

<b>REPORT TO:</b>	<b>DATE</b>	<b>CLASSIFICATION</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>Audit Committee</b>	<b>14<sup>th</sup> December 2010</b>			
REPORT OF: <b>Corporate Director, Resources</b>  ORIGINATING OFFICER(S): <b>Service Head Risk Management</b>		<b>Quarterly Internal Audit Assurance Report</b>  <b>Ward(s) Affected: N/A</b>		

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period October to December 2010.
- 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 content of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

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

Brief description of "background papers"

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

*Minesh Jani, 0207 364 0738*

### **3. Background**

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

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
<b>Substantial</b>	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;
<b>Limited</b>	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;
<b>Nil</b>	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: -

<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or Scale of Service £1m- £5m.
<b>Low</b>	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 Committee in September 2010, 22 final reports have been issued. The findings of these audits are presented as follows:
- The chart below summarises the assurance rating assigned by the level of significance of each report.
  - Appendix 1 provides a list of the audits organised by assurance rating and significance.
  - Appendix 2 provides a brief summary of each audit.
- 5.2. **Members are invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
  - The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.
- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

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

**Chart 1 Analysis of Assurance Levels**

<b>SUMMARY</b>		<b>Assurance</b>				
		Full	Substantial	Limited	Nil	Total
<b>Significance</b>	Extensive	-	9	4	-	13
	Moderate	-	4	5	-	9
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	13	9	-	22
<b>Total %</b>		-	59%	41%	-	100%

- 5.4. From the table above it can be seen that of the thirteen finalised audits which focused on high risk or high value areas; nine audits were assigned Substantial Assurance and four received Limited Assurance. A further nine audits were of moderate significance and of these, four were assigned Substantial Assurance and five received Limited assurance.
- 5.5. Overall, 59% of audits resulted in an adequate assurance (substantial or full). The remaining 41% of audits have an inadequate assurance rating (limited or nil). A high number of limited assurance during this quarter is primarily due to six out of ten schools receiving limited assurance. A detailed report covering key issues identified in schools audits is contained in the Annual Internal Audit Report for Schools – 2009/10 elsewhere on this agenda.

## **6. Performance Indicators**

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

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to October 2010	56%	56%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	82% (9 out of 11)
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	82% (9 out of 11)

- 6.2. The table above shows that the proportion of internal audit work completed to November 2010 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was around 82%, whereas the percentage of priority 2 recommendations was 82%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3.

## **7. Comments of the Chief Financial Officer**

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

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

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

Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **9. One Tower Hamlets Considerations**

9.1 Any equalities issues and links with the Council's strategic plan priorities arising from each audit review were included within the body of each final audit report.

## **10 . Anti-Poverty Considerations**

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

## **11. Risk Management Implications**

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

## **12. Sustainable Action for a Greener Environment (SAGE)**

12.1 There are no specific SAGE implications.

## Summary of Audits Undertaken

## APPENDIX 1

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>	Extensive	Corporate Review	Management of Climate Change
	Extensive	Tower hamlets Homes (THH)	Caretaking Service - Systems Audit
	Extensive	Resources	Management of VAT - Systems Audit
	Extensive	Children, Schools and Families (CSF)	Bow Boys Secondary School
	Moderate	CSF	Shapla Primary School
	Moderate	CSF	Olga primary School
	Moderate	CSF	Harry Gosling Primary School
	Moderate	CSF	Rachel Keeling Nursery School
	Moderate	CSF	Stepney Green Boys School
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Control and Monitoring of Purchase Cards
	Extensive	Resources	Pension Fund Investment
	Extensive	Resources	Risk Management
	Extensive	Corporate	Health and Safety at Work - Follow Up Audit
	Extensive	Assistant Chief Executive	Working Neighbourhood Fund - Systems Audit
	Extensive	Development and Renewal	THH Client Monitoring - Follow Up Audit
	Extensive	THH	Performance Management – Systems Audit
	Extensive	CSF	Mulberry Girls School
	Extensive	CSF	George Green’s Secondary School

## Summary of Audits Undertaken

## APPENDIX 1

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>SUBSTANTIAL</b>	Moderate	CSF	Ian Mikardo Special School
	Moderate	CSF	Bigland Green Primary School
	Moderate	CSF	Purchases of Provisions by the Central Production Kitchen Contract Services
	Moderate	Resources	Emergency Call Out Service - Contract Monitoring



**Summary of Audits Undertaken  
Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Climate Change  Systems Audit</p>	<p>Sept. 2010</p>	<p>The objective of this audit was to provide assurance that the Council's arrangements for achieving the three key objectives of its Carbon Management Programme viz. to reduce CO2 emissions; to reduce energy costs and improve energy efficiency showing credible leadership in the community with regards to climate change, are sound and secure. The Council has committed to addressing climate change by signing the Nottingham Declaration on Climate Change. A Corporate Framework was approved by the Cabinet in April 2009 but at the time of audit this framework required to be embedded across the Council. The self assessment tool indicated that significant changes were required to embed Carbon Management within the organisation. The Sustainability team have now been successful in ensuring that management of climate change becomes a corporate priority by driving the agenda through the Asset and Capital Management Board taking the strategic ownership and monitoring. It needs to be ensured that all Directorates of the Council are accountable to meet the objectives. While the Council is proactively promoting carbon reduction within the authority, it needs to provide a clear vision and leadership in this area.</p> <p>We have also noted that the Council's Capital Strategy should be revised to include the aim of 'Reducing the Council's Carbon Footprint' and that all new capital schemes should include a Carbon Impact Assessment. Some projects within the Programme have already slipped which can have implications for achieving the ambitious targets. Moreover, the risk associated with potential penalties in the carbon trading league table has not been reflected in all Directorate Risk Registers and Business Plans. All findings and recommendations were agreed with the Service Head, Strategy, Innovation and Sustainability and final report was issued to Corporate Director, Development and Renewal.</p>	<p>Extensive</p>	<p>Limited</p>

### **Management Comments on Management of Climate Change Systems Audit**

Since the audit report, the council has made good progress in reducing CO<sub>2</sub> emissions and has achieved an overall reduction of 5,312 tonnes of CO<sub>2</sub> (13%) from the 2008/2009 baseline. Noticeably a 25% reduction in the use of gas has been achieved through the installations of Automated Meter Readers (AMR). The Carbon Management Board attended by officers representing all directorates continues to meet regularly to monitor progress. An improved data collection and management procedure is in place, CO<sub>2</sub> emissions are reported by Directorates and all directorates are encouraged to make contributions to the reduction targets where they have direct control. Some easy and low cost projects have been completed (e.g. voltage optimiser in Albert Jacob House) and some medium to high cost projects are in the pipeline pending allocation of funding (e.g. thin client).

The risk associated with the Carbon Reduction Commitment – *(DR 0008) financial penalties for not achieving the CRC Energy Efficiency Scheme (CRC)* is now included in the DR risk register, and a Working Group represented by officers from all directorates has been established to manage and monitor the associated risk. The current risk score is 4 (medium) with a target risk score of 2 (low), the detailed risk report is attached for reference.

The carbon management framework has been further embedded across all directorates, and the Sustainable Development Team will work closely with the Carbon Management Board to ensure carbon emissions reduction and the CRC Energy Efficiency Scheme continues to be a corporate priority.

## Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Caretaking Service</p> <p>Systems Audit</p>	<p>Sept. 2010</p>	<p>The objective of this audit was to provide assurance that there are sound systems in place for managing and monitoring caretaking services, ensuring that services are well planned, managed and controlled in order to achieve key service objectives.</p> <p>Our review found that the systems in place for the caretaking service need significant improvement. Although there is a Team Plan in place which links the organisation's key business objectives and expected key service improvements for 2010/11, the policy is not underpinned by documented procedures covering the management, controlling and monitoring of the service. The arrangements for checking deliveries and most importantly controlling and monitoring stock levels at the various local stores were weak and must be addressed by management as a matter of priority as the previous years spend in this area was in excess of £400k. We also found examples of procurement which did not appear to have conformed to financial regulations and procurement rules. Due to an absence of some key controls covering the caretaker's stores, there was an exposure to the risk of error, omission and irregularity occurring.</p> <p>All findings and recommendations were agreed with the Head of Service and final report was sent to the Director of Housing and Customer Services and THH Chief Executive.</p>	<p>Extensive</p>	<p>Limited</p>

### **Management Comments on Caretaking Services – Systems Audit**

Systems are now in place – procedures covering the management, controlling and monitoring of the service have been documented. A 4 tiered performance management system has been documented and put into place. Following a 'clean' of each block, 100% of the blocks are checked by Team leaders each month, 10% of these are checked by the Senior Officers and 10% of these are checked by the Head of Caretaking. The results are collated and reported to the residents Service Improvement Group. In addition, there is a published schedule of joint monitoring with residents in respect of the cleaning. Where a block fails to achieve a satisfactory grade an action plan is put into effect as part of the performance monitoring system.

A weekly stores stock take is carried out by each team leader and reported centrally. All purchase orders issues through R2P are authorised either by the Head of Caretaking or the Head of Service following sight of the necessary written quotations. All deliveries are checked and signed off with delivery notes being retained to check against the original order.

## Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of VAT  Systems Audit	Aug. 2010	<p>The objective of this audit was to provide assurance that systems and controls in place for management of VAT were sound and secure.</p> <p>Our review showed that VAT control accounts were not being reconciled with the General Ledger on a regular basis. The de minimis limits were not being proactively managed and a robust system needed to be put in place for managing uncertified VAT invoices. There were no documented procedural notes to support the administration functions such as procedures for preparing, checking and approval of VAT Returns and keeping supporting documents/evidence. Audit was satisfied that VAT Returns were submitted on time, but the system relied on a single officer in the preparation, checking, approving and submission of VAT Returns, which can increase the risk of errors and omissions not being identified early. In absence of this single officer, Returns were prepared and submitted by another officer who should have a dedicated password and necessary training on VAT administration. We understand that following the audit report, progress has been made in implementing audit recommendations to improve the control and a follow up audit is currently being undertaken.</p> <p>All findings and recommendations were agreed with the Service Head Corporate Finance and final report was issued to Corporate Director, Resources.</p>	Extensive	Limited

### **Management Comments on Management of VAT**

Management arrangements in the Financial Strategy Team have been changed to ensure that there is cover for the lead officer and that routine tasks are carried out on a regular basis. The technical work of that officer is also supplemented through a subscription service provided by the accountants KPMG. The Council will be meeting with the HMRC client relationship manager shortly to ensure HMRC remains satisfied with the Council's VAT arrangements.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bow Boys Secondary School	Aug. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Our review showed that Controls were adequate in School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There was poor financial planning in the school. The annual budget had been prepared with no references to the School Development Plan. The school had not followed the market testing procedures outlined in the Scheme of Financial Delegation for several procurements.</li> <li>• There was no line by line payroll reconciliation undertaken on a monthly basis to ensure that staff members were paid according to their contracts.</li> <li>• The Head teacher's last pay and performance review was undertaken in 2007/08. In addition the school's Pay Policy needed to be reviewed and approved.</li> <li>• There was no separation of duties between completion and authorisation of the personnel forms - the Bursar processed and authorised new starter and leaver forms.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

### **Management Comments for all Schools with Limited Assurance**

All these schools have acted immediately and agreed to complete all actions within a defined timeframe. The schools and their governing bodies are fully committed to the recommendations made in the Audit report by :

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



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Shapla Primary School	Sept. 2010	<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 showed that controls were adequate in Operation of Governance Processes, Accounting of Income and Expenditure, Voluntary Fund and School Journeys, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Code of Practice for Financial Management &amp; Delegations document had not set financial limits to the Resources Committee or to the Head Teacher or to other staff for authorising expenditure, writing off of debts or disposing of equipment etc.</li> <li>• The Terms of Reference of the Resources Committee and the Standards Committee were last reviewed in November 2007 and do not outline the frequency of meetings to be held.</li> <li>• There was no evidence that the monthly reconciliation statements and VAT returns were checked by an independent officer before being submitted to the LA.</li> <li>• The school had entered in to a contract with a company. However, we noted that payment in full had been made prior to starting the contract without receiving any service.</li> <li>• The Charging Policy and the Pay Policy had not been approved by the full Governing Body.</li> <li>• Payroll reports from the payroll provider were not being checked and reconciled with school's records.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Olga primary School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in Financial Planning and Budgetary Control, Security of IT Infrastructure, Disaster Recovery and Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Although bank reconciliations were being completed on a monthly basis, examination of the unreconciled items listing for the month of October 2009 identified a number of items which have been outstanding for more than three months.</li> <li>• The school had made purchases for over £5,000 without obtaining the minimum three quotations as per the School's Finance Procedures Policy. Furthermore, these procurements over £5,000 had not been approved by the Finance Committee as per the Scheme of Delegations. Orders had not been raised for any of the ten transactions in the audit sample.</li> <li>• At the time of the audit the school had a list of assets compiled by the external IT consultant. This list was only of IT equipment purchased since September 2008 and of items valued at more than £250. It was noted that a recently purchased digital cameras was not recorded on the inventory along with many other portable and attractive items such as TV/DVD combos, speakers, desktop PCs, monitors, LCD screens. Audit testing established that only 4 out of the 5 items recorded on the asset register were found in the school and out of 5 items selected around the school, none were recorded on the asset register and all nine items sampled were not visibly security marked.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Gosling Primary School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Audit testing identified that declarations of interest had not been obtained from some members of the Governing Body.</li> <li>• Audit identified that the 2009/10 budget which was initially approved by the full Governing Body on 13 May 2009 showed a deficit brought forward balance of £263,785 and a capital surplus of £276,434. It was noted from the contents of the Resources Committee minutes that the deficit had been due to errors in setting the 2008/09 budget.</li> <li>• Monthly payroll reports were not checked with salaries due for all staff members.</li> <li>• The school's Scheme of Delegations needed to be clearly specified.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Rachel Keeling Nursery School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in Control and Monitoring of the School Bank Account, School Meals, Voluntary Fund and School Journey, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Declaration of business interests had not been obtained from a member of the Governing Body and a number of budget holders who have delegated financial management responsibilities.</li> <li>• Salary assessments had not been issued to teachers in September 2009.</li> <li>• It was noted that the quorum requirement for the Finance Committee meetings had been set for two governors which is less than the requirements as per the Guidance Notes. Furthermore, the Code of Practice for Financial Management &amp; Delegation of Financial Authority had not been approved by the full Governing Body at the time of the audit.</li> <li>• The administration and clerking of the Finance Committee needed to be improved significantly. None of the committee minutes had been signed by the Chair to confirm accuracy.</li> <li>• The school did not have an approved Charging Policy. The school has however produced a draft policy which is due to be presented to the next Finance Committee meeting.</li> <li>• Robust payroll reconciliation procedures were not in place.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and t the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stepney Green Boys School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Accounting of Income and Expenditure, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Head Teacher (and Deputy Head Teacher in the Head Teacher's absence) was given unlimited delegations to authorise expenditure and budget virements. This appeared excessive in relation to other schools of similar budgets. While the Code of Financial Practice was reviewed and agreed at the Finance, Premises &amp; Personnel Committee meeting held on 25/11/09 it had not been formally approved by the full Governing Body. The Code of Financial Practice had not stated requirements for obtaining quotations / tenders at appropriate levels.</li> <li>• At the time of the audit the school did not have an approved charging policy. The school's pay policy had not been reviewed and approved by the full Governing Body in the previous 12 months.</li> <li>• Payroll reports from the payroll provider had not been checked and reconciled with the school's records.</li> <li>• There was no documentary evidence of bank reconciliations being performed for the School Fund account. Moreover, the school had not carried out an annual inventory check.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

## Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Purchase Cards	Nov. 2010	<p>The objective of this audit was to provide assurance that the Council's procedures for controlling and monitoring of expenditure using corporate purchase cards were being complied with.</p> <p>We tested a random sample of 32 purchase card statements across all the Directorates containing a number of expenditure transactions. From this, we found that improvements had been made in the control and monitoring of transactions since the last audit in April 2008. However, we found that some transactions within 4 of the statements had not been approved. We also noted that there were a number of transactions incurred by services like Sure Start Centres, Adult Centres, Children's Centres etc. from a range of supermarkets and shops for items such as fresh fruit, vegetables, bread, milk products and general food provisions. As the Council has competitively tendered for supplies of such products for the School Meals Service, we have recommended that efficiency and cost savings could be made by utilising these contracts in a co-ordinated manner. We also found a few purchase card transactions where expenditure was incurred to provide hospitality to others from funding received from various external sources. We have recommended that the Council's procedures on Hospitality and Gifts should include rules and regulations for 'giving' hospitality.</p> <p>All findings and recommendations were agreed with Service Heads, Procurement and HR, and final report was issued to Corporate Director, Resources.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pension Fund Investment	Oct. 2010	<p>The authority is required to secure and maintain an investment rate of return which will count towards meeting the Council's current and future obligations and liabilities to make pensions payments.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Controls were adequate in governance and roles and responsibilities, valuation and allocation of investment assets, purchases and sales, income, IT access and security. The main weaknesses are identified below:-</li> <li>• The Myners Compliance Statement was not provided to Audit for inspection. Audit was informed that the quarterly monitoring report produced by the Investment Committee provides evidence of the Fund's adherence to the Myners Code of Investment Principles.</li> <li>• In one instance, the statutory return was submitted to the Office for National Statistics 4 working days after the deadline. Additionally, fax transmission confirmations are not always retained by the Authority in evidence of the submission.</li> </ul> <p>The findings and recommendations were agreed with the Service Head – Corporate Finance and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management	Oct. 2010	<p>The authority is required to demonstrate good corporate governance by establishing a robust risk management framework which identifies and addresses the key risks affecting the objectives of the organisation.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Controls were adequate in strategy, policies and procedures, risk management process, and risk registers.</li> <li>• The Council's risk management policy states that risk management is an integral element of the LBTH culture. However, there is lack of evidence that the Council monitors or assesses the embedment of risk management in the organisation culture. In particular, we could not find evidence of measurable indicators or success factors that will enable the Council to assess if risk management has been embedded in the organisation culture, and/or to identify areas for improvement.</li> <li>• Directorate risk registers showed that the responsibility for managing some risks has been assigned to a group rather than an individual. There is a risk that there is lack of clear accountability and responsibility for managing these risks resulting in incorrect and/or slow decision making.</li> </ul> <p>The findings and recommendations were agreed with the Service Head, Risk Management and reported to the Corporate Director, Resources.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Health and Safety at Work  Follow Up Audit	Oct. 2010	<p>The objective of the follow up audit was to assess the progress made in implementing the agreed recommendations made at the conclusion of the original audit in August 2009.</p> <p>The follow up review showed that out of six priority 2 recommendations followed up, three recommendations had been fully implemented. Some progress was made in implementing two more recommendations, but these had not been fully embedded and 1 recommendation was not implemented.</p> <p>We found that although new risk assessments were carried out by the responsible officers, clear programmes/schedules would be required to provide assurance that all buildings were subject to regular risk assessments. The administration of Accidents and Incidents reports showed some improvement, but an instruction required to be issued to all relevant officers to ensure that records of completed Accident and Incident Reports were held on file, and available for examination when required. Moreover, the Directorate H&amp;S Coordinators should be tasked with checking accident / incident recording in Directorate premises as part of routine inspection of those premises. As agreed by CMT, we also recommended that Health &amp; Safety should be a standing agenda item at all DMT meetings.</p> <p>All findings and recommendations were agreed with the Corporate Health and Safety Manager and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Working Neighbourhood Fund</p> <p>Systems Audit</p>	<p>Oct. 2010</p>	<p>The objective of this audit was to provide assurance that there were sound and secure governance and monitoring systems in place to support the delivery of the Working Neighbourhoods Funding Programme. From September 2009, the WNF Programme team within Chief Executive's Directorate assumed the overall responsibility for the WNF programme management together with responsibility for the co-ordination of Directorate based programme and reporting of the WNF programme to the WNF Programme Board.</p> <p>Our audit found that clear criteria and commissioning Strategy had been established for the WNF which was approved by Cabinet. There were clear terms of reference in place for the WNF Programme Board and systems were in place for ensuring that the WNF programme was effectively managed by each Directorate. We found that a standard Commissioning Proposal application was completed by each of the organisations seeking WNF within the audit sample tested. However, only 2 out of 6 commissioning proposals had been duly signed by all parties concerned. Project appraisal and assessments were undertaken by external consultants, but these required to be formally signed-off. We also identified that some improvements were needed in monitoring projects to ensure that the stated outputs and outcomes were being achieved and that monitoring visits were clearly recorded and actions followed up.</p> <p>All findings and recommendations were agreed with the Service Head Performance and Partnerships.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Client Monitoring  Follow Up Audit	Sept. 2010	<p>The objective of the follow up audit was to assess the progress made in implementing the agreed recommendations made at the conclusion of the original audit in August 2009. Our follow up review showed that eleven out of the fifteen previous audit recommendations had been implemented and one recommendation was in the process of being implemented. However, of the three outstanding recommendations, two were high priority. The follow up review found that Client Operational meetings were held on a monthly basis between the Council and THH and minutes of the meetings were taken. A formal system had been developed for reporting and escalating poor performance of support services provided to THH under various SLAs. In accordance with our previous recommendation, procedures had been formulated to put in place a clear system for initiating, discussing and approving changes to the Management Agreement. However, these procedures were in draft and needed to be agreed and approved. A methodology for evaluating THH actions and deliverables, including the process for carrying out reality checks had been developed but not yet embedded.</p> <p>In our opinion, the control environment has improved overall since the original audit. However, some key recommendations needed to be progressed and embedded further to demonstrate improvement in the control environment.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy, Innovation 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
Performance Management - Tower Hamlets Homes  Systems Audit	Oct. 2010	<p>This audit sought to provide assurance over the performance management system in place within THH to ensure that the regime of various targets and measures adequately supports and promotes the achievement of organisation's strategic and business objectives.</p> <p>From our review we have found that the organisation's key strategic aims; objectives and priorities were clearly defined and were set out within the THH three-year Business Plan. A clear performance management framework was in place to drive service improvement. There was a clear annual Service Improvement Plan (SIP) with a set of twenty two published service standards supported by 40 business critical targets which were measured, monitored and reported on a regular basis. Staff PDR process was in place which linked the organisation's objectives to individual staff targets which were being monitored and reviewed on a regular basis. However, our review of a number of PDR's identified the need for greater consistency with regards to establishing VFM and diversity targets. There was some evidence of integration of performance management and risk management processes. The corporate risk register identified risks, some of which related to the risk of not achieving the expected performance targets in key service areas. However, some key risks needed to be reviewed and updated. Performance information was being produced in a timely manner. However, there were a number of stand alone management systems used in the production of performance data which was time intensive and could affect data quality. We have therefore, recommended that consideration should be given to the introduction of an integrated performance management software system or another solution.</p> <p>All findings and recommendations were agreed with the Director of Strategy and Performance and Final report was issued to the THH Chief executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mulberry Girls School	Sept. 2010	<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 showed that controls were adequate in Control and Monitoring of School Bank Accounts, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There was an overlap between the Scheme of Delegation to the Head Teacher and that of the Finance and Business Committee, which needed to be reviewed.</li> <li>• Declarations of interest had not been submitted by staff with financial responsibilities.</li> </ul> <p>Competitive quotes had not been obtained in some cases.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
George Green's Secondary School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Financial Planning and Budgetary Control, Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Terms of Reference [TOR] of the Finance &amp; Pay Committee did not outline financial delegated limits and quorum requirements. Furthermore there was no evidence in Governing Body minutes of approval of the TOR of the Finance &amp; Pay Committee.</li> <li>• The Head Teacher's performance review and incremental rise had been reported to the Governing Body by the Chair of Governing Body. However, there were no minutes available of the Finance and Pay Review Committee or in the full Governing Body of any discussions of pay reviews of the other members of the Leadership Group.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo Special School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. . At the time of the previous audit the school was in special measures and financial delegation was withdrawn. The last Ofsted inspection carried out in March 2009 had awarded the school an “outstanding” report. The school had vastly improved in financial controls under the present Head Teacher who is supported by the Office Manager.</p> <p>Our review showed that controls were adequate in Operation of Governance Processes, Financial Planning and Budgetary Control, Control and Monitoring of School’s Bank Account, Charging Policy, Income Collection and Banking, Personnel and Payroll Management, School Meals, Voluntary Fund and School Journey, Asset Control, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance.</p> <p>However some minor weaknesses in the areas of procurement and raising of authorised purchase orders were identified in the audit report.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bigland Green Primary School	August 2010	<p>The audit sought to provide assurance over the soundness and adequacy of controls over the administration and financial management of the school. Controls were adequate in Operation of Governance Processes, Control and Monitoring of School's Bank Account, Procurement, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, Personnel and Payroll Management, School Meals, Asset Control, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Resources Committee meeting minutes did not provide a detailed, comprehensive description over the discussions held surrounding budget monitoring.</li> <li>• There was a lack of documentary evidence relating to how school journeys had been costed.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial



<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Purchases of Provisions by the Central Production Kitchen  Contract Services	Oct. 2010	<p>This audit was designed to provide assurance over the systems for purchasing, ordering and paying for catering provisions. Our review showed that the contracts for the supply of grocery, meat and fresh fruit and vegetables were all competitively tendered and were in their last year of extension. Currently a re-tendering exercise is being planned. Our testing around the systems of internal control for ordering, receipting and paying for provisions revealed that these were being controlled and monitored adequately. Management information was being provided on a regular basis which allowed the provisions cost per meal for Welfare and School Meals catering to be monitored. There was scope for improving the system for ordering and for ensuring that prices charged on invoices matched with the contract rates.</p> <p>The findings and recommendations were agreed with Service Head, Resources and a copy of the final report was issued to the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Emergency Call Out Service</p> <p>Contract Monitoring</p> <p>Systems Audit</p>	<p>Sept. 2010</p>	<p>This audit sought to provide assurance that the Out of Hours Emergency Service was operating efficiently and effectively and that the contract monitoring arrangements were sound to achieve the objectives and priorities of the Council. On 11<sup>th</sup> March 2009, the Cabinet approved the signing of an Access Agreement to join the Pan London Out Of Hours service from 1<sup>st</sup> April 2009. The aim was to offer advantages both in terms of cash savings through economies of scale and in terms of enhanced service provision and resilience.</p> <p>From our review we have found that the contract contained clear work specification and performance standards against which the contractor's performance can be monitored. The contract also has provision for addressing poor performance and triggers for poor performance notices to be issued to the contractor. Some basic monitoring systems were in place. However, there was some scope for improving contract monitoring to ensure that the contractor was brought to account for poor contract performance in some key areas. Furthermore, the contractor's disaster recovery plan needed to be tested and reported to the client on regular basis.</p> <p>The findings and recommendations were agreed with the Service Head , Customer Access and ICT and final report was issued to the Corporate Director, Resources.</p>	<p>Moderate</p>	<p>Substantial</p>

### APPENDIX 3

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

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
THH Client Monitoring	<p>The current risk assessment should be finalised as a matter of priority. The risk assessment should be carried out on all aspects of the Management Agreement to ensure that all critical areas for monitoring by the client-side have been identified.</p> <p>Furthermore, the required resources should be identified together with the names of those officers responsible for each monitoring activity.</p> <p>Written client monitoring procedures should be developed.</p>	Service Head, Strategy, Innovation and Sustainability	Jon Slade
THH Client Monitoring	The development of the methodology for evaluating THH actions and deliverables, including the process for carrying out reality checks should be finalised and agreed as soon as possible	Service Head, Strategy, Innovation and Sustainability	Jon Slade

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

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
THH Client Monitoring	The client monitoring procedures should include the requirement for ensuring that THH has an adequate insurance provision in place on annual basis.	Service Head, Strategy, Innovation and Sustainability	Jon Slade
Health and Safety at Work	The corporate Health & Safety Team should advise the Corporate Directorates that Health & Safety matters are on the agenda item at all DMT meetings	Corporate Health and Safety Manager	Peter Leigh

