

Non-Executive Report of the: Audit Committee 29 th March 2018	 TOWER HAMLETS
Report of: Zena Cooke - Corporate Director - Resources	Classification: Unrestricted
Quarterly Assurance Report	

Originating Officer(s)	Minesh Jani
Wards affected	All wards

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period covering January 2018 to February 2018.
- 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. Members are 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 financial year to date, I am able to give a substantial level of assurance over the systems and controls in place over the areas reviewed.

4.2. Direction of Travel

Each audit summary presented at Appendix 2, shows the Direction of Travel for that audit. Each Direction of Travel is defined in the following Table.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
	Not previously visited by Internal Audit.

5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee on 23rd January 2018, five more final reports have been issued in the intervening period up to February 2018. 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. Members 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.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	1	-	1	2
	Moderate	-	-	3	-	3
	Low	-	-	-	-	-
Total Numbers		-	1	3	1	5
Total %		-	20%	60%	20%	100%

- 5.4. From the table above it can be seen that of the two finalised audits which focused on high risk or high value areas, one was assigned Substantial Assurance and one was assigned Nil assurance. A further three audits were of moderate significance and were assigned Limited Assurance.
- 5.5. Overall, for the period January to February 2018, 20% of audits resulted in an adequate assurance (substantial or full). The remaining 80% of audits have an inadequate assurance rating (limited or nil), all of moderate significance.

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 February 2018	80%	77%
Percentage of Priority 1 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	100%	N/A
Percentage of Priority 2 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	95%	N/A

- 6.2. Percentage of audit plan completed up to February 2018 was 77% against a target of 80%. This was due to some delay experienced by our external partner BDO LLP in commencing schools and ICT audits. Two follow up audits have been completed since January 2018 and draft reports have been issued. Currently management responses are awaited and hence the performance indicator for follow up audits has been shown as N/A. The appropriate PI will be reported upon issue of the final reports for both audits in the next quarterly assurance report.

7. Comments of the Chief Finance Officer

- 7.1. This is a noting report highlighting findings arising from the work of the internal audit service during the period from January 2018 to February 2018. 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. Pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 ('the 2015 Regulations'), the Council is required to ensure that it has a sound system of

internal control that facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

8.3 The Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

8.4 Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

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. Best Value Implications

10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

11. Risk Management Implications

11.1. 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.

12. Sustainable Action for a Greener Environment (SAGE)

12.1. There are no specific SAGE implications.

13. Crime and Disorder Reduction Implications


13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

Assurance ratings – Table of Audits and level of Assurance

Assurance level	Significance	Directorate	Audit title
Nil	Extensive	Children's Services	Leaving Care Service
Limited	Moderate	Children's Services	School Governance and Clerking Service
	Moderate	Tower Hamlets Homes	New Starters and Leavers
	Moderate	Tower Hamlets Homes	Officers' Expense Claims Including Purchase Cards
Substantial	Extensive	Resources	ITIL Change & Problem Management

**Summary of Audits Undertaken
Nil Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leaving Care Service	Jan. 2018	<p>The objective of this audit was to provide assurance that systems for governing and managing various functions of the service were sound and secure. The Service is based at Kitcat Terrace in Bow, and the main aim is to enable looked after children, having reached appropriate age and status, to make a smooth transition into independent living that will normally lead to a permanent home and employment. Key processes in LCS include assessing care leavers needs, providing personal support, Pathway planning, financial support and providing intermediate housing. The budget for 2017/18 is</p> <p>The key control issues identified and agreed with Management were as follows:-</p> <ul style="list-style-type: none"> • There was a lack of sound governance and operational framework with outdated policy and procedures which may not be legally compliant and sufficiently robust to manage safeguarding risks to young people. • There was a lack of sound processes and procedures around supported accommodation in terms of commissioning and monitoring to ensure the safety of the client is maintained whilst achieving best value. • There was insufficient guidance and lack of standards for recording service users' needs assessment, management and monitoring of their pathway plans and reviews of these plans to ensure that needs were met. • There was no clear strategy and underpinning guidance to ensure smooth transition of young people from childhood to adulthood. • There were no key performance indicators and targets to measure and monitor the performance of the service and the team. 	Extensive	<p>Nil</p> 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leaving Care Service		All findings and recommendations were discussed and agreed with the Interim Divisional Director of Children's Social Care and final report was issued to the Corporate Director of Children's Services.		


Management Comments

In response to the findings, a formal review of the leaving care service was commissioned and is underway with a completion date of Mid-April 2018. This review will address all of the audit recommendations and is drawing upon research, the experiences of authorities that have achieved good or better standards and the best internal practices to inform its conclusions.

