bodies;
 - improved data on fraud detection, including benchmarking; and
 - promoted good practice in fighting fraud.

The scale of fraud against local government is large, but difficult to quantify with precision.

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.
- Each pound lost to fraud reduces the ability of local authorities to provide public services.
- The more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may be a positive sign that councils take fraud seriously rather than a sign of weakening of controls.

In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.

- The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
- The number of detected cases of **housing benefit and council tax benefit fraud** fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
- The number of detected cases of **non-benefit fraud** fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.

In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.

- Between 1991 and 2000, nearly all fraud detected by councils was for housing benefit and later council tax benefit. During this time, councils had financial incentives to look for those frauds.
- These incentives ended in 2006, and councils have increasingly focused on non-benefit fraud in the past five years. Benefit frauds still comprise 45 per cent of all cases of detected fraud, and 69 per cent of their value.
- By 2016, all benefit fraud investigation will have transferred from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions. The government's funding of £16 million from 2014, awarded under competitive bidding, to help councils refocus their efforts on non-benefit fraud during the transition will end at the same time.

Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.

- Between 2009/10 and 2013/14, councils consistently detected more **council tax discount fraud** than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
- Detected **Right to Buy** fraud cases have increased nearly five-fold since 2009/10 to 193 per year. In 2013/14 these were worth £12.3 million. The rise in the number of these frauds followed large increases in the discount threshold over this period.
- The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
- Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.

Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.

- In 2010/11, councils detected 319 cases of **business rates** fraud worth £5.7 million. In 2013/14, they detected 84 cases worth £1.2 million.
- In 2010/11, councils detected 145 cases of **procurement** fraud worth nearly £14.6 million. In 2013/14, they detected 127 cases worth less than £4.5 million.

- A small minority of 39 councils failed to detect any non-benefit frauds in 2013/14. This number is down by more than half since 2012/13, which is encouraging. Our experience suggests it is extremely unlikely that no non-benefit fraud occurred at these councils.
- Councils believe that organised criminals present a low risk of fraud, but there is concern that organised crime is more prevalent in procurement fraud.

Councils are detecting more housing tenancy fraud

- The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year to 3,030.
- In 2013/14, councils outside London recovered more than two in five (40 per cent) of these homes. This represents a marked improvement in their performance. In 2009, when the Audit Commission's *PPP* reports first highlighted this issue, councils outside London accounted for less than 5 per cent of all social homes recovered.
- These figures do not include fraud against housing associations, which provide the majority of social homes.

... and more fraud in schools.

- Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. We have no data on fraud in non-maintained schools.
- Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

Local government bodies have a duty to protect the public purse. A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and involves a number of core components.

- **Prevention and deterrence:** it is not currently possible to quantify accurately the financial benefit from deterring fraud, but professionals in the field believe the prospect of detection is the most powerful deterrent. Councils should widely publicise what fraud is, the likelihood of detection, and the penalties fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14, the mean average number of full time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent over the period. Our analysis suggests that a fall in FTE numbers is associated with lower fraud detection levels (see Chapter 4).

- **Recovery and redress:** after 2016, when central government no longer contributes funds for counter-fraud activity, councils will need to recover more losses than they have in the past. They can use legislation such as the Proceeds of Crime Act to do so.
- **Openness and transparency:** councils should look for fraud and record how many frauds they detect. Doing so would show leadership, allow them to compare their performance with other organisations, and alert them to emerging fraud risks more effectively.
- In 2013, only three in five (62 per cent) councils took up the offer of receiving one of the Commission's new **fraud briefings**, which contain comparative information on their detection levels.

From April 2015, the Commission's counter-fraud activities will transfer to new organisations.

- When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
- The remainder of our counter-fraud staff and functions, including the *PPP* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Recommendations

All local government bodies should:

- a) use our checklist for councillors and others responsible for audit and governance (Appendix 2) to review their counter-fraud arrangements (Para. 120);
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud (Para. 78);
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI) (Para. 6);
- d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (Para. 115); and
- e) engage fully with the new CIPFA Counter Fraud Centre (Para. 132).

Councils in particular should:

- f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100);
- g) be alert to the risk of organised crime, notably in procurement (Para. 31);
- h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy (Para. 51) and social care (Para. 54);
- i) apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud (Para. 57);
- j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80);
- k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act (Para. 114); and
- l) take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability (Para. 129).

The government should consider:

- m) mandating local government bodies to complete the annual survey of detected fraud and corruption, to ensure it remains a comprehensive and robust source of data on fraud in the local public sector (Para. 125);
- n) extending the requirement to report information on detected cases of fraud to academies and free schools (Para. 48);
- o) commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities (Para. 83);
- p) encouraging CIPFA to use the detected fraud and corruption survey in the future to investigate the extent to which fraudsters use digital and on-line technology to defraud local government (Para. 85);
- q) extending powers for councils to investigate all frauds, to protect the public purse (Para. 91); and
- r) working with councils to anticipate and mitigate any unintended risks of fraud created by new policies (Para. 42).

Chapter 1: Introduction

This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before it closes at the end of March 2015.

1 The first series of *PPP* reports ran from 1991 to 2000. After a gap of nine years, we relaunched the series following requests from local government bodies. Since then, we have reported figures on fraud detected by those organisations each year.

2 As in earlier reports, *PPP 2014* describes year-on-year changes in cases and values of detected fraud, based on the Commission's annual survey of local government bodies. As it is the last report in this series, it also describes trends in the past five years, and draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

3 *PPP 2014* aims to inform the development of effective counter-fraud in local government after the Commission closes. It is designed for those responsible for governance in local government, particularly councillors, and describes:

- the amount of detected fraud reported by local government bodies¹ in 2013/14, compared with 2012/13 (Chapter 2);
- longer term trends (up to 25 years) in levels of detected fraud, and the lessons local government bodies can draw from this information (Chapter 3);
- the effective stewardship of the public purse, including taking measures to recover losses from fraud (Chapter 4); and
- measures to build on *PPP*'s legacy, so that local government bodies can continue to protect the public purse (Chapter 5).

i For the purposes of this survey we define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken including, but not limited to, disciplinary action, civil action or criminal prosecution.

4 Appendices to this report contain:

- data tables of detected frauds and losses by region (Appendix 1);
- an updated counter-fraud checklist for those responsible for governance (Appendix 2); and
- case studies highlighting use of legislation, in particular the Proceeds of Crime Act, to recover monies from fraudsters (Appendix 3).

5 Each *PPP* report has identified the scale of detected fraud and the damage it causesⁱ.

The scale and impact of fraud

- Local government fraud involves substantial loss to the public purse. The most recent estimate of the annual loss to local government was £2.1 billion, excluding benefit fraud (Ref.1).
- This almost certainly underestimates the true cost of fraud. For example, it does not include fraud in major services such as education and social care.
- Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime.

Source: Audit Commission

The changing counter-fraud landscape

6 When the Commission closes, its National Fraud Initiative (NFI) data matching service will transfer to the Cabinet Office. The remaining counter-fraud functions of the Commission will transfer to the new Counter Fraud Centre, launched in July 2014 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The CIPFA Counter Fraud Centre will also publish the next *Fighting Fraud Locally* strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014. However, there are no arrangements to continue the NFA's *Annual Fraud Indicator*, in particular, which is the annual estimate of the level of fraud committed against local authorities.

i Audit Commission reports can be obtained through this link: <http://www.audit-commission.gov.uk/information-and-analysis/national-studies/>

- 8 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).
- 9 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.
- 10 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids were successful will receive a share of this fund to support their efforts to refocus their counter-fraud activities on non-benefit fraud during the implementation of the SFIS. Similar funding may not be available to councils in the future.

The main issues councils face in tackling fraud

11 Because of these changes, the 2014 survey asked councils to identify the top three issues they face in tackling fraud. Councils report that the single most important issue is the need to ensure they have enough counter-fraud capacity (Figure 1).

Figure 1: Main issues faced by councils in tackling fraud



Top 3 issues for councils: capacity, data-sharing and corporate recognition of the financial benefits of tackling fraud

Source: Audit Commission (2014)

12 In the survey, councils identified other concerns that indicate a need for a more effective corporate approach to fighting fraud. These include:

- collecting and using data effectively;
- understanding the importance of the financial benefits of fighting fraud;
- the need for effective risk management;
- improving counter-fraud staff skills; and
- partnership working.

13 *PPP 2014* addresses all these issues. Chapter 2 sets out the scale of the fraud they relate to, and how this has changed since 2012/13.

Chapter 2: The latest figures on detected fraud in councils

Local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, the value of losses from detected fraud increased.

14 Each *PPP* report draws on data collected by the Commission's annual survey of detected fraud in local government bodies. *PPP 2014* uses data from the 2014 survey, which covered the 2013/14 financial year.

15 The latest survey achieved a 100 per cent response rate, with responses from 494 local government bodiesⁱ. These results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

16 Local government bodies detected fewer frauds in 2013/14 (just over 104,000) compared to the previous year (just under 107,000) (Table 1). The value of fraud detected in 2013/14 increased over the previous year, rising from £178 million to £188 million.

100% of local government bodies surveyed for *PPP 2014* responded

£188 million, of local government fraud detected in 2013/14, the highest value on record

ⁱ All English principal councils, local authorities for parks, waste, transport, fire and rescue, and Police and Crime Commissioners are required to complete the survey.

Table 1: Cases and value of detected fraud, excluding tenancy fraudⁱ - Change between 2012/13 and 2013/14

Type of fraud	For detected fraud in 2013/14 (excludes tenancy fraud)	For detected fraud in 2012/13 (excludes tenancy fraud)	Change in detected fraud 2012/13 to 2013/14 (%)
Total fraud			
Total value	£188,249,422	£177,966,950	+6
Number of detected cases	104,132	106,898	-3
Average value per case	£1,808	£1,665	+9
Housing and council tax benefitⁱⁱ			
Total value	£128,973,530	£120,100,854	+7
Number of detected cases	46,690	46,964	-1
Average value per case	£2,762	£2,557	+8
Council tax discounts			
Total value	£16,895,230	£19,567,665	-14
Number of detected cases	49,428	54,094	-9
Average value per case	£342	£362	-6
Other frauds			
Total value	£42,380,662	£38,298,431	+11
Number of detected cases	8,014	5,840	+37
Average value per case	£5,288	£6,558	-19

Source: Audit Commission

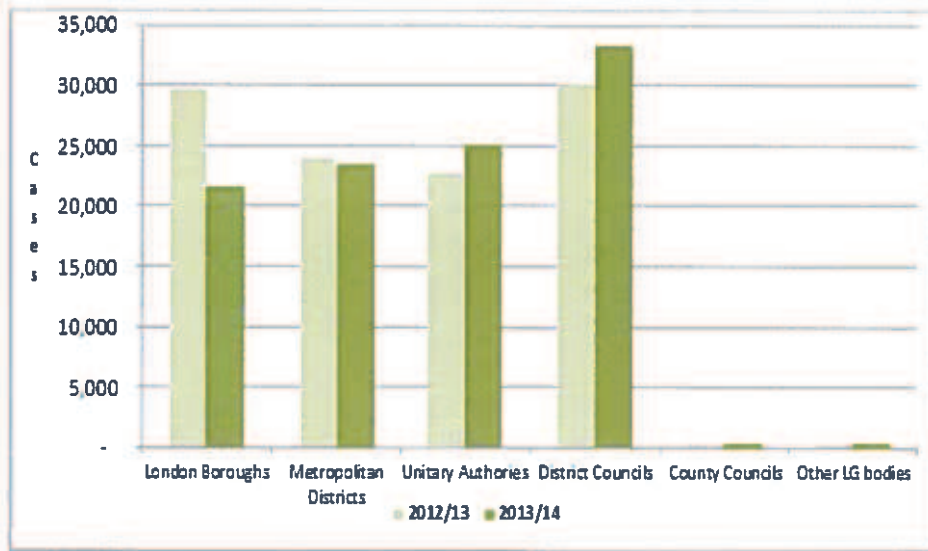
ⁱ We report housing tenancy fraud in Table 3.

ⁱⁱ In April 2013, the government introduced Council Tax Reduction, to replace Council Tax Benefit (CTB). Council Tax Reduction is not a benefit, but to aid year-on-year comparisons, it is included in housing benefit and council tax benefit fraud figures for 2013/14.

17 The 3 per cent reduction in the total number of cases of detected fraud over the previous year was not uniform across councils. It is largely due to falls in London boroughs and metropolitan districts. Unitary authorities and district councils detected more fraud in 2013/14 than the previous year (Figure 2).

Figure 2: Detected fraud cases

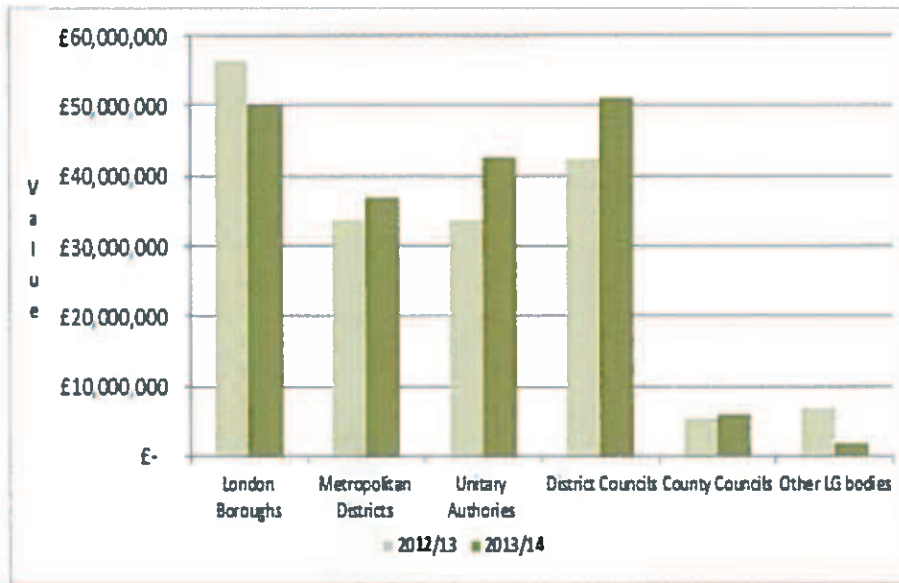
Comparison by local government organisation 2012/13 and 2013/14



Source: Audit Commission (2014)

18 A similar picture emerges for changes in the value of detected frauds. This has increased by 6 per cent overall, from £178 million to £188 million, but varies across council types (Figure 3).

Figure 3: Detected fraud by value
Comparison by local government organisation in 2012/13 and 2013/14



Source: Audit Commission (2014)

19 The value of detected fraud rose in metropolitan district councils, unitary authorities, district councils and county councils compared with the previous year. It fell in London boroughs by 11 per cent.

Benefit fraud

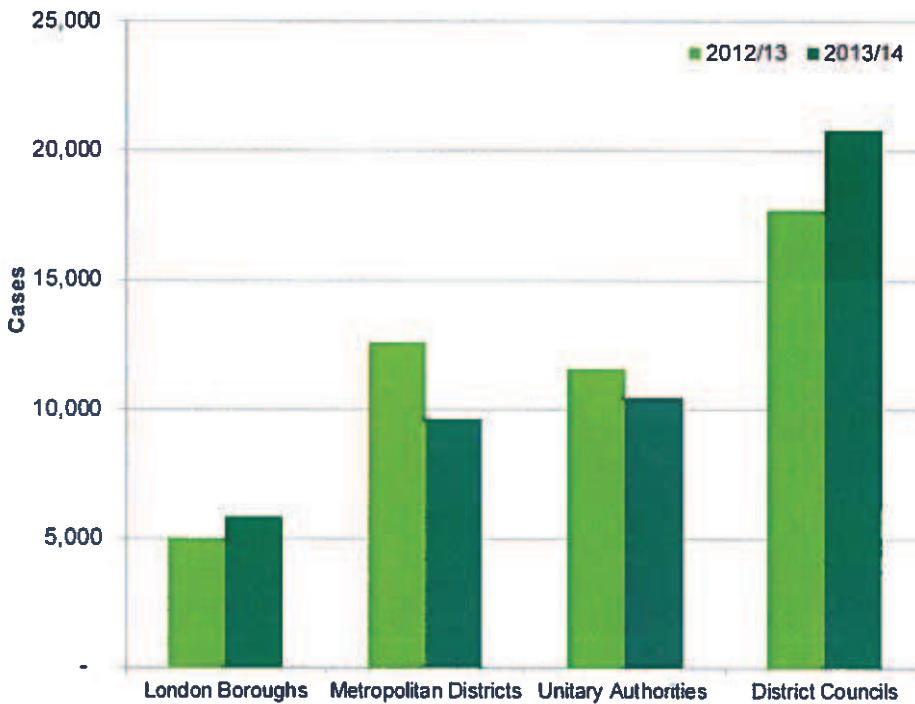
20 In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

21 In 2013/14, district councils detected 20,798 benefit fraud cases; an increase of 17 per cent compared to the previous year (Figure 4). They detected not just the highest total overall compared with other councils, but also the highest as a proportion of their benefit caseloads (1.6 per cent). In contrast, London boroughs recorded both the lowest overall number of detected cases of benefit fraud (despite a rise of 16 per cent over the previous year) and the lowest as a proportion of their caseload, at 0.7 per cent.

17% rise
in the number
of cases of
benefit fraud
detected by
district
councils

Figure 4: Detected benefit fraud cases

Comparison of council types in 2012/13 and 2013/14



Source: Audit Commission (2014)

22 Both metropolitan district councils and unitary authorities reported substantially fewer cases of benefit fraud than the previous year; down 24 per cent and 10 per cent respectively. Each detected around the same proportion of their overall caseload, at 0.9 per cent and 1.0 per cent respectively.

Non-benefit fraud

23 Table 2 highlights the largest frauds in the 'other' group in Table 1, which between them account for £36.5 million of the £188.2 million detected by councils in 2013/14.

Table 2: Other frauds against councils in 2012/13 and 2013/14

Fraud type	Number of cases 2013/14	Value 2013/14 (£ million)	Number of cases 2012/13	Value 2012/13 (£ million)	Change in case number 2012/13 to 2013/14 (%)	Change in case value 2012/13 to 2013/14 (%)
Right to Buy	193	12.4	102	5.9	+89	+110
Social care	438	6.3	200	4.0	+119	+58
Insurance	226	4.8	74	3.0	+205	+60
Procurement	127	4.4	203	1.9	-37	+132
Abuse of position	341	4.0	283	4.5	+20	-11
Disabled parking concessions (Blue Badge)	4,055	2.0	2,901	1.5	+40	+33
Business rates	84	1.2	149	7.2	-44	-83
Payroll	432	1.4	319	2.4	+35	-42

Source: Audit Commission (2014)

24 Care is needed in interpreting these results, as annual percentage changes in value can be affected by a few very costly frauds in either year. For example, the value of business rates fraud fell by 83 per cent, largely because there was an unusually high value (£5 million) single fraud in one council in 2012/13. Procurement fraud is another example of a few costly frauds; cases have fallen by over a third (37 per cent), but their value has more than doubled (132 per cent).

25 Taken together, the number of cases of non-benefit fraud in Table 2 has risen by 39 per cent between the two years, while their overall value has risen by 20 per cent.

26 In 2013/14, the largest non-benefit frauds by value were for:

- Right to Buy – this fraud has seen a marked increase in cases (up 89 per cent) and a more than doubling in value to £12.4 million (up 110 per cent);
- social care – cases have more than doubled to 438 (up 119 per cent) and their value has increased by more than half (58 per cent) to £6.3 million;
- **insuranceⁱ** – cases have more than tripled (up 205 per cent) and their value has risen by more than half (60 per cent) to £4.8 million; and
- disabled parking (also known as ‘Blue Badge’ fraud) – as in 2012/13, this produces the largest number of “other” cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

205%
increase in the
number of
cases of
insurance
fraud for
2013/14 worth
£4.8 million

i This fraud arises most commonly from members of the public who make false claims for compensation for accidents (known as ‘trips and slips’).

Housing tenancy fraud

27 The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year (Table 3).

Table 3: Detected tenancy fraud by region
2012/13 to 2013/14

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2013/14	Number of properties recovered in 2012/13	Percentage change in the number of properties recovered 2012/13 to 2013/14
London	419,238 (25)	1,807	1,535	+18
West Midlands	208,740 (12)	425	416	+2
South East	174,313 (10)	129	132	-2
East of England	159,216 (9)	187	133	+41
East Midlands	182,950 (11)	136	102	+33
Yorkshire & the Humber	234,335 (14)	140	108	+30
South West	100,867 (6)	111	56	+98
North East	112,444 (7)	59	34	+74
North West	109,045 (6)	36	126	-71
Total	1,701,148 (100)	3,030	2,642	+15

Source: Audit Commission (2014)

28 All but two regions detected more tenancy frauds in 2013/14 than in the previous year. The exceptions were the North West, where councils detected 71 per cent fewer cases, and the South East, where councils detected slightly fewer cases (down 2 per cent).

Organised and opportunistic fraud

29 The 2013/14 survey asked councils to indicate the extent to which they believed fraud was due to organised criminal activity, rather than to individuals acting alone. The survey used the National Crime Agency definition of organised crime as 'crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain' (Ref. 2).

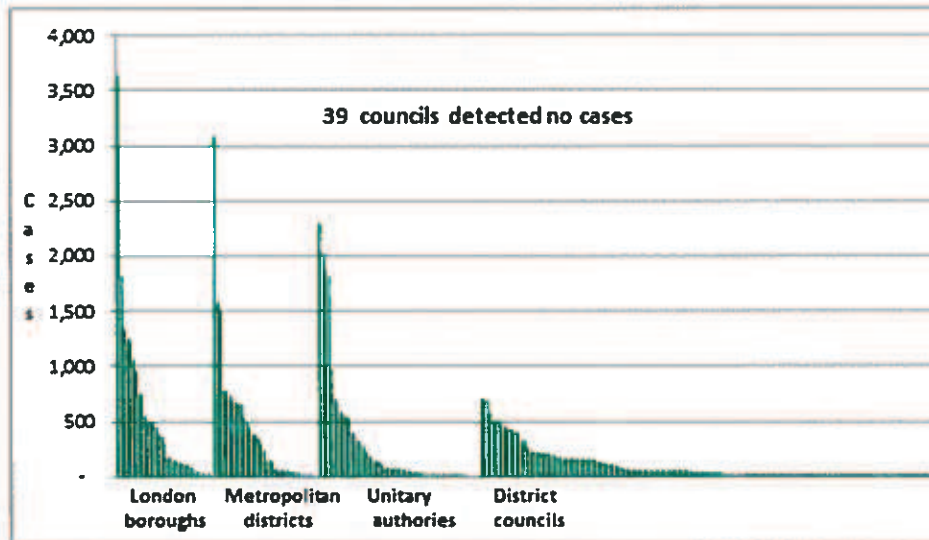
30 Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

31 These results suggest that organised criminals do not commit much fraud against councils. Most local authority fraud investigators believe that opportunistic fraudsters pose the greatest risk. However, there is growing concern about organised criminals tendering for public service contracts, for example, to launder money (Ref. 3, p 55). Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

Failing to detect fraud

32 In *PPP 2013* (Ref. 4), we reported that 79 district councils had not detected a single non-benefit fraud, compared with only 9 councils among London boroughs, metropolitan districts and unitary authorities combined. In 2013/14, the equivalent figures were 35 district councils 3 unitary authorities and 1 metropolitan district (Figure 5)ⁱ.

Figure 5: Number of detected non-benefit cases by council type (excluding county councils) in 2013/14



Source: Audit Commission (2014)

33 While it is encouraging that the number of councils that did not detect any non-benefit fraud has fallen by half, it remains disappointing that 39 councils failed to detect any non-benefit fraud. 21 district councils and one unitary authority reported no detected non-benefit frauds in both years. Our experience suggests it is extremely unlikely that no non-benefit fraud was committed against them.

34 Year-on-year trends help local government bodies manage current fraud risks. Longer term trends better enable them to understand whether they are matching their resources to risks effectively. Chapter 3 covers fraud detection over the medium to long terms.

39 councils did not report any detected cases of non-benefit fraud in 2013/14, less than half the number of the previous year

i Figure 5 excludes county councils as they do not provide high-volume services such as council tax.

Chapter 3: Longer term trends in frauds detected by councils

Trends in detected fraud since 1991 show how councils have changed the way they tackle fraud in response to changing national policies and incentives. This chapter draws on the learning from the Commission's 25 years' experience in counter-fraud.

35 This chapter considers trends in detected fraud over the last 25 years, with more detailed information about the last five years from 2009/10 to 2013/14. It also highlights how the Commission's approach to tackling tenancy fraud could be applied in other areas, where risks are growing.

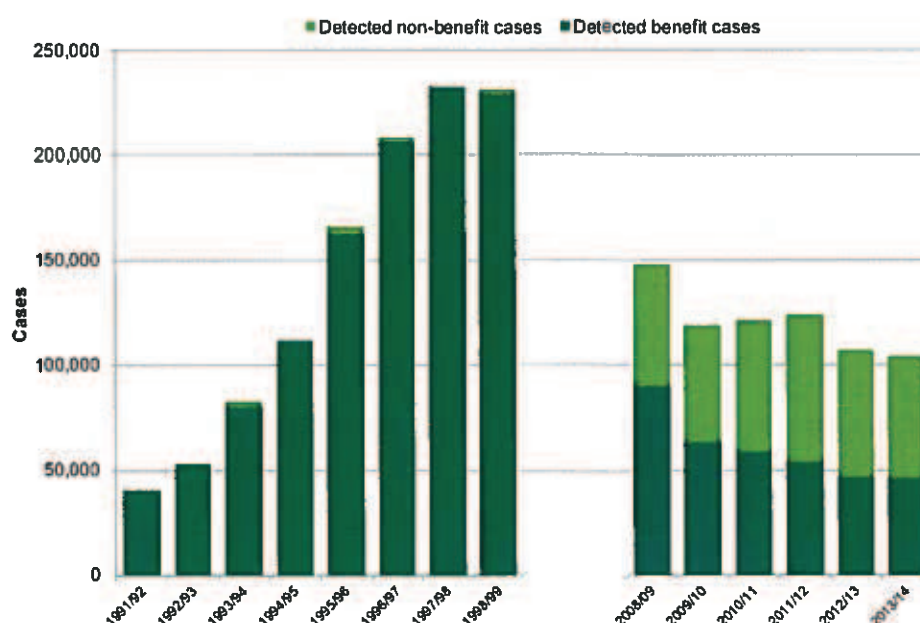
The shift in focus from benefit fraud to non-benefit fraud

36 Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefits. When the *PPP* series restarted in 2009, nearly two in five (39 per cent) of all cases detected were of non-benefit fraud. By 2013/14, this had risen to over half (56 per cent) of all frauds detected (Figure 6)

In the last
5 years, the
focus has
shifted from
benefit to non-
benefit fraud

Figure 6: The shift from benefit to non-benefit fraudⁱ

Detected cases 1991/92 to 2013/14



Source: Audit Commission (2014)

37 In 1993, the government introduced Weekly Benefit Savings (WBS), which created an incentive for councils to focus on benefit fraud. WBS ceased in 2002 and its replacement – Security Against Fraud and Error (SAFE) – ended in 2006ⁱⁱ. This removed a direct financial incentive for councils to focus on benefit fraud.

38 The transition to the SFIS in 2016 means, from that year, councils will focus solely on non-benefit fraud. Some councils, particularly small and medium-sized organisations, have traditionally relied on benefit fraud investigators to tackle non-benefit frauds. It is unclear if these councils, and some others, will be able to refocus their efforts and resources on non-benefit frauds once the SFIS is in place.

39 From 2009, PPP reports contained information about a wider range of non-benefit frauds than the earlier series, such as fraud detected within procurement or social care. This was to help local government bodies better understand the extent of the risks they face.

i Data are not available from 1999/2000 to 2007/08 because PPP did not operate in this period.

ii Under WBS, councils received funding, or were penalised, depending upon their achieving baseline levels of detected benefit fraud set by the government. Under SAFE, councils received additional funding based on the number of prosecutions and sanctions.

40 Table 4 provides further information about the more recent history of the detected cases and values of these non-benefit frauds. Between 2009/10 and 2013/14, the main findings are that:

- councils have consistently detected more council tax discount fraud than any other type of non-benefit fraud (nearly 50,000 cases in 2013/14);
- council tax discount frauds have the lowest average value of all non-benefit frauds (£342 in 2013/14), but the scale of fraud in this area means they generate the biggest losses – £16.9 million in 2013/14;
- detected Right to Buy fraud cases have substantially increased in the last two years to 193 in 2013/14. Because their average value is over £64,000, they generate substantial losses of £12.4 million in that year;
- the number of detected cases of social care fraud more than trebled over the period to 438. With an average value in 2013/14 of £14,297, they account for £6.3 million in losses;
- the number of detected business rates frauds has fluctuated, rising from only 29 in 2009/10 to 319 in 2011/12 and then declining to 84 in 2013/14; and
- the number of detected cases of insurance fraud similarly fluctuated over the last five years, but in 2013/14 councils detected three times as many of these frauds as in 2009/10.

**Right to Buy
fraud cases
increased in
number by
over 400%
between April
2012 and
March 2014**

- i This recent decline is unexpected, especially given the impact of the change in financial incentives from April 2013 for councils to tackle this fraud.

Table 4: Cases and value (adjusted for inflation) of detected non-benefit fraud between 2009/10 and 2013/14

	Council tax discount	Business rates	Right to Buy	Procurement	Insurance	Social care	Economic/ third sector	Blue badge
2013/14								
Cases	49,428	84	193	127	226	438	36	4,055
Value	£16,895,230	£1,220,802	£12,361,858	£4,437,965	£4,776,300	£6,261,930	£741,867	£2,027,500
Average	£342	£14,533	£64,051	£34,945	£21,134	£14,297	£20,607	£500
2012/13								
Cases	54,094	149	102	203	74	200	36	2,901
Value	£19,905,056	£7,348,809	£5,959,424	£1,910,317	£3,026,996	£4,040,356	£1,299,707	£1,475,510
Average	£368	£49,321	£58,426	£9,410	£40,905	£20,202	£36,103	£509
2011/12								
Cases	60,891	319	38	187	132	122	45	4,809
Value	£21,338,364	£2,651,726	£1,219,439	£8,297,496	£2,107,680	£2,216,681	£1,808,287	£2,472,366
Average	£350	£8,313	£32,090	£44,372	£15,967	£18,170	£40,184	£514
2010/11								
Cases	56,198	319	49	145	149	102	51	3,007
Value	£23,599,729	£6,010,804	£1,090,538	£15,314,712	£3,905,680	£2,333,326	£1,361,079	£1,580,820
Average	£420	£18,843	£22,256	£105,619	£26,213	£22,876	£26,688	£526
2009/10								
Cases	48,253	29	34	165	72	131	47	4,097
Value	£16,412,858	£660,891	£739,881	£2,962,701	£3,077,562	£1,534,013	£968,077	£2,210,152
Average	£340	£22,789	£21,761	£17,956	£42,744	£11,710	£20,597	£539

41 Councils have to be alert to both the intended and unintended consequences of government policies. Some are directly intended to change local practice, such as the introduction of the SFIS. Others create new services or means of delivery that may produce unintended incentives and opportunities for fraudsters, such as raising the discount threshold for Right to Buy.

42 Central and local government can work together to anticipate and mitigate the risks of fraud created by new policies. This helps councils to adapt their counter-fraud approach to meet both intended and unintended consequences of government policies.

43 Frauds committed in schools and those committed by staff are included in all fraud categories. For this reason, we do not identify them separately in Table 4, but give more information in the following sections.

Internal fraud

44 Since 2009/10, councils have detected broadly similar numbers of internal fraud, although their values have fluctuated. In 2013/14, councils detected nearly 1,500 cases of this type of fraud, generating £8.4 million in losses (Table 5).

£8.4
million of
internal fraud
detected by
councils

Table 5: Detected cases and values of internal (staff) fraudⁱ
2009/10 to 2013/14

Financial year		Cases and values (and as a % of total for each)
2013/14	Cases	1,474 (1.4%)
	Value	£8.4m (4.5%)
	Average	£5,750
2012/13	Cases	1,315 (1.2%)
	Value	£16.8m (9.3%)
	Average	£12,751
2011/12	Cases	1,459 (1.2%)
	Value	£15.9m (8.8%)
	Average	£10,917
2010/11	Cases	1,581 (1.3%)
	Value	£20.5m (10.5%)
	Average	£12,969
2009/10	Cases	1,659 (1.4%)
	Value	£8.6m (5.9%)
	Average	£5,207

Source: Audit Commission (2014)

- i Total and average fraud values for years between 2009/10 and 2012/13 are adjusted for inflation using HM Treasury's GDP Deflator. These values will thus differ from those in previous *PPP* reports.

Fraud in maintained schools

45 Schoolsⁱ can be defrauded by those working in them, for example, staff who embezzle school funds, commit payroll fraud, or who claim false expenses. Externally, schools may be victims of procurement fraud and mandate fraudⁱⁱ, among other types.

46 In 2013/14, we report a total of 206 cases of schools fraud worth £2.3 million. This is an 8 per cent increase in cases over the previous year, and a less than 1 per cent increase in value (Table 6).

Councils report a rise of 8% in the value of fraud detected at maintained schools

Table 6: Detected fraud in maintained schools

Change from 2012/13 to 2103/14

Fraud in maintained schools	2013/14	2012/13	Percentage change 2012/13 to 2013/14
Total value	£2,330,416	£2,323,856	+1
Number of detected cases	206	191	+8
Average value per case	£11,313	£12,167	-7

Source: Audit Commission (2014)

47 Of these frauds, over half (54 per cent) of cases and nearly two-thirds (62 per cent) of the value involved fraud by staff. These are substantially higher proportions than in other local government services. These findings are similar to those in *PPP 2013*, which suggests that schools may have weaker governance arrangements and less effective controls than larger organisations to detect and prevent fraud.

48 It is important for maintained schools to continue to report the number and value of detected fraud to keep focus on this issue. The Commission would like to see similar transparency across all non-maintained schools to protect the public purse. The risk of fraud in non-maintained schools is becoming more apparent (Ref. 5).

49 The CIPFA Centre for Counter Fraud has recently published good practice guidance on tackling schools fraud (Ref. 6).

- i In our annual fraud survey, we only collect data from maintained schools. Free schools, foundations and academies are outside the Commission's remit.
- ii Mandate fraud is where fraudsters divert payments, by deception, from the bank account of legitimate companies into the fraudster's own bank account.

Councils' response to national policies

50 The unintended consequence of some changes in government policy is to make some frauds more attractive to fraudsters. In *PPP 2012*, for example, we suggested that significant increases in the Right to Buy discount implemented in that year is likely to increase the financial incentive to commit fraud in this area.

51 Table 4 shows that councils detected nearly six times as many Right to Buy frauds in 2013/14 as in 2009/10. From April 2012, the government brought in measures to encourage tenants to use the Right to Buy scheme. These included relaxing the qualifying rules and raising the discount threshold, which will rise in line with inflation.

52 These changes encouraged substantially more Right to Buy applications. They also led to more detected frauds. Between April 2012 and March 2014, councils detected 295 cases, a 144 per cent increase over the three years before.

53 Social care provides another example of the effect of national policies. Since 2007, the government has consistently aimed to give people more choice and control over the social care they receive, and to enable them to live independently at home for as long as possible (Ref. 7).

54 The policy of more choice and local control has, however, changed the scale of the fraud risks councils face. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. In 2013/14, however, a majority of all councils except London boroughs did not detect a single social care fraud (Table 7).

Changes in government policy can have unintended consequences

Table 7: Councils reporting no detected social care fraud in 2013/14

Council type	Proportion not reporting any detected social care fraud
Unitary authorities	62%
Metropolitan districts	53%
County councils	52%
London boroughs	39%

Source: Audit Commission (2014)

55 Councils are detecting more cases of detected fraud in social care (see Table 4). This suggests that the risks of fraud in this service are growing, and also that some councils are taking this risk seriously. If all councils did so, the number of detected cases might rise further.

56 More research is needed to identify the nature and quantify the extent of frauds in education and social care, which together account for 62 per cent of all councils spending in 2012/13 (excluding benefit payments) (Ref. 8, Figure 1, page 2). Similarly, more research would also help councils to quantify the extent of fraud in business rates, for which they collected £21.9 billion in 2012/13 (Ref. 9, Para.1).

57 The increased detection of housing tenancy fraud provides a good example of the benefits greater information and attention brings. Since 2009, tenancy fraud has been a regular focus of *PPP* reports. We believe that councils can apply the learning from our approach to tenancy fraud to new and emerging fraud threats.

Housing tenancy fraud

58 Tenancy fraud is now recognised as the second largest area of annual fraud loss in English local government, valued at £845 million. There is a further £919 million of annual loss to housing associations (Ref. 1).

59 *PPP*'s focus on tenancy fraud shows the benefit of regular reporting on rates of detected fraud, combined with supporting research. This approach has produced more reliable estimates of the extent and value of this type of fraud. It has also challenged myths and misconceptions about tenancy fraud and encouraged organisations to work together to share innovative approaches to tackling it. Similar action would help councils to tackle other types of fraud.

60 Prior to 2009, there was no national estimate of the scale of tenancy fraud, or of the value of a social home recovered from a fraudster, and no regional information on detection. Some social housing providers were reluctant to recognise this type of fraud, on the grounds that as long as the fraudster occupying the property was paying rent, they suffered no financial loss.

61 This encouraged many myths to build up, for example, that tenancy fraud was only a problem in London. This led some councils outside the capital to conclude they did not need to take any action to prevent or detect it.

62 The Commission published the first robust research in the UK that challenged such myths. *PPP* reports contained good practice examples of social housing providers within and outside the capital that had increased cases of detected tenancy fraud.

63 We published a cautious estimate of the extent of tenancy fraud in *PPP 2009* (updated in *PPP 2012*), which is widely accepted across England. Our research was used as the principal evidence base for a new offence specific to tenancy fraud, contained in the Prevention of Social Housing Fraud Act 2013.

At £845 million, tenancy fraud represents the second largest yearly loss to councils from fraud

64 Above all, we worked in partnership with key stakeholders, such as the Chartered Institute of Housing (CIH), the National Fraud Authority and the national Tenancy Fraud Forum, to identify and promote good practice and to encourage councils and housing associations to work together to fight fraud.

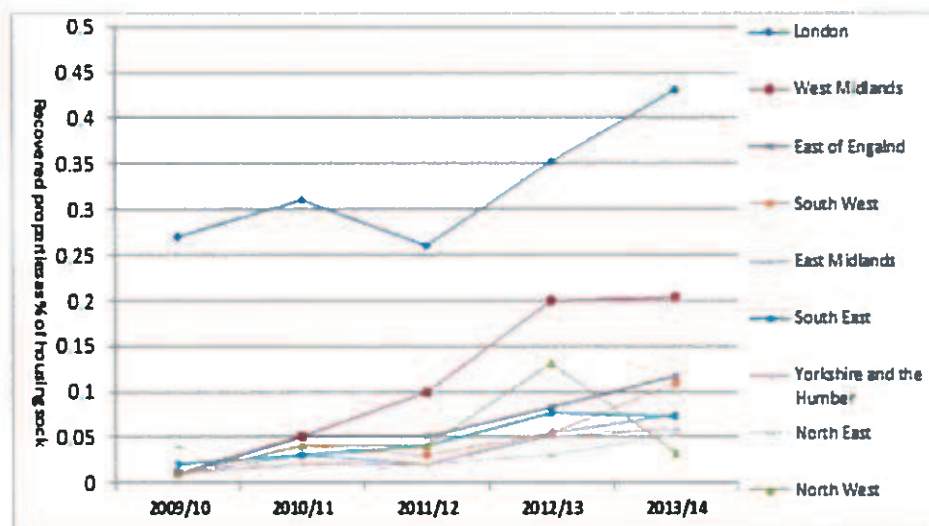
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

66 The rate of improvement outside London has been substantial: in 2009/10, these councils only recovered 228 properties, but in 2013/14, this had risen to 1,223, an increase of 436 per cent.

67 Between 2009/10 and 2013/14, while the overall trend of recovery increased, the rate of recovery was uneven across regions (Figure 7).

436%
increase in properties recovered, from housing tenancy fraudsters, outside of London in the last five years

Figure 7: Recovered properties as a proportion of council housing stock in each region 2009/10 to 2013/14



Source: Audit Commission (2014)

68 London has consistently detected the most tenancy frauds, measured as a proportion of total housing stock. The North West now detects proportionately the fewest tenancy frauds, which is the result of a decline in the last year. Had councils in this region maintained the same rate of detection as a proportion of their housing stock as in 2012/13, around 90 additional homes would have been available for families on the waiting list.

69 If all councils assigned resources to tackle tenancy fraud proportionate to their total stock, and adopted recognised good practice, then regional detection rates should be broadly similar. The fact they are not suggests that some councils can raise their performance.

70 In 2014, the Chartered Institute of Housing published updated good practice on tackling tenancy fraud (Ref. 10).

71 The Commission reports detection rates by councils and Arm's Length Management Organisations only. Information from housing associations is not universally available. However, as previous PPP reports have shown, some housing association partnerships have made good progress.

Case study 1

Tenancy Fraud Forum – partnership working

- The Gloucestershire Tenancy Fraud Forum (GTFF) was formed in 2012 by seven social housing providers in the local area (Cheltenham Borough Homes, Gloucester City Homes, Severn Vale Housing Society, Two Rivers, Rooftop Housing Group, Stroud District Council and Guinness Hermitage). Prior to forming GTFF, individual member organisations detected few tenancy frauds.
- From 2012, GTFF members started sharing good practice, carrying out joint staff training and in particular undertook a local media-based awareness raising campaign. This resulted in a large increase in reports of suspected tenancy fraud.
- Following the campaign, GTFF recovered 107 homes from tenancy fraudsters in 2013/14. To build an equivalent number of homes from new would have cost the public purse over £16 millionⁱ.

Source: Audit Commission (2014)

72 Some innovative housing providers used the launch of the 2013 Prevention of Social Housing Fraud Act as an opportunity to publicise their own tenancy fraud amnesties.

ⁱ In PPP 2011, we calculated the replacement cost of an average social housing unit to be £150,000.

Tenancy fraud amnesties

73 Amnesty can be a useful option for social housing providers to recover properties from tenancy fraudsters. When implemented properly, they can have considerable impact at low cost.

74 In 2013, the London Borough of Camden offered an amnesty lasting two months. In this time, tenancy fraudsters could hand back the keys to properties they had unlawfully occupied or sub-let, without further action taken on cases that were not being prosecuted for other offences. Fraudsters returned seven properties (with a replacement value of over £1 million) to the Council. This represented a good return on the £25,000 spent on publicising the amnesty. LB Camden recovered 103 properties subject to tenancy fraud in total during 2013/14.

75 The publicity had wider benefits. Prior to the campaign, the Council had received just six referrals from the public to its tenancy fraud hotline. In the two months during the campaign, it received 50 calls, with many more in the months that followed. The Council launched a number of investigations as a direct result of the increased hotline referrals and has so far recovered four more properties from these referrals with a further four pending prosecution.

76 The Peabody Housing Association saw similar benefits from an amnesty. In 2012, 40 properties were handed back to the Association. In 2013, it held a two-month amnesty, during which 42 properties with a replacement value of £6.3 million were returned. In the whole year, tenants handed back 130 properties, suggesting the amnesty possibly had a longer term effect.

77 The approach to housing tenancy fraud in *PPP* reports since 2009 illustrates how social housing providers can change their approach to fighting one type of fraud, based on robust information and greater transparency. Adopting a similar approach to other frauds would help them fulfil their duty to protect the public purse, which Chapter 4 explores in more detail.

Tenancy fraud amnesties may have longer term benefits

Chapter 4: Effective stewardship of public funds

A corporate approach to tackling fraud in all areas supports councils to carry out the core functions of effective counter-fraud. This helps them fulfil their role as stewards of public resources, to the benefit of local and national taxpayers.

78 Councils are stewards of public funds and have a duty to protect the public purse from fraud. Better performing councils acknowledge this responsibility and put in place the core components of an effective corporate counter-fraud approach. These are contained in CIPFA guidance (Ref. 11) and the government Fraud Review (Ref. 12) and are:

- prevention and deterrence;
- investigation and detection; and
- sanction and redress (recovery of funds or assets).

79 Councils face a challenge in carrying out these functions as their funding declines. This chapter considers each component in more detail and highlights examples of good practice showing how councils can develop a long-term and sustainable approach to tackling fraud.

Prevention and deterrence

80 Investigating fraud can be expensive for councils. They also incur costs in prosecuting fraudsters and in attempting to recover money, which is not always successful. It is usually more cost-effective to prevent fraud than to take action afterwards.

81 In 2014, we asked over 200 fraud investigators and auditors from English local government how well their councils, or the councils they audit, prevent fraud. They believed that the strongest fraud prevention arrangements were found in housing benefits and council tax discounts, and the weakest in social care and schools.

82 Better performing councils learn from fraud investigations, and address the weaknesses that enabled the fraud to occur. Such councils strengthen fraud prevention arrangements as a result, including deterrence.

83 Some councils may be sceptical about the value of fraud prevention; for this reason, the sector would benefit from an agreed methodology to measure its cost-effectiveness. The government should commission such research.

84 Even where councils obtain no direct financial benefit from preventing frauds, they should still fulfil their duty to protect the public purse by pursuing fraudsters.

Case study 2

Fraud prevention - Right to Buy

- In 2014, Sandwell Metropolitan Borough Council successfully prosecuted two people for a fraudulent Right to Buy application worth nearly £50,000. The fraudsters initially claimed the Right to Buy discount in 2011, making false statements about their eligibility indicating they were sisters and stating they both lived at the address. Their initial claim was refused on the grounds of failing to comply with residency requirement.
- In 2012, the fraudsters again claimed the Right to Buy discount, and again supplied false information about their relationship. The fraud was initially identified through National Fraud Initiative data matches. This enabled the Council to stop the Right to Buy before the sale was processed.
- Subsequent enquiries by the Council established that the fraudulent tenant was falsely claiming benefits, stating that she was resident at other addresses, while still claiming to be a Sandwell resident.
- The fraudsters were found guilty under the Fraud Act and each given a 20 month custodial sentence. This is one of the first successful prosecutions of Right to Buy fraud outside London.

Source: Audit Commission (2014)

85 Councils increasingly use digital technology across services and functions. This reduces costs and can improve service quality, but also brings new fraud risks. Each year we adapt our annual fraud survey to gather new information about emerging fraud risks. The government should encourage the organisation carrying out the survey in the future, CIPFA, to investigate the extent to which fraudsters use digital and on-line technology to defraud local government.

86 Innovative councils also use technology to prevent and detect fraud:

Case study 3

Using technology to prevent fraud

- The London Borough of Southwark increased vetting checks at the point of application for a number of its services, to help protect valuable resources. The London Borough of Southwark is the third largest social landlord in the UK and has a large transient population.
- In 2013, The London Borough of Southwark implemented passport and identity scanners across the council at key customer contact points, including One Stop Shops, Housing Options and the Registrar's office. A mobile scanning system is also used by The London Borough of Southwark anti-fraud services and by council departments conducting specific projects. In total, 6,690 document scans were conducted in 2013/14, with 4 per cent requiring additional checks and verification as result.
- The London Borough of Southwark implemented additional verification checks on the council's waiting list, including veracity of application form information. This has reduced the number of accepted applications by 20 per cent. Additional verification checks have also been conducted on prospective tenants before they collect the keys to the tenancy. This prevented 12 per cent of all such allocations going to fraudsters.

Source: Audit Commission (2014)

87 Councils can deter people from committing fraud if they set out clearly what fraud is and make clear it is likely fraudsters will be caught and punished. Professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for councils to maintain adequate investigative capacity in a period of financial restraint.

88 It is not currently possible to quantify accurately the financial benefit from deterring fraud. Councils can look to other indicators that may show its impact. The number of households claiming single person discount is one example, first highlighted in *PPP 2013* (Ref. 4).

89 One-third of households in England claim single person discount. Our research (Ref. 13) suggests that typically between 4 per cent and 6 per cent of households claiming single person discount do so fraudulently.

90 Between 2008 and 2013, the number of councils where 40 per cent or more households claimed single person discount reduced from 23 to 7. The council with the highest proportion of households claiming single person discount experienced a reduction in claims from 48 per cent to 41 per cent. One possible explanation for the decline in single person discount claims is the greater publicity from councils about this fraud in recent years.

4% to 6%
of council tax
single person
discount
claims are
typically
fraudulent

Investigation and detection

91 Fraud investigators have legal powers to investigate Council Tax Reduction frauds and housing tenancy frauds. The powers do not extend to other fraud types. This restricts their ability to investigate and detect fraud across all services, including social care and procurement. Councils need equivalent powers for all fraud types to protect the public purse effectively.

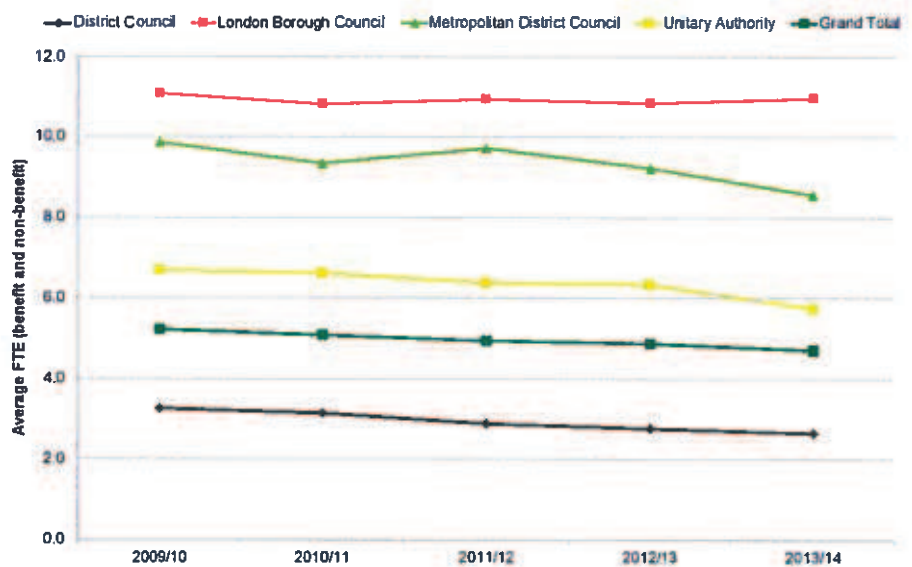
92 Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP launched the Professionalism in Security (PINS) qualification and associated training for benefit fraud investigators.

93 *PPP 2013* (Ref. 4) reported a decline in detected fraud over the previous year; the first such fall since 2009. That report suggested further research to see whether falls in detection were linked with changes in councils' investigative capacity. Since 2010, councils have cut total staff numbers in response to reduced incomeⁱ (Ref. 15).

ⁱ Across the United Kingdom, full-time equivalent staff numbers employed by local government fell from 2,160,000 in 2010 (Quarter 1) to 1,787,000 in 2014 (Quarter 1), a fall of 21 per cent.

94 Between 2009/10 and 2013/14, the mean average number of full-time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent (Figure 8).

Figure 8: Average numbers of FTE fraud investigators, by council type 2009/10 to 2013/14



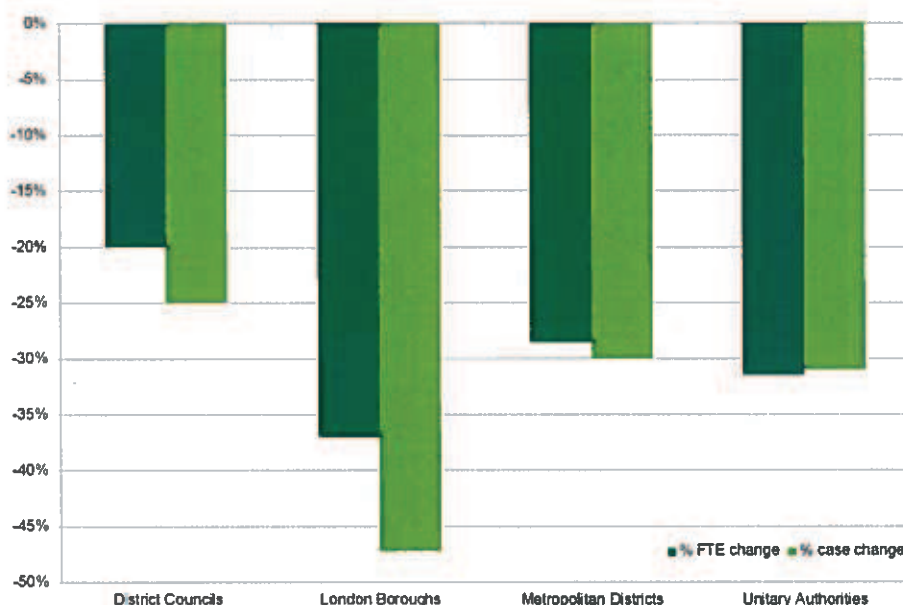
Source: Audit Commission (2014)

95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts reducing by 14 per cent and 13 per cent respectively.

96 We wanted to investigate whether annual changes in staff numbers are associated with changes in the numbers of reported detected benefit and non-benefit fraud in each year within this period.

97 Not enough councils reported separate staff numbers for non-benefit fraud staff to enable analysis of this type of fraud. For benefit fraud, all council typesⁱ saw a substantial reduction in both FTE staff numbers and detected benefit fraud cases (Figure 9).

Figure 9: Councils' capacity to detect benefit fraud
Changes in median benefit fraud FTE numbers and detected benefit fraud cases in 2009/10 and 2013/14



Source: Audit Commission (2014)

98 Taking all councils in the analysis together, the median percentage fall in detected cases of benefit fraud exceeded that for FTE benefit fraud investigators. This was true in all councils except unitary authorities, where the percentage reductions were similar in each category.

99 London boroughs saw the largest reductions, losing nearly two in five (37 per cent) of their benefit fraud investigation staff, and nearly half (45 per cent) of their detected benefit fraud cases over the whole period. It is likely that some of this decline is due to councils in the capital refocusing their fraud investigation resources on non-benefit fraud in preparation for the introduction of the SFIS (Ref. 4, Para. 46).

100 Other councils also saw a substantial decline in their capacity to detect benefit fraud of between 20 and 30 per cent over this period. They also detected between 23 and 31 per cent fewer cases of benefit fraud. These differences are not statistically significant and data are patchy in 2010/11 and 2011/12. However, they indicate a clear decline in both counter-fraud capacity and detection rates between the two years.

Counter fraud capacity and cases of benefit frauds detected both fell between 2009/10 and 2013/14

i This analysis excludes county councils, which do not administer housing and council tax benefits.

101 Levels of reported detected fraud can only give an indication of the extent of fraud committed against councils. In our experience, the more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may therefore be a positive sign that councils take fraud seriously, rather than evidence of weak counter-fraud controls.

102 It is becoming increasingly urgent for councils to recover losses to fraud. In 2016, the funding to aid councils refocus their activities on non-benefit frauds during the transition to the SFIS will end. Without this money, councils will need alternative means of financing counter-fraud investigation and prevention. Recovery of losses offers one way to do this.

Sanction and redress (recovery of losses)

103 Councils can invoke a range of criminal and civil sanctions against fraudsters. They can impose fines (for example, a £70 fine for fraudulently claiming single person discount), and withdraw benefits, contracts or licences. In some cases, stopping the discount or service provided may be the limit of the action taken.

104 The vast majority of frauds committed against local authorities are never pursued through the criminal courts. There are many frauds against councils (104,132 detected cases in 2013/14). With fewer staff and resources, it is appropriate for councils to follow different courses of action. This is consistent with good stewardship of public funds.

105 Recovering funds lost to fraud can be difficult. Research suggests that, across all sectors of an economy, more than half of all fraud victims do not recover any monies. Fewer than one in ten achieves full financial restitution (Ref. 16).

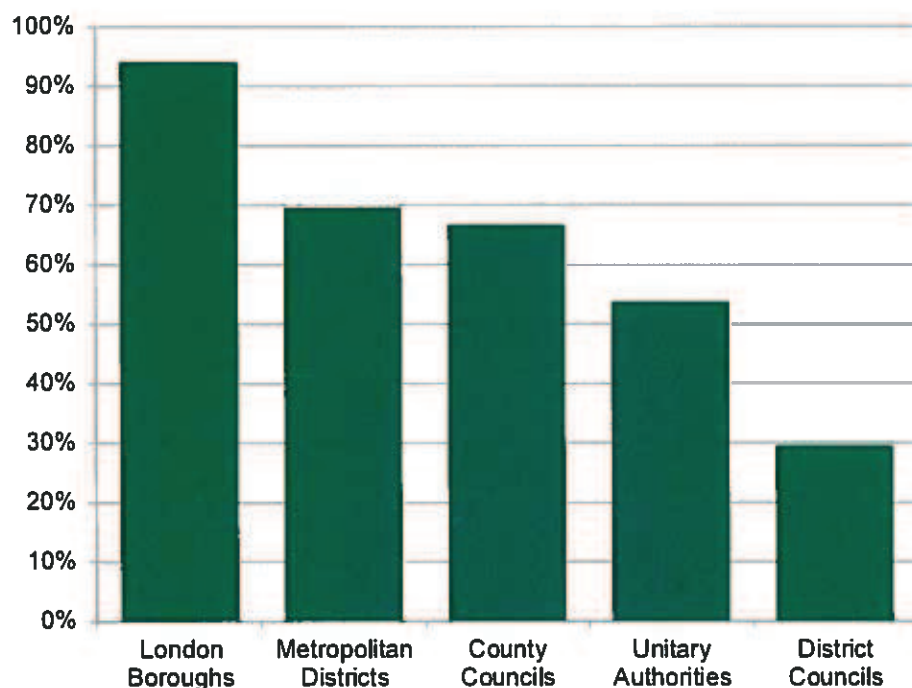
106 Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

107 In 2014, the Local Authority Investigating Officers Group (LAIOG) published guidance on estimating potential loss to fraud in specific areas of local authority activity. Councils can utilise this guidance to estimate their own local losses (Ref. 17).

108 Appendix 3 contains case studies that illustrate how councils can use legislation, notably but not solely the Proceeds of Crime Act 2002 (POCA), to recover money from fraudsters.

109 POCA offers one means of recovering fraud losses through criminal law. Around two in five (43 per cent) of councils employ, or have access to, specialist POCA financial investigators to recover money from fraudsters through the courts (Figure 10).

Figure 10: Proportion of councils in 2013/14 with access to POCA financial investigators, by council type



Source: Audit Commission (2014)

110 The proportion of councils in each group with access to financial investigators varies widely. All but two London boroughs use them and most employ their own. In contrast, just over a quarter (28 per cent) of district councils used a financial investigator.

111 Financial investigators have typically focused on trading standard offences and benefit fraud, but they also enable councils to use POCA to recover funds lost to other frauds.

112 For example, in 2014, the financial investigator at the London Borough of Lewishamⁱ used a POCA confiscation hearing to establish the link between social housing fraud and additional costs the Council had incurred in housing homeless people. We had previously identified this link in *PPP* reports. The court agreed and set a precedent by awarding Lewisham £10,000 per fraudulently sub-let property in this case.

ⁱ This case was undertaken by the financial investigator on behalf of Lewisham Homes, the Arm's Length Management Organisation (ALMO) that manages the social housing stock for the council.

113 The court's judgement creates case law that will help social housing providers to punish offenders, recover funds and, equally importantly, deter others from committing such frauds in the future.

114 Local authorities should give greater consideration as to how best to use POCA financial investigators, especially in cases where councils incur substantial financial loss.

CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

115 The six key components of effective stewardship of public funds highlighted in this chapter are incorporated within the newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Ref. 18). The Code will be supported by a self-assessment framework. CIPFA also intend to publish good practice guidance. We encourage all public bodies, including local authorities, to assess themselves against this Code.

Chapter 5: Building on *PPP*'s legacy

The Commission's PPP reports have made an important contribution to the fight against public sector fraud. The CIPFA Counter Fraud Centre is well placed to continue this work, and intends to publish future annual PPP reports on the extent of detected fraud in local government.

116 Throughout its existence, the Commission has played an active part in helping public bodies tackle fraud effectively. For example, early *PPP* reports identified low levels of fraud detection in the NHS, which led in part to the creation of the NHS Counter-Fraud Service in 1998 (now NHS Protect). Our research on the scale of tenancy fraud and council tax single person discount fraud has been widely used to support improvements in the response to such fraud.

117 *PPP* reports use the Commission's statutory powers to collect and publish data on local counter-fraud detection. They have changed the way local government bodies and other organisations think about and approach fighting fraud, and achieved a number of important outcomes.

PPP reports raise awareness of the importance of fighting fraud

118 When the Commission resumed *PPP* in 2009, there was little research available on the nature and extent of most types of non-benefit fraud affecting local government bodies. We developed robust estimates, now widely used by national and local government, of the scale of both tenancy fraud and council tax single person discount fraud.

119 Many organisations did not acknowledge that fraud is a problem or understand its scale and impact. *PPP* reports attracted publicity and interest, which help officers and councillors to argue for more effective resources to protect the public purse.

120 Each *PPP* report contain a checklist for those charged with governance to help them understand and assess their risks and performance. The latest version is in Appendix 2. Councils should continue to use this checklist, which is updated annually with each new *PPP* report.

PPP reports promote transparency and accountability

121 The information in *PPP* reports, combined with individual fraud briefings (see paragraphs 126 to 129), help to create greater transparency and accountability in local public services. *PPP* reports have been widely used by audit committees.

PPP reports improve data about fraud

122 Prior to 2009, there was no sector-wide definition, or sub-categorisation, of fraud affecting local government. The annual fraud survey for *PPP* reports foster a common understanding of fraud across local government, and require local government bodies to record the numbers and values of all the frauds they detected.

PPP reports enable local government bodies to benchmark their performance in detecting fraud

123 *PPP* reports contain regional and national data on detection rates and values for all types of benefit and non-benefit frauds. This allows English councils to compare their performance against national, regional and local norms. Understanding fraud detection performance helps local government bodies to adopt a proportionate and effective approach to fighting fraud.

PPP reports promote good practice in fighting fraud

124 Each *PPP* report contains case studies that illustrate the actions local government bodies, often in partnership, take and the outcomes they achieve in fighting fraud. Every year, we work with councils to promote good practice across the sector.

125 All these benefits were possible because the Commission could mandate councils to complete and return the annual questionnaire for the fraud and corruption survey. Going forward, unless the survey is mandated by DCLG, response rates will probably fall. This would reduce the reliability of the survey results.

Fraud briefings

126 In 2013, we published for the first time individually tailored fraud briefings to support external auditors' communication with those responsible for governance at each council, principally locally elected councillors on audit committees. The briefings contained comparative benchmark information on each council's detection results. External auditors could provide these briefings on request and on a confidential basis, to ensure that the information they contained was not available to fraudstersⁱ.

127 All 353 English local authorities were able to receive their fraud briefing, without charge, through a presentation from their external auditor in late 2013 and early 2014. Around three in five councils (62 per cent) received a briefing and presentation, but it is disappointing that many councils did not.

128 We believe these briefings make an important contribution to improving transparency and accountability in local fraud detection performance. Some councils are reluctant to discuss fraud, or unwilling to accept it occurs, which may help to explain why not all councils opted to receive their fraud briefing.

129 In November 2014, we will again make fraud briefings available free to all councils, via their external auditor. We encourage all local authorities to use these fraud briefings to inform their local counter-fraud priorities and strategies.

62% of councils compared their detection levels with their peers, using our tailored fraud briefings

CIPFA Centre for Counter Fraud

130 Fraud risks are constantly changing. New ways of delivering public services, in particular through digital technology, bring new threats. Local government's counter-fraud approach needs to adapt and evolve to meet these new challenges. A key requirement for local bodies is to improve their counter-fraud capability.

- i In 2012, the Audit Commission cited an exemption under section 31(1)(a) of the Freedom of Information (FOI) Act (that disclosure would be likely to prejudice the prevention or detection of crime) to refuse an FOI request for council-specific annual detected fraud survey results. Our concern was that disclosure of the data could prejudice the ability to prevent or detect fraud if any particular authority's track record in this regard were to become public. The Information Commissioner's Office upheld this exemption. It is for individual organisations to seek their own advice and determine their response to any FOI requests.

131 Auditors and fraud investigators already have many of the skills required to provide an effective counter-fraud service. Although some councils use such resources effectively, this is far from universal.

132 From April 2015, the Audit Commission's strategic counter-fraud activities and team will transfer to CIPFA's Counter Fraud Centre. The Centre is a source of expertise and leadership for local government and the wider public sector to help organisations meet challenges in the future.

133 With the support of the new Counter Fraud Centre, the sector can enhance investigative capability, even with fewer staff. The Centre can support measures to improve in several important areas:

- **Continuing to publish *PPP*.** The Centre intend to publish a similar *PPP* report based on an annual survey of detected fraud and corruption in English local authorities.
- **Benchmarking performance.** Benchmarking is critical to understanding how well an organisation performs. The Centre for Counter Fraud intend to continue to publish individual fraud briefings. It will also draw on CIPFA's expertise in comparing data.
- **Professional training.** The Centre will develop and offer professional accredited training for the public sector with specific bespoke focus for local government investigators.
- **Tools and other services.** The Centre will offer e-learning in anti-corruption and whistleblowing, supported by counter-fraud specialists. Other services will include professional networks, thought leadership and fraud alerts.

134 CIPFA does not have the same breadth of powers that the Audit Commission has been able to deploy to support local government, including powers to mandate submission of information on fraud detection results. This could weaken the comparative data used in fraud briefings.

135 We encourage all councils and other public bodies to maximise the potential benefits of participation with the CIPFA Counter Fraud Centre.

136 The Audit Commission leaves a strong legacy in counter-fraud. CIPFA is well placed to continue this work and help local government in its fight against fraud.

Appendix 1: Data tables of detected frauds and losses by region

Table 8: Detected frauds and losses 2013/14 by region compared to regional spend by councils

Region	Council spending by region as percentage of total council spending in 2012/13 ⁱ	Regional percentage of the total value of all detected frauds in 2013/14	Regional percentage of the number of all cases of detected frauds in 2013/14
(TOTAL)	(£111.7 billion)	(£188.3 million)	(104,132)
East of England	10.3	9.9	10.3
East Midlands	7.7	6.4	8.6
London	18.2	27.1	20.8
North-East	5.4	4.1	6.5
North-West	13.6	10.9	8.3
South East	15.0	14.5	15.7
South-West	9.1	9.0	9.6
West Midlands	10.8	9.8	12.5
Yorkshire and Humber	10.1	8.3	7.7

Source: Audit Commission (2014)

ⁱ Regional spending data for 2013/14 are not yet available. However, the proportions of spending in each region do not change much from year to year. For this reason, Table 8 includes 2012/13 spend data as a benchmark against fraud losses and detected cases in 2013/14.

Appendix 2: Checklist for councillors and others responsible for governance

I. General	Yes	No	Previous action	2014 Update
1. Do we have a zero tolerance policy towards fraud?				
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?				
3. Do we have dedicated counter-fraud staff?				
4. Do counter-fraud staff review all the work of our organisation?				
5. Does a councillor have portfolio responsibility for fighting fraud across the council?				
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?				
7. Have we received the latest Audit Commission fraud briefing presentation from our external auditor?				
8. Have we assessed our management of counter-fraud work against good practice?				
9. Do we raise awareness of fraud risks with:				
■ new staff (including agency staff);				
■ existing staff;				
■ elected members; and				
■ our contractors?				

I. General	Yes	No	Previous action	2014 Update
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?				
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?				
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?				
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
15. Do we have effective arrangements for:				
■ reporting fraud?				
■ recording fraud?				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
■ aware of our whistle-blowing arrangements?				
■ have confidence in the confidentiality of those arrangements?				
■ confident that any concerns raised will be addressed?				
17. Do we have effective fidelity insurance arrangements?				

II. Fighting fraud with reduced resources	Yes	No	Previous action	2014 Update
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?				
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?				
20. If successful, are we using the money effectively?				
III. Current risks and issues	Yes	No	Previous action	2014 Update
Housing tenancy				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?				
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
Procurement				
23. Are we satisfied our procurement controls are working as intended?				
24. Have we reviewed our contract letting procedures in line with best practice?				
Recruitment				
25. Are we satisfied our recruitment procedures				
<ul style="list-style-type: none"> ■ prevent us employing people working under false identities; 				
<ul style="list-style-type: none"> ■ confirm employment references effectively; 				
<ul style="list-style-type: none"> ■ ensure applicants are eligible to work in the UK; and 				
<ul style="list-style-type: none"> ■ require agencies supplying us with staff to undertake the checks that we require? 				

III. Current risks and issues (continued)	Yes	No	Previous action	2014 Update
Personal budgets				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				
27. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				
Council tax discount				
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				
Housing benefit				
29. When we tackle housing benefit fraud do we make full use of:				
■ National Fraud Initiative;				
■ Department for Work and Pensions Housing Benefit matching service;				
■ internal data matching; and				
■ private sector data matching?				
IV. Other fraud risks	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
■ business rates;				
■ Right to Buy				
■ council tax reduction;				
■ schools; and				
■ grants?				

Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA)

Case study 4

Recruitment payroll fraud - pension pot recovered (total value £414,415)

- In July 2012, a council successfully prosecuted the Head of their Youth Offending team and several co-conspirators for payroll fraud. In collusion with employees at a recruitment agency, the employee authorised payments for several non-existent temporary agency staff. The fraud was first brought to the attention of the council by a whistleblower.
- The employee was found guilty of conspiracy to defraud the council and sentenced to five years and six months in prison. The co-conspirators were also found guilty and sentenced to four years, two years, and 18 months respectively.
- In 2014, the council was awarded a total of £414,415 in financial restitution from the fraudsters, in part through successful POCA judgements. This included £286,415 recovered from the fraudsters' pension under provisions within the Local Government Pension Scheme.

Source: Audit Commission (2014)

Case study 5

Prevention of Social Housing Fraud Act - unlawful profit order of £31,000

- In early 2014, a predominantly London-based housing association was one of the first social housing providers to gain an Unlawful Profit Order under the Prevention of Social Housing Fraud Act. This allows social landlords to seek a money judgement against their tenant where illegal sub-letting has occurred.
- On a routine visit, a housing officer became suspicious about illegal sub-letting after seeing an unfamiliar person in a property. The officer discovered that the official tenant had lived and worked in Spain for at least the last two and a half years.
- The court ordered the tenant to pay the housing association £31,000, plus costs. The property was recovered and immediately re-let.

Source: Audit Commission (2014)

Case study 6

Procurement fraud and POCA

- In 2014, a council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000. This related to the amount an employee had been illegally paid to provide confidential contract information.
- The employee's responsibilities included awarding council contracts for ICT equipment. In this role, the employee introduced two new suppliers to the council's approved tender list, subsequently advising them of tender submissions by competing companies. This enabled the two companies concerned to underbid competitive rivals to secure the contracts.
- The fraud was identified as a result of information provided by an anonymous informant.
- The employee was dismissed, subsequently found guilty under the Fraud Act and sentenced to two years imprisonment.

Source: Audit Commission (2014)

Case study 7

Benefit fraud (£43,000), POCA award of nearly £1.2 million

- Over a four-year period a husband and wife made false statements as to their relationship and stole somebody else's identity (to create a non-existent landlord), to fraudulently claim housing benefit worth £43,000 from a council.
- The money claimed was used to finance an extravagant lifestyle, including purchases of two sports cars, expensive watches and nearly £100,000 of musical equipment. Subsequent enquiries by the council's financial investigator established that the husband owned a property abroad worth in excess of £1 million, had further land holdings and several businesses in the UK and abroad, including two money transfer companies. He also had several business and bank accounts.
- The fraudsters pleaded guilty to 19 Fraud Act, Theft Act, perjury and immigration offences. The fraudsters were sentenced to 30 months in prison and 12 months' suspended sentence respectively.
- Using the findings of the financial investigator's enquiries into the financial history of the fraudsters, a subsequent POCA hearing awarded £1,197,000 in a confiscation order, to be paid by the husband. The council is due £497,000 of this award.
- The fraudster husband subsequently paid £11,849 of the amount awarded. In late 2013, he left the UK and is now resident abroad. An arrest warrant has been issued.

Source: Audit Commission (2014)

Recovery of 23 council houses from fraudsters

- In 2011, a council's fraud team uncovered one of the country's biggest ever tenancy fraud cases. Over a three year period, a council employee dealing with homeless people had operated a scheme to process bogus housing applications to fraudulently obtain council homes. Properties were subsequently allocated to the fraudster's family, close associates and later those willing to pay. The fraudster used fake identities, false personal data and fraudulently adjusted housing application forms to make the co-defendants "high priority" for housing.
- The fraud was first identified through National Fraud Initiative data 'Operation Amberhill' matches. Subsequent investigations found a pattern of false documentation being used to obtain social housing. Enquiries with the UK Borders Agency and HMRC established that seven of the properties were allocated to people not legally allowed to be in the UK.
- Council investigators found a pattern where significant one-off payments would be made to the fraudster's bank account. A few days later a property would be allocated to the individual making the payment.
- In total, 23 properties were fraudulently allocated, most of which have already been recovered by the council.
- The fraudster pleaded guilty to transferring criminal property and in January 2014 he was sentenced to four years in prison. The co-defendants, who included the mother and a former wife of the culprit, received suspended sentences ranging from six to eight months, and other penalties including curfews and community service.

Source: Audit Commission (2014)

Case study 9

Benefit fraudster with over 30 bank accounts – POCA confiscation order of £150,000

- In 2011, a council initially identified through data matching that a benefit claimant had two undeclared bank accounts. Further enquiries established the claimant had over 30 such undeclared bank accounts in operation over a ten year period. During that time the claimant had received over £43,000 in benefits. A restraint order was placed on these bank accounts under the Proceeds of Crime Act, to prevent them being used.
- The individual was subsequently found guilty of two counts of benefit fraud under the Social Security Administration Act and received a six month custodial sentence.
- In 2014, a POCA confiscation order of £150,000 was made against the fraudster, of which over £43,000 related to the council for the fraudulent housing benefit payments. These monies have now been paid back by the fraudster.

Source: Audit Commission (2014)

Right to Buy fraud and benefit fraud

- In 2010, a couple applied to purchase their council home under Right to Buy for £185,000, with a discount of £38,000. The purchase was not consistent with their financial circumstances, as they were long term benefit claimants on low income. As part of the council's anti-money laundering policy, enquiries were then made to establish how the property purchase would be financed.
- Enquiries revealed the couple had savings in excess of £30,000, which had not been declared in the course of claiming benefits. The mortgage to fund the purchase was to be £147,000. To obtain the mortgage, one defendant inflated his income and a completely false income was declared for the other, who had not worked for over 15 years.
- In March 2012, the defendants pleaded guilty to benefit fraud offences and money laundering totalling over £10,000. They received a 12 month Community Order, 150 hours unpaid work, an evening curfew and electronic tagging.
- At a subsequent confiscation hearing, the council were awarded over £40,000 in relation to both the Right to Buy and benefit frauds, which has been repaid in full.

Source: Audit Commission (2014)

Housing officer fraudulently sub-letting council house

- In 2010, a council housing officer created false documents, forged signatures and copied confidential council-held information to create the false impression of a voluntary tenancy exchange for two council homes. Instead, the housing officer used the subsequent control over one property (that had supposedly been transferred to a new tenant), to fraudulently sub-let that property for £700 per month.
- The fraud came to the attention of the local authority as a result of an unrelated enquiry by the tenant of the fraudster to the council.
- The original tenant had returned the keys of the property to the council in 2010 and was now living abroad. He had no knowledge of the tenancy exchange, and his signature had been falsified on transfer documents.
- The housing officer was dismissed for gross misconduct, pleaded guilty to two offences of fraud by abuse of position and making and supplying articles for use in fraud. The fraudster was sentenced to two years and ten months' imprisonment.
- In 2014, a POCA confiscation hearing found the fraudster had obtained a lifestyle benefit of over £88,000. As a result, the council was awarded £16,631, representing half of the equity available on the fraudster's own property, which he jointly owned with his wife.

Source: Audit Commission (2014)

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Agenda Item 3.5

Report To: Audit Committee	Date 17 March 2015	Classification Unrestricted	Report No.
REPORT OF: Chris Holme, Acting Corporate Director of Resources ORIGINATING OFFICER(S): Bola Tobun, Investment & Treasury Manager		Treasury Management Activity for Period Ending 31 January 2015 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 January 2015 and the continued appropriateness of the Treasury Management Strategy and Treasury Prudential Indicators, which were approved by Council on 26 February 2014 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Acting Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.
- 1.3 The current average return on investment stands at 0.72%, compared with budget set of 0.80%, whilst the budgeted cash return on assets was £1.6m for 2014/15; this has been revised to £2.7m due to large cash balances.
- 1.4 In accordance with regulatory requirements the Council has approved Prudential Indicators for Treasury Management. Treasury activities have not resulted in any breach of the approved limits. An annual Treasury Management Strategy Statement was presented and approved by Council at its meeting of the 25 February 2015.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to:
 - note the contents of the treasury management activity report for period ending 31 January 2015.

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 the implementation of the 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 2014/15

- 6.1 The Council's Treasury Management Strategy was approved on 26 February 2014 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2014-15 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 January 2015

- 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 January 2015.

8 MARKET UPDATE (January 2015)

- 8.1 The February Bank of England (BoE) Inflation Report highlighted that the strong performance the UK economy has shown is likely to continue into the foreseeable future. Inflation is forecast to remain below 1% for 2015, with the BoE suggesting that it could possibly enter negative territory in the first half of 2015 if energy prices remain low. For the first time, the BoE has said it would be prepared to further cut bank rate or resume QE if global activity weakened and threatened the UK economy.
- 8.2 The BoE opted to keep interest rates at their record low of 0.5% in February. The MPC minutes for the February meeting revealed that the vote was 9-0 for the second month running, given the weak short-term outlook for inflation.
- 8.3 The headline inflation figure fell to 0.3% in January, the lowest level since records began in 1989, leaving the Bank of England under no pressure to raise interest rates.
- 8.4 The pace of growth in UK economy slowed in Q4 2014. The first estimate showed that growth in gross domestic product slowed to 0.5%, down from 0.7% in Q3.
- 8.5 The UK unemployment rate fell to 5.7% in the three months to December with the number of people in employment rising by 103,000. Average weekly earnings, including bonuses, rose by 2.4% in annual terms in the month of December, outstripping inflation by the most in several years.
- 8.6 The Coalition Government is hampered in promoting growth by the need to tackle the budget deficit.
- 8.7 There is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- 8.8 According to Nationwide, house prices rose by 0.3% in January and rose by 6.8% when compared with the same period last year.

US

- 8.9 US GDP expanded to 2.6% at an annualised rate in Q4, down from an expansion of 5% in Q3. This was due to weak business spending combined with a wider trade deficit offsetting consumer spending.
- 8.10 In October 2014, the Fed announced that it had ended its Quantitative Easing programme, showing confidence in the US economy. The Fed will, nonetheless, continue to reinvest the maturing securities each month to maintain a balance sheet of over \$4 trillion.
- 8.11 The Fed has stated that it will remain “patient” in deciding when to raise interest rates despite drastic moves made by other central banks this month. The central bank acknowledged a decline in certain inflation measures, but seems confident about a strong labour market and growth.

EU

- 8.12 Growth in Eurozone GDP rose to 0.3% in Q4 2014, up from 0.2% in Q3. Growth however is still too weak to reduce the threat of deflation indicating a slowdown may be to come.
- 8.13 Austerity programmes in various countries have had a significant effect in reducing growth rates.
- 8.14 Following the European Central Bank's (ECB) meeting in January, its interest rate was held at 0.05%. The ECB also maintained a negative deposit rate, at -0.20%. The ECB announced their Quantitative Easing programme at this meeting and said they would inject at least €1.1 trillion into the ailing economy. The programme will begin in March 2015 and they will buy bonds worth €60bn per month until the end of September 2016.
- 8.15 The decision to cut interest rates and embark on a QE programme was made in order to spur economic growth and stave off the threat of deflation.

China

- 8.16 The economy remains hugely unbalanced towards new investment expenditure. Major concerns have surfaced over rapid expansion of credit and the exposure of banks to a potential bursting of a bubble in the property market.

9 CREDIT CRITERIA

- 9.1 The credit criteria for investment counterparties were reviewed, amended and reported for approval to the Council in February 2015 as part of the annual Treasury Management Strategy Statement for 2015/16. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating.
- 9.2 The Council has been advised previously by the treasury adviser that the main rating agencies (Fitch, Moody's and Standard & Poor's) are going to remove the implied sovereign support. The actual timing of the changes is still subject to discussion, but the adviser have pre-empt the moves by making immediate changes to their methodology.
- 9.3 The current methodology was introduced at the start of the financial crisis, taking account of the full extent of rating categories applied to financial institutions and their domestic sovereigns. It has been a robust process which has provided clients with a wide range of suitable counterparties, based on rating agency methodologies that, themselves, evolved through the financial crisis. The changes in agency methodologies moving forward are such that they believed it is now right to make changes themselves.
- 9.4 The range of impacts across the three rating agencies is detailed below and how the Council's treasury adviser has proposed to address them.
- 9.5 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be the same as their Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings. Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all

institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

- 9.6 As a result of these rating agency changes, whilst the treasury adviser still display a full set of credit ratings for the immediate future, the credit element of their new methodology will **focus solely on the Short and Long Term ratings of an institution**. In addition, Rating Watch and Outlook information will continue to be assessed where it relates to these categories. And will also continue to utilise CDS prices as an overlay to ratings in their new methodology.
- 9.7 It is important to stress that this, and any future action directly related to this issue, is not indicative of deteriorating credit quality in the institution concerned. Instead it is reflective of underlying methodology changes by the agencies in light of regulatory changes.

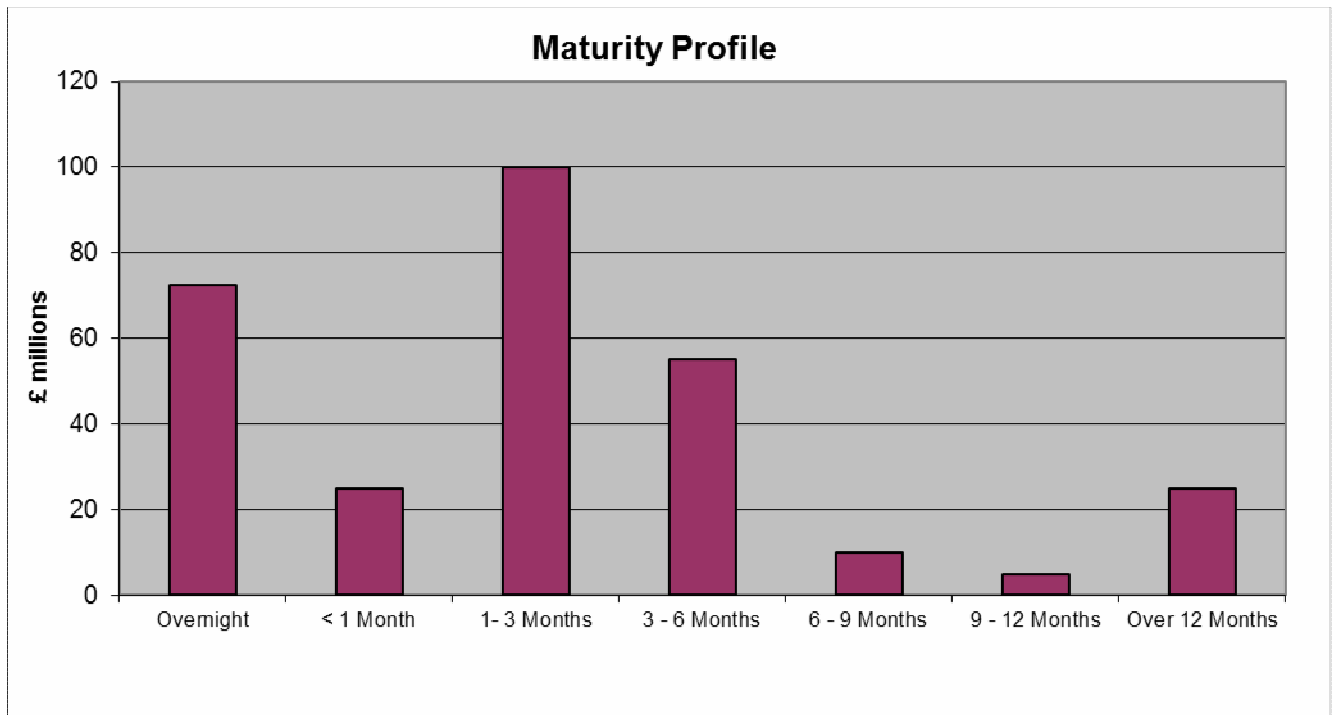
10 INVESTMENT STRATEGY

- 10.1 Capita provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so Capita's role is purely advisory.
- 10.2 In addition to providing cash management services, Capita also provides treasury consultancy/advisory service to the Council.
- 10.3 The outlook for interest rates indicates a growing belief that central banks are keen to keep rates low for a prolonged period, to encourage global growth. Forecasters are moving the date of the first projected interest rate increase in the UK forward, potentially into Q2 2015. If and when rates do start to rise, the authority will wish to be in a position to take advantage by not having too much money invested in longer term investments.
- 10.4 The current balance of £292.5m is £92.5m higher than the projected average cash balance of £200m. This is mainly attributable to slippage on the capital programme. It is envisaged that cash balances will reduce in the medium term as expenditure on the capital programme picks up through the remainder of the financial year.
- 10.5 At the end of January 2015, the Council had £72.5m of outstanding investments of £292.5m as overnight money and £125m maturing within 3 months, £55m maturing within 3-6 months, £10m maturing within 6-9 months, £5m maturing within 9-12 months and £25m to mature after 12months.
- 10.6 The budgeted investment return for 2014/15 was £1.6m. This target has been achieved due to large cash balances. The Council's outstanding investment balance has been well above the estimated budget balance of £200m. The investment return has now been revised to £2.7m with average cash balance of £325m for 2014/2015.
- 10.7 The table below shows the amount of investments outstanding at the end of January 2015, split according to the financial sector.

FINANCIAL SECTOR	£m
Banks in the UK	140.00
Building Societies in the UK	10.00
Banks in the Rest of the World	70.00
Money Market Funds	72.5

- 10.8 Current investment portfolio is as set out below.

Investment Portfolio at 31 January 2015

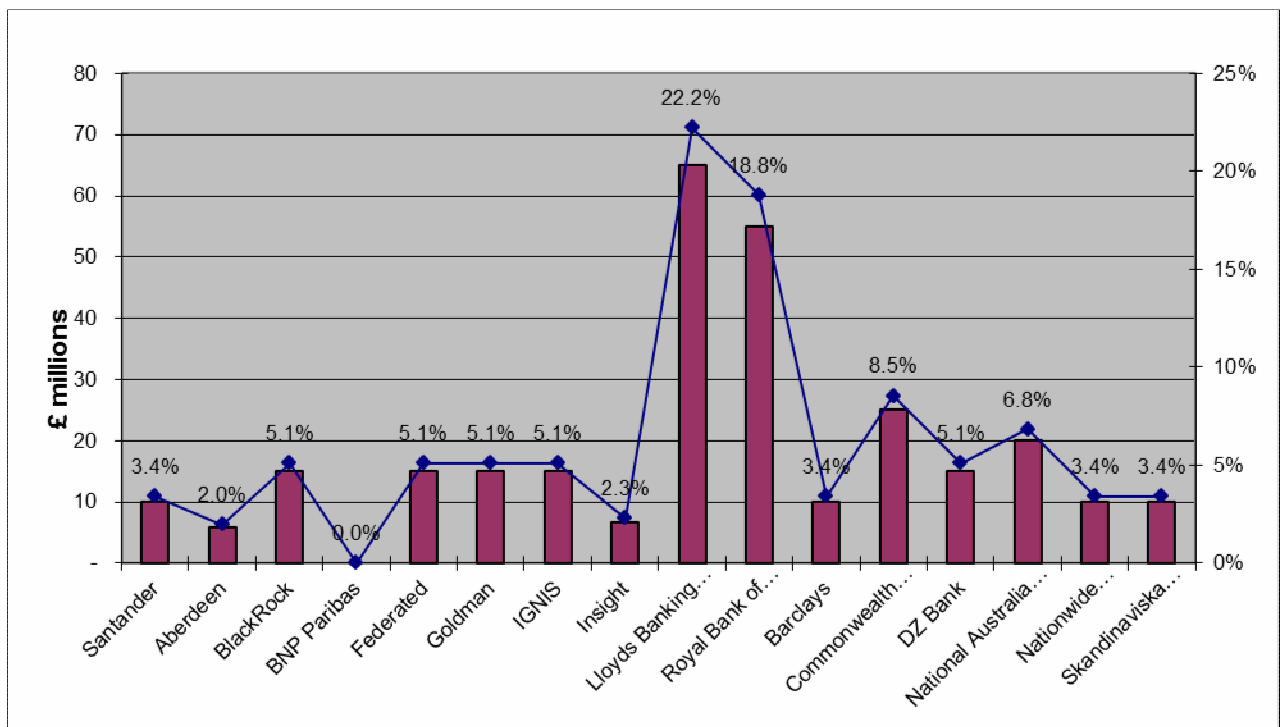


10.9 The Weighted Average Maturity for outstanding investment portfolio is 118 days. This is the average number of outstanding days to maturity of each deal from 31st January 2015

10.10 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 January 2015.

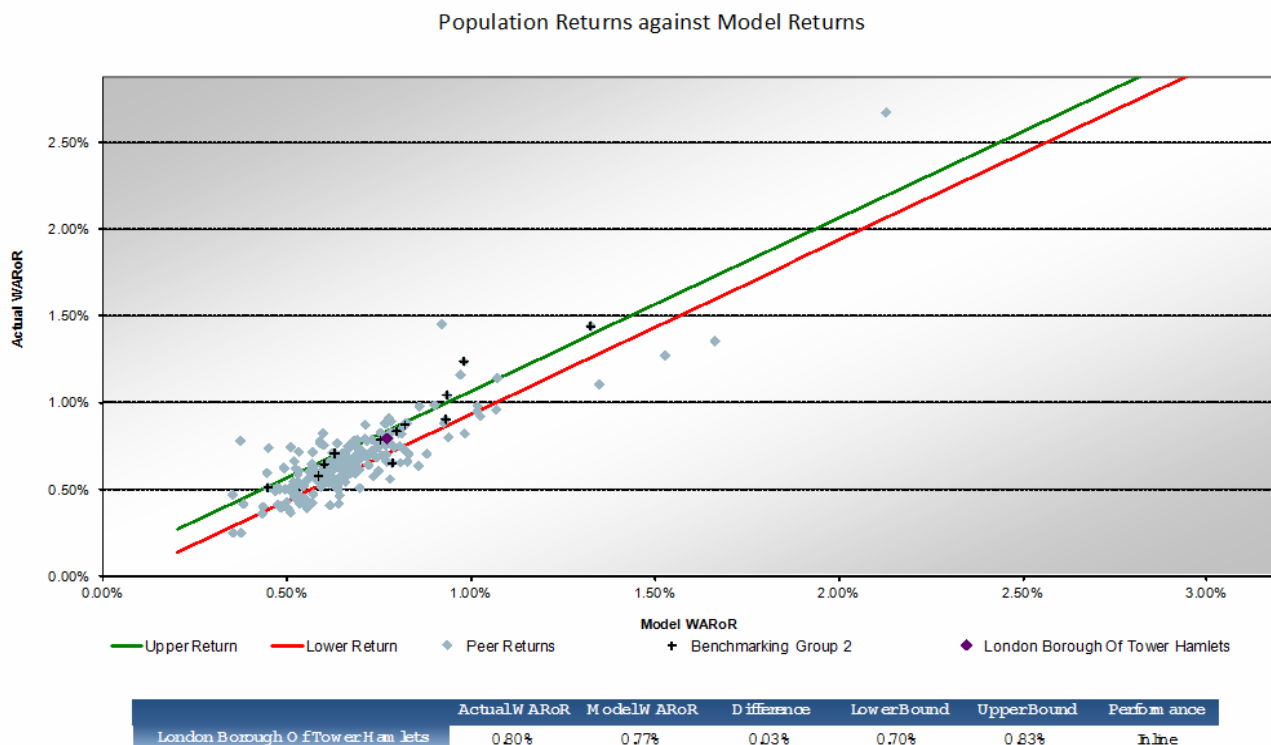
10.11 The chart below shows the deposits outstanding with authorised counterparties as at 31 January 2015, of which 41% were with part-nationalised banks (Lloyds and RBS Groups).

Maturity of Investment Portfolio as at 31 January 2015



11 INVESTMENT BENCHMARKING CLUB

11.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2014. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.



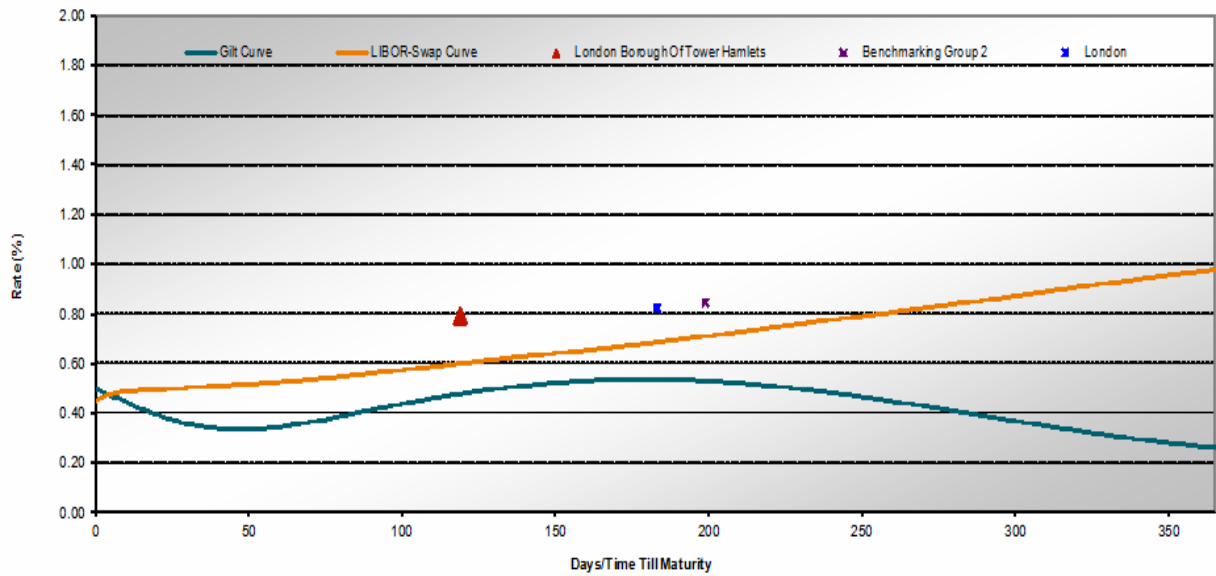
11.2 The weighted average rate of return (WARoR) - this is the average annualised rate of return weighted by the principal amount in each rate. And for Tower Hamlets is 0.80% at the end of December 2014, compared to 0.77% for the model portfolio. The return on LBTH investment is in line with the Council's risk appetite as set out in the Investment Strategy.

11.3 The Weighted Average Time to Maturity (WAM) - This is the average time, in days, till the portfolio matures, weighted by principal amount. At the end of December for LBTH was 119 days, compared to 199 days for the benchmarking group.

11.4 The Weighted Average Total Time (WATT) - this is the average time, in days, that deposits are lent out for, weighted by principal amount. At the end of December for LBTH was 272 days, compared to 356 days for the benchmarking group.

11.5 With the market rates moving lower again, the investment strategy for the rest of this financial year 2014/15, is to place at least £50m of current cash balances as deposit for 6 months and over if and when the opportunity arose, as rates could be dramatically reduced further.

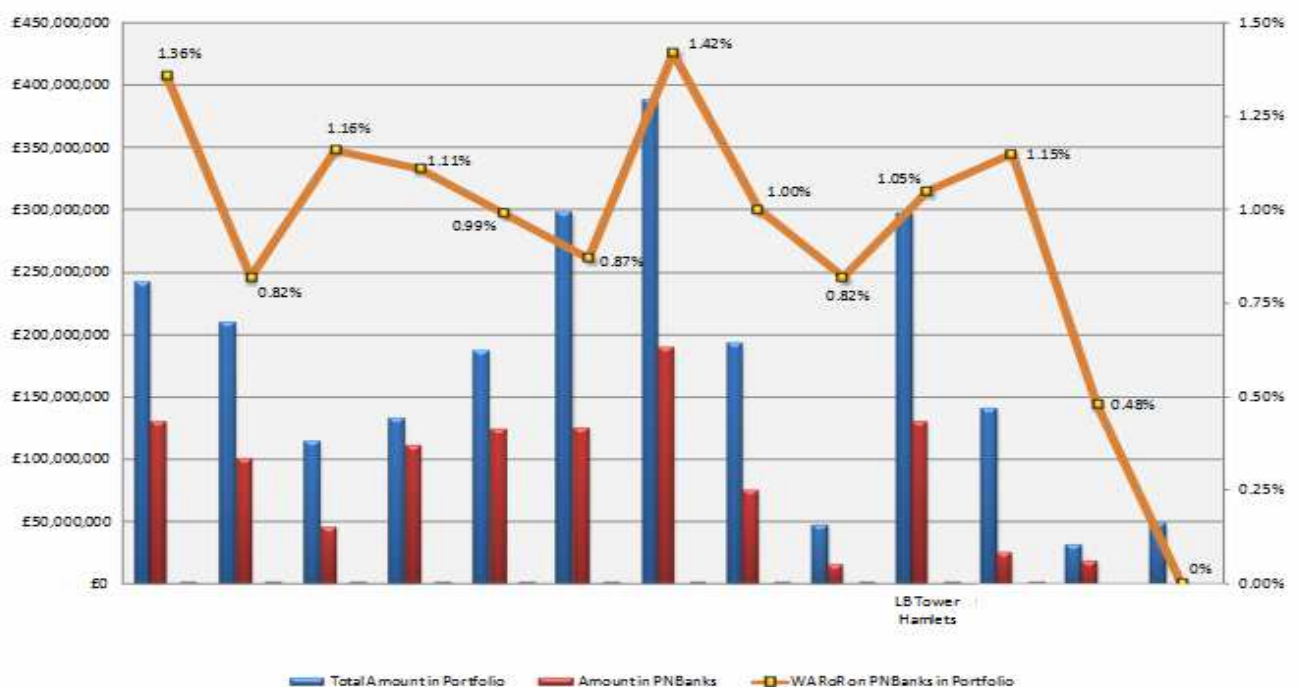
Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	W ARoR	W AM	W ATT	W ARisk	Gilt	LIBOR-Swap	Difference		Model	
							Gilt	LIBOR-Swap	Bands	Performance
London Borough Of Tower Hamlets	0.80%	119	272	3.0	0.48%	0.60%	0.32%	0.19%	0.70% - 0.83%	line
Benchmarking Group 2	0.85%	199	356	3.0	0.53%	0.71%	0.32%	0.14%	0.73% - 0.86%	line
London	0.83%	183	343	2.8	0.54%	0.69%	0.29%	0.14%	0.73% - 0.86%	line

11.6 A further chart is set below that compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council's allocation to and returns from investment with PNBs is in line with other London boroughs as at 31 December 2014.

LB Tower Hamlets Exposure to Part-Nationalised Banks- end of Dec 2014



Counterparty Exposure as at 31 January 2015

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	IGNIS		MMF	15.00	0.48%
	Aberdeen		MMF	5.80	0.41%
	Blackrock		MMF	15.00	0.42%
	Federated		MMF	15.00	0.46%
	Goldman		MMF	15.00	0.42%
	Insight		MMF	6.70	0.43%
	SUB TOTAL				72.50
< 1 Month					
	Lloyds Banking Group	04/02/2014	04/02/2015	5.00	0.95%
	Lloyds Banking Group	13/02/2014	13/02/2015	5.00	0.95%
	Commonwealth Bank of Australia	15/08/2014	13/02/2015	5.00	0.48%
	DZ Bank	26/08/2014	26/02/2015	5.00	0.71%
	Skandinaviska Enskilda Banken	29/08/2014	27/02/2015	5.00	0.64%
1 - 3 Months					
	Santander		Call - 95N	10.00	0.45%
	Lloyds Banking Group	04/09/2014	04/03/2015	5.00	0.70%
	Lloyds Banking Group	05/03/2014	05/03/2015	10.00	0.95%
	Barclays	05/09/2014	05/03/2015	10.00	0.61%
	Commonwealth Bank of Australia	15/09/2014	16/03/2015	5.00	0.53%
	Lloyds Banking Group	07/10/2014	07/04/2015	5.00	0.70%
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%
	Lloyds Banking Group	11/07/2014	13/04/2015	10.00	0.80%
	Nationwide Building Society	13/10/2014	13/04/2015	5.00	0.66%
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%
	Nationwide Building Society	16/10/2014	16/04/2015	5.00	0.66%
	Lloyds Banking Group	17/07/2014	17/04/2015	5.00	0.80%
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%
	Lloyds Banking Group	29/10/2014	29/04/2015	5.00	0.70%
3 - 6 Months					
	National Australia Bank	06/11/2014	06/05/2015	5.00	0.55%
	National Australia Bank	14/05/2014	14/05/2015	10.00	0.63%
	DZ Bank	26/08/2014	26/05/2015	5.00	0.86%
	National Australia Bank	07/07/2014	07/07/2015	5.00	0.64%
	Royal Bank of Scotland	15/07/2014	15/07/2015	20.00	0.97%
	Commonwealth Bank of Australia	15/07/2014	15/07/2015	5.00	0.83%
	Commonwealth Bank of Australia	17/07/2014	17/07/2015	5.00	0.82%
6 - 9 Months					
	Commonwealth Bank of Australia	12/08/2014	12/08/2015	5.00	0.81%
	DZ Bank	26/08/2014	26/08/2015	5.00	0.98%
9 - 12 Months					
	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
> 12 Months					
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
	SUB TOTAL			220.00	
	TOTAL			292.50	

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

INVESTMENT RETURNS

- 12.1 Investment returns since inception of the cash management arrangement with Capita has been consistently above the portfolio benchmark, which is 7 Day LIBID (the London Interbank Bid Rate). Performance against target which is benchmark (7 Day LIBID) plus 0.25% has been good so far, with year to date return on investment at 0.73%, which is 11 basis points above target set.
- 12.2 The portfolio delivered a return which outperforms the target set, LIBID + 0.25% for the first ten months of the year. Although returns are significantly above the LIBID, which currently stands at 0.35%.
- 12.3 With interest rates set to remain low and provided there's no undue increase in the Council's risk, we would continually review the counter party list prudently and cautiously in order to broaden the range of counterparties and/or products in order to enhance returns of our cash holdings, giving priority to the security and liquidity of investments before yield.
- 12.4 Below is a table that details performance of investments. The table shows that performance has consistently outperformed LIBID.

Performance against Benchmark

Period	LBTH Performance	Target (7 Day LIBID+0.25%)	(Under)/Out Performance
Full Year 2013/14	0.82%	0.60%	0.22%
April 2014	0.70%	0.59%	0.11%
May 2014	0.69%	0.59%	0.10%
June 2014	0.68%	0.60%	0.08%
July 2014	0.70%	0.60%	0.10%
August 2014	0.73%	0.60%	0.13%
September 2014	0.76%	0.61%	0.16%
October 2014	0.77%	0.61%	0.16%
November 2014	0.78%	0.60%	0.18%
December 2014	0.77%	0.60%	0.17%
January 2015	0.75%	0.60%	0.15%
Average 2014/15	0.73%	0.62%	0.11%

13 DEBT PORTFOLIO

13.1 The table below sets out the Council's debt as at the beginning of the year and 31 January 2015.

	31 March 2014 Principal £'000	Average rate %	31 January 2015 Principal £'000	Average rate %
Fixed Rate Funding:				
-PWL	12,064	7.37	11,727	7.37
-Market	13,000	4.37	13,000	4.37
Total Fixed Rate Funding	25,064	5.81	24,727	5.81
Variable Rate Funding:				
-PWL	-		-	
-Market	64,500	4.32	64,500	4.32
Total Variable Rate Funding	64,500	4.32	64,500	4.32
Total debt	89,564	4.73	89,227	4.73
CFR	220,720		266,884	
Over/ (under) borrowing	(131,156)		(177,657)	

13.2 No borrowing has been undertaken to date in this financial year. Officers are monitoring long term interest rates with a view to borrow externally when the rates are considered to be near their lowest point. Total debt outstanding, stands at £89.227m, against estimated CFR of £266.884m for 2014/15, resulting in an under-borrowing of £177.657m

14. INVESTMENT STRATEGY UPDATE

14.1 Full Council approved the 2015/16 Investment Strategy on 25 February 2015. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets and the evolving regulatory regime.

14.2 Wholly or partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the current strategy is to have £70m money limit for each group with an aggregate of 40% of the overall investment portfolio. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.

15. COMMENTS OF THE CHIEF FINANCIAL OFFICER

15.1. The comments of the Acting Corporate Director Resources are incorporated in the report.

16. LEGAL COMMENTS

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

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

16.2 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.

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

17. ONE TOWER HAMLETS CONSIDERATIONS

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

18. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

19. RISK MANAGEMENT IMPLICATIONS

19.1 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.

20. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

21. EFFICIENCY STATEMENT

21.1 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"

*December 2014 Benchmarking Report & January
2015 Investment Portfolio Analysis Report*

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

*Bola Tobun Ext. 4733
Mulberry Place, 3rd Floor.*

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