The review has involved colleagues with the appropriate skills from across the council and as a result, financial systems and controls (including payment policies and procedures), and procurement processes are being reviewed and updated. Young people who use or, who have used the services of the LCS have been directly involved in this review and their thoughts about the KitKat terrace facility and how it can be used to maximum effect are informing the review. Importantly their experiences of using the service are influencing the review team's thinking and are being incorporated.

In the knowledge that this review of service is going to make some radical recommendations for change (for example the age at which transition begins and the future role of the virtual school), the performance monitoring framework for the service has been strengthened. Performance is formally measured on an ongoing basis and scrutinised and reported upon at 3 weekly meetings as well as in the monthly performance report. This ensures that managers are constantly aware of and are held to account for their teams' performance and compliance with statute, guidance and internal requirements.

Limited Assurance


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
School Governor and Clerking Service	Jan. 2018	<p>This audit examined the systems around the governor and clerking services offered to schools. The Governor Services team within the Education and Partnership service provide the service via service level agreements (SLAs) with the schools. Schools can choose to buy various levels of services for which charges apply. There are SLAs with 64 schools; 650 full governor/committee meetings are serviced, raising some £390,000 of income. Our testing showed that the Head of Service plans and reviews delivery of clerking services. The quality of the service was being monitored and corrective action taken. The Financial budget was actively monitored. However, the following issues were raised:-</p> <ul style="list-style-type: none"> • The provision of clerking service, which is non-statutory, relies on contribution from the General Fund. For 2016/17, the accounts showed gross expenditure of £653,109 and income of £382,459 with net contribution from General Fund of £270,650. • There was no time recording system to ensure that data on time spent on clerking individual schools was being collected for costing purposes. There was no pricing strategy in place. Performance monitoring was undertaken, however analysis of the key performance indicator (draft minutes sent out within 10 days of the meeting) was not being done formally. A marketing strategy was planned. • In 2016/17, three schools received more services than they paid for. In addition, some invoices raised in the previous year were still outstanding. <p>All findings and recommendations were agreed with the Divisional Director Education and Partnerships and final report was issued to the Corporate Director of Children's Services.</p>	Moderate	Limited 

Management Comments

The recommendations were noted and actions have started. The Head of Service has met with Finance Officers to review the budgets and look at setting up a trading account so that there is clear accounting of the statutory and non-statutory services. The following actions have been agreed:

- Creation of a trading cost centre within G20 (Governor Services). This will be active from Q1 2018/19 financial year.
- Head of Service will undertake a service review of this area.

In relation to the recommendations, ongoing performance monitoring is taking place and payments are monitored and chased appropriately.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Starters and Leavers – Tower Hamlets Homes	Jan. 2018	<p>The objective of this audit was to provide assurance around the systems for controlling new starters joining the company and for administering the leavers. Our review showed that overall new starters and leavers were processed adequately. However, we reported the following control weaknesses:-</p> <ul style="list-style-type: none"> • There was no clear policy on Disclosure and Barring Service (DBS) checks. Checks requested were at the highest level. Hence THH were not complying with its legal responsibility to ensure that the roles for which the checks were applied for were eligible. There are no roles within Tower Hamlets Homes which would be eligible for high level checks as they do not involve what is defined as “regulated activity”. This issue has been raised with THH by LBTH HR and it would appear that LBTH HR have yet to receive a response. This situation is replicated with regard to DBS checks on agency workers. • There were no leavers procedures to guide managers. We found that requests for the deletion of IT access had not been submitted for 5 out of 10 leavers tested. Similarly, for agency staff, requests to delete IT access had not been submitted in respect of 2 in a sample of 5. • Notification of leavers to the Buildings Management team was patchy, which meant that leavers access to Administrative buildings was not ceased. • Payments for untaken leave were made to 5 leavers in our sample of 10, totaling £2400. It would therefore, appear that paying of untaken annual leave has become a standard practice even in cases where there is sufficient time to take annual leave and there are no exceptional circumstances. <p>All findings and recommendations were agreed with the Director of Business Transformation and final report was issued to the THH Chief Executive.</p>	Moderate	Limited 

Management Comments

The following progress has been made in implementing the audit recommendations:-

1. An update of role specific DBS checks has been carried out on all roles. The list of roles have been identified and agreed by HR - EMT Approval is required. A DBS policy is currently being drafted – EMT approval is required. (Completion date:31st March 2018)
2. New guidance notes on leavers and a form has been drafted. This has also been sent to the Head of People Services for comments / Feedback. The guidance will be instructing managers to complete the 'notification of leavers' process through the IT self-service portal. These guidance notes will also be instructing managers to send an email notification to Facilities management (Completion date: 31st March 2018)
3. The new guidance has stipulated that 'any outstanding leave must be taken prior to leaving'. So, managers will be aware that staff must take all their annual leave before THH services.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Officers' Expense Claims Including Purchase Cards</p> <p>Tower Hamlets Homes</p>	<p>Feb. 2018</p>	<p>This audit examined the systems in place for the control and monitoring of purchases paid through Tower Hamlets Homes' purchase card facility or reimbursed to staff via its expense management system, Concur.</p> <p>THH uses the NatWest one card purchase card facility. Purchase card transactions can be reviewed, allocated and approved on NatWest SDOL (Smart Data Online). The THH NatWest One Card Procedures prohibit the purchase cards being used by officers for Personal Purchases. Receipts are required to be attached to each transaction electronically. Card holders are expected to log in to SDOL regularly to ensure that transactions are reviewed, receipted and approved by the 8th of each month when the card statement is received. Monthly direct debit payments are made to the card provider for all transactions listed in the card statement on the 22nd of every month. The Finance Team prepare a journal of all allocated transactions so that it can be posted to Agresso by month end.</p> <p>The audit highlighted the following issues:-</p> <ol style="list-style-type: none"> 1. Our testing showed that there was significant non-compliance by both card holders and approvers with purchase card requirements, i.e. timely review, allocation and receipting of each transaction as well as timely approval of transactions. In our test sample of 25 transactions, taken from a transaction report for the period 1 April 2016 to 31 July 2017, 72 per cent of transactions had not been approved. This meant that the majority of purchase card transactions in the sample had not been subjected to any kind of scrutiny as to whether the expenditure was valid and necessary. 2. We noted that some of the purchase card expenditure was expense claims that staff had made using this facility. We also noted that in some cases, although the purchase card procedures prohibit using the card for personal purchases, the controls are so poor that there is significant risk that personal purchases may have been made using the card. We have referred these cases and examples to the Interim Director of Finance for further investigation and action. 	<p>Moderate</p>	<p>Limited</p> <p style="text-align: center;">↕</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Officers' Expense Claims Including Purchase Cards</p> <p>Tower Hamlets Homes</p>	<p>Feb. 2018</p>	<p>3. Our testing also showed that three out of five card holders tested did not maintain a transaction log. As purchase card expenditure is approved and allocated to a suitable expenditure code in retrospect, it is good practice to keep a transaction log that is updated each time a purchase is made. Such a transaction log provides a full audit trail and enables the organisation to fully account for each purchase card transaction. The transaction log should record the date, merchant, amount and purpose of the purchase</p> <p>4. In the sample of 25 purchase card transactions, only 12 had a receipt attached. Of these 12 receipts, five were inadequate (i.e. they were handwritten, credit card sales voucher or similar). This further weakens the audit trail and Tower Hamlets Homes, therefore, is not able to fully account for the majority of its purchase card transactions. Accounting for VAT on the expenditure claimed by staff was not as sound as it should be.</p> <p>5. A significant number of purchases were from restaurants (around 10 per cent). As there was no supporting documentation, the business purpose of such transactions is questionable.</p> <p>All findings and recommendations were discussed with the Interim Director of Finance and final report was issued to the THH Chief Executive.</p>		

Management Comments

The expense and purchase card audit was included in the audit programme as there was a degree of management concern about the robustness of these systems.

The interim Director of Finance reviewed the information outlined in 2 above and reported back to internal audit in October 2017; adequate explanations and or supporting evidence was received to justify the expenditure such that no formal action was required.

We are on track to achieve the agreed management actions arising from the audit.

We have already:

- Revised our procedures and distributed them to all cardholders
- Updated our cardholder agreement and cardholders are signing and returning that agreement
- Prepared a transaction log based on the one recommended by audit and distributed that to all card holders.
- Updated the application documentation as recommended by audit so that the line manager of the card holder is also clear about their obligations.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ITIL Change & Problem Management	Dec. 2017	<p>The Audit review was carried out to assess the IT services management framework by evaluating existing management and contractual arrangements with Agilisys against the best practice ITIL framework for Change and Problem Management. The Information Technology Infrastructure Library (ITIL v3) best practice approach to IT Service Management is a widely accepted framework to help organisations assess, improve and develop IT Service Management. An ITIL self-assessment questionnaire was used with the aim to give Tower Hamlets an idea how well it is performing compared to ITIL best practice.</p> <p>Sample testing of response to the ITIL self-assessment questionnaire revealed that there are generally good processes in place covering change and problem management.</p> <p>For Change Management the evaluation was that arrangements in this area currently meet eight out of nine ITIL evaluation areas with a recommendation being raised to ensure the Customer Interface procedure is fully implemented. This procedure should include customer satisfaction surveys and checks that the activities and support provided by the contractor meets business needs and priorities of LBTH customers. The customer Interface area is mandatory ITIL requirement with a failure to having an effective customer interface resulting in the business/users not receiving expected services.</p> <p>For Problem Management the evaluation was that service level management arrangements meet or exceed ITIL evaluation criteria and the public sector average in all nine areas.</p> <p>All findings and recommendations were agreed with the Divisional Director, ICT Service and final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial 