

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	28 June 2011			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): <i>Minesh Jani, Head of Risk Management and Audit</i>		Internal Audit Annual Report 2010/11 Ward(s) Affected: N/A		

1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2011.
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2010/11. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

- 2.1 The Audit Committee is asked to note the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

3. Introduction

3.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises that this report includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and presents a summary of the audit work undertaken to formulate the opinion.

3.2 This report is set out as follows:

- § **Opinion and basis of opinion**
- § **Summary of audit work undertaken in 2010/11**
- § **Appendix 1 – Audit Resources**
- § **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the CMT and the Audit Committee.
- § **Appendix 3 – List of audits undertaken in 2010/11**
- § **Appendix 4 – Summary Head of Audit Opinion**
- § **Appendix 5 – Detailed Head of Audit Opinion**
- § **Appendix 6 – Peer review and benchmarking club.**

4. Statement of Responsibility

4.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 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.

4.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

5. Opinion

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2010/11. The basis for this opinion is set out below.

6. Basis of Opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2010/11. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.
- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2010/11. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix 1 below. Internal Audit is provided in partnership with Croydon Framework contract. An in-house team of nine auditors works with resources provided under the Croydon framework arrangement.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 4.4 days per person on average, compared to 5.3 days in 2009/10.

Sickness is likely to be higher in 2011/12 as a member of the audit team is on long term sickness absence.

- 7.4 During the year, there was an emphasis on risk based audits, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2010/11 is attached to main body of the report at appendix 3 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.
- 8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2010/11.
- 8.3 A summary of the audit assurance resulting from audit reports in 2010/11 is provided in the table below.

Audits 10/11		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	-	47	12	-
	Moderate	-	31	8	-
	Low	-	-	-	-
Total		-	78	20	-

- 8.4 The table shows that of 98 systems audits, 79% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 21% of systems

audited were rated as limited or nil assurance, and the remainder have their assurance to be confirmed.

- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.
- 8.6 From the Internal Audit work during 2010/11 financial year, we identified risks in the Council's systems for Information security of paper based data, managing its Establishment Lists, managing the creditors system, managing and monitoring of contracts, managing the contract for household recycling and managing and controlling blue badge system. Within Tower Hamlets Homes, risks were identified in the company's systems for managing caretaking services, managing of garages, sheds and parking spaces and managing framework contracts for lifts. Action plans have been agreed to address the key control weaknesses in these areas, and a programme of follow up audit work will be undertaken to assess the progress.
- 8.7 From our Internal Audit work during 2010/11, we can provide an overall assurance that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

9 Audit Performance

- 9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2010/11 is set out in the table below.

Performance Measure	2010/11	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	100%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	93%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	90%

- 9.2 As at the 31st March 2011, 100% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.
- 9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2010/11 as a whole, 93% of priority 1 recommendations had been implemented against a target of 100% and 90% of priority 2 recommendations had been implemented against a target of 95%. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.
- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2010/11 will be submitted and key points will be reported to a future CMT and Audit Committee.

10 Comments of the Chief Financial Officer

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

11 Concurrent Report of the Assistant Chief Executive (Legal Services)

- 11.1 The council is required by regulation 6 of the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. It is appropriate to have regard to the CIPFA Code of Practice to determine what are proper practices.
- 11.2 The council is further required to conduct a review of the effectiveness of its internal audit at least once a year. The review findings must be considered by the council's audit committee as part of the consideration of the committee's consideration of the council's system of internal control. The subject report is intended to discharge these functions. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution.
- 11.3 These requirements were previously set out in the Accounts and Audit Regulations 2003, before those regulations were revoked on 31 March 2011 and replaced with the 2011 Regulations referred to above.

12 One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

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

13 Risk Management Implications

13.1 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risk highlights risks for the attention of management so that effective governance can be put in place to manage the authority's exposure to risk.

14 Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

Local Government Act, 1972 SECTION 100D (AS AMENDED)

List of "Background Papers" used in the preparation of this report

Brief description of "background papers"

Contact :

N/A

Minesh Jani, 0207 364 0738

APPENDIX 1

Internal Audit – Resources 2010/11

	Revised Plan	%	Outturn	%
In-house staff days	2,105	78%	2,005	74%
Deloitte / external	608	22%	708	26%
	2,713		2,713	
Gross days				
<i>less</i> Leave	278	50%	275	52%
<i>less</i> Sickness absence	56	10%	61	11%
<i>less</i> Non Operational Time	223	40%	197	37%
Unproductive time	557		533	
Net productive days	2,156*		2,180 *	

* excludes work on tenancy work fraud.

Internal Audit Budget 2010/11

	Budget £000	Actual £000	Variance £000
Salaries	597	590	7
Contract costs	213	210	3
Running costs	36	31	5
Central Recharges	115	115	-
Gross cost recharged	961	946	15

Internal Audit Reports 2010/11 – Summary of Audit Reports

Assurance ratings

Level

- 1 Full Assurance** ***Evaluation opinion*** - There is a sound system of control designed to achieve the system objectives, and
Testing opinion - The controls are being consistently applied.
- 2 Substantial Assurance** ***Evaluation opinion*** - While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/ or
Testing opinion - There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 3 Limited Assurance** ***Evaluation opinion*** - Weakness in the system of controls are such as to put the system objectives at risk, and/or
Testing opinion - The level of non-compliance puts the system objectives at risk.
- 4 No Assurance** ***Evaluation opinion*** - Control is generally weak leaving the system open to significant error or abuse, and/or
Testing opinion - Significant non-compliance with basic controls leaves the system open to error or abuse.

Significance ratings

- | | |
|------------------|---|
| 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. |

APPENDIX 2

Summaries of 2010/11 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Resources	Creditors and R2P system.
	Extensive	Tower Hamlets Homes	Effectiveness of Probationary Tenancies
	Moderate	Tower Hamlets Homes	Management of Garages, Sheds and Parking Spaces
	Moderate	Assistant Chief Executive – Legal Services	Registrars Service
	Moderate	Communities, Localities and Culture	Control and Management of Blue Badges – Follow Up audit
SUBSTANTIAL	Extensive	Tower Hamlets Homes	Health and Safety at Work
	Extensive	Tower Hamlets Homes	Financial Systems
	Extensive	Tower Hamlets Homes	Housing Rents
	Extensive	Adults, Health and Wellbeing	Implementation of Personalisation Agenda
	Extensive	Adults, Health and Wellbeing	Implementation of Framework i system
	Extensive	Resources	Payments by BACS
	Extensive	Resources	Management of VAT – Follow Up audit
	Extensive	Resources	General Ledger Including Budgetary Control
	Extensive	Resources	Capital Accounting
	Extensive	Resources	Cashiers – Systems Audit
	Extensive	Development and Renewal	Procurement of goods, services and works below EU thresholds
	Extensive	Development and Renewal	Programme and Project Management

Assurance level	Significance	Directorate	Audit title
	Extensive	Communities, Localities and Culture	On street Parking Income – Follow Up audit
	Extensive	Communities, Localities and Culture	Household Waste Recycling Follow Up audit
	Extensive	Children, Schools and Families	Procurement of goods, services and works below EU thresholds
	Extensive	Children, Schools and Families	Framework-i – systems application audit
SUBSTANTIAL	Moderate	Children, Schools and Families	Osmani Primary School – Probity audit
	Moderate	Children, Schools and Families	Mowlem Primary School – Probity Audit
	Moderate	Children, Schools and Families	Manorfield Primary School – Probity audit
	Moderate	Children, Schools and Families	Mayflower Primary School – Probity audit

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors and R2P Systems Audit	May 2011	<p>The objective of this audit was to provide assurance over the Council's systems for ordering and paying for goods, services and works. The Council introduced the R2P (Requisition to Pay) system in April 2010.</p> <p>Our review showed a number of control weaknesses specifically in the area of reconciliation between the R2P system and the Council's General Ledger system to ensure that all orders raised are appropriately accounted for and are paid via the Council's JDE creditors system and that all creditors payments are properly accounted for in the General Ledger system. We identified 14 duplicate payments with the value of £161K that had occurred during the current financial year. In addition, our testing of a sample of 20 new suppliers set up on R2P revealed that in 11 cases, written confirmation of the bank sort code and account number was not provided on company headed paper or in any controlled manner - increasing the risk to BACS payments. The suspense account also needed to be cleared on a timely basis.</p> <p>All findings and recommendations were reported to the Service Head, Procurement and a copy of the final report was issued to the Corporate Director – Resources.</p>	Extensive	Limited

Management Comments – Creditors and R2P Systems Audit

The R2P project involved a rapid implementation, automating a previously manual system into a new, automated solution. The system has achieved significant efficiencies, including a much reduced Payments Team, and has already improved our payment performance.

Inevitably, there were some issues, primarily associated with the link between R2P and legacy systems and processes. Action has been taken to resolve all of the key risks. With regard to incorrect payments, improvements have been made in the supplier set-up process, all identified duplicate payments are thoroughly investigated and a regular audit of payments is commissioned by the Payments Service, to

identify and recover any erroneously paid sums.

The reconciliation, supplier set-up and suspense account issues have been addressed and resolved.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Effectiveness of Probationary Tenancies</p> <p>Tower Hamlets Homes</p>	<p>April 2011</p>	<p>This audit sought to provide assurance over the effective management of probationary tenancies. Probationary tenancy gives tenants a period of 12 months to demonstrate adherence to terms and conditions of tenancy agreement. If tenants complete the trial period satisfactorily and no possession proceedings have been issued, then the tenancy becomes secure. This audit examined the systems and procedures in place for monitoring compliance with the probationary tenancy procedures. These procedures became operational from 1st October 2010. In order to test compliance, we selected a sample of 20 probationary tenancies granted from the period of October through to November 2010.</p> <p>Our review found that revised operational procedures had been developed for administration of probationary tenancies. However, procedures were not being complied with in practice and there was no system in place to monitor compliance. Only nine of the twenty tenancy agreements had been scanned on the Comino system. Only eight welcome to your new home packs had been completed, this should have been undertaken for all probationary tenants. One tenancy file within our audit sample could not be located. Of the nineteen files examined there was evidence of only one settling in visit being undertaken. Seven tenants had rent arrears. These would have constituted minor breaches. However, no official warning letters could be located. Discussions with officers and review of documentation showed that each neighbourhood housing officers had their own caseload which they manage. It was found that the rents team take action against probationary tenants who fail to pay their rent, but there was no current system that allowed senior management to monitor and report on key activities around the effective management of probationary tenancies such as rent arrears, settling in visits, etc as this level of information was not recorded within the Comino system.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services and final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments - Effectiveness of Probationary Tenancies

To improve systems and control, a spreadsheet has been developed to ensure key stages are adhered to. This will include

- Copy of tenancy retained
- File sent to scanning and scanning to Comino confirmed
- Welcome to your New Home completed and diversity data uploaded onto SX3
- Settling in visits
- Breaches of tenancy
- NOPP/Secure tenancy confirmed

It is currently being tested by uploading historical information to ensure it proves an effective management tool. Once this test has been completed, workshops will be held with key personnel prior to rolling this out by 1st July

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Garages, Sheds and Parking Spaces</p> <p>Tower Hamlets Homes</p>	<p>Feb. 2011</p>	<p>The objective of this audit was to provide assurance over the systems for managing garages, sheds and parking spaces.</p> <p>Our review showed that there was no overarching strategy covering the management of non-residential properties within THH. There was no asset management plan to identify how the organisation could utilise the assets more strategically. Moreover, there was no policy for managing estate parking, sheds and garages, and the supporting operational procedures were not comprehensive. Officers within the service were unsure of the actual stock of non-residential assets being managed, as there appeared to be no complete database of assets. The only record of garages, sheds and parking spaces was held on the Housing Rents system for rent collection and recovery purposes. Our review also showed that there was scope to improve the marketing of these assets to ensure that full potential is realised to generate income. We also noted that there was a procedure in place for administration and processing of applications for renting of garages, sheds and parking spaces. There was a published scale of charges. However, our testing showed that there was a lack of clear audit trail in the administration process. Errors were being made in processing of individual applications and charges were not applied consistently which increased the risk of loss of income. There was a performance target of 10 days for processing applications, which was not monitored.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services Management and a copy of final report was issued to the Chief Executive.</p>	<p>Moderate</p>	<p>Limited</p>

Management Comments – Management of Garages, Sheds and Parking Spaces

From the 1 April 2011 an Estate Facilities Team has been created bringing together existing resources.

The THH 2011-12 Plan for Continuous Improvement includes a project aimed at maximising the value created from non-residential assets.

Estate parking permits are maintained on the permit database.

We already use ARCGIS, the Council's geo location application and intend to add further layers to enable us to hold information around the location of garages and storage sheds. We plan to use unique reference numbers on the ARCGIS system which could create a link and audit trail to Northgate Sx3, which is used for billing and recovery of garages and sheds. Overall, this will lead to improved asset management that will enable us to identify how the organisation could utilise each asset more strategically and efficiently.

The permit system is also being assessed as to the possibility of 'merging' the permit database information with Rent accounting. Some data cleansing work was undertaken to facilitate this previously and a project is being constructed to see the process through to a satisfactory conclusion

We are continuing to enforce the use of Comino to track estate parking applications which means that performance against targets can be effectively measured.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Registrars Service	April 2011	<p>The Registrars Service has a statutory duty to provide registration and some ceremonial services to the public. Findings of this audit were reported in September 2010 and management agreed all recommendations in April 2011.</p> <p>We found that systems for collecting, banking and accounting of income, and systems for accounting and reconciliation of controlled stocks were weak. Clear accountability needed to be established in these areas to modernise the service.</p> <p>Income and expenditure was not coded correctly and consequently, budgetary control information was not accurate for an effective financial management of the service. Strict budgetary control principles were not applied. For example, between 2007/08 and 2010/11, despite an increase in Customer and Client Receipts of £278,500, this budget was not reviewed and uplifted to reflect the change in business activities.</p> <p>Our review showed that there was scope for the Registrars to undertake a review of how it met its community plan and corporate objectives to ensure that it operated in unison with other Council services and developed new services and synergies with other front line services. Moreover, there were significant 'people' related and structural issues which could impact upon service quality and staff performance. Our review also showed that data security and risk management was not as effective as it should be. We recommended that a 'change agent' be put in place to oversee a change programme within the service.</p> <p>All findings and recommendations were agreed with the Service Head Democratic Services and final report was issued to the Assistant Chief Executive (Legal Services).</p>	Moderate	Limited

Management Comments – Registrars Service

All of the recommendations made in the audit report have been addressed and the service has been the subject of a fundamental review. In some cases the systems in place were the result of Registrar General requirements and the traditional organisational structure that applied in the service until this year. As set out below this will change as a result of the review.

In relation to the recommendation for a 'change agent' to oversee a change programme in the service, a consultant was appointed to assist with the modernisation of the service and propose options for a restructure. This restructure has now taken place (effective date 20th May 2011), in consultation with staff and appointments made to posts in the new structure.

This provides for a streamlined management process which will in turn enable the implementation of audit recommendations regarding a single cash book, stock orders etc.

The budget for the service has been re-cast to implement the new structure and historical anomalies referred to in the audit recommendations have been addressed so that the budget now includes realistic targets for income and expenditure in all areas.

The modernisation of the structure will equip the Registration Service to move forward towards 'New Governance' arrangements later in 2011 – these will provide a lighter touch regulation by the Registrar General and more flexibility in the way the Council can organise and deliver the service, enabling the improvements recommended by the audit report to be fully embedded.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Control and Management of Blue Badges</p> <p>Follow Up Report</p>	<p>March 2011</p>	<p>The objective of the audit was to assess the level of implementation of previously agreed recommendations. We followed up twenty eight recommendations, of which seventeen were fully or partly implemented and eleven had not been implemented. Of the seventeen recommendations progressed, twelve were priority 1 (out of 23 priority 1) recommendations and five were priority 2 recommendations.</p> <p>The follow up review found that access to the CRM system had still not been given to the appropriate members of the team to run management reports. The team remained reliant on the consultant for extracting reports from the system. As access rights have not been given to the Mobility Support Team, skills transfer had not taken place. The Mobility Support Team is planning to replace the CRM system with a new software package, Transact., but the date on which Transact will be installed could not be confirmed,</p> <p>Procedures had not been drafted on cash handling and controlled stationary. Reconciliations between the income receipted on CRM, income processed by the CLC finance team and the level of stock were not carried out. Income receipted on CRM system was not being reconciled with income processed onto JD Edwards. The Contract for Mobility Assessment Services was tendered in accordance with Council procedures in December 2009, but contract risk assessment had yet to be done to identify key risks for contract monitoring function. Due to lack of access to reports in CRM, a system of local performance indicators with clear targets to assess the efficiency and effectiveness of the service had not been introduced.</p> <p>All findings and recommendations were agreed with the Acting Head of Parking and Team Leader. Final Report was issued to the Corporate Director, CLC. .</p>	<p>Moderate</p>	<p>Limited</p>

Management Comments - Control and Management of Blue Badges Follow Up audit

The follow up review found that access to the CRM system had still not been given to the appropriate members of the team to run management reports. The team remained reliant on the consultant for extracting reports from the system. As access rights have not been given to the Mobility Support Team, skills transfer had not taken place. The Mobility Support Team is planning to replace the CRM system with a new software package, Transact., but the date on which Transact will be installed could not be confirmed

Following the 2009 Audit a wide range of Parking Service improvement activities were pursued. Many of these address directly the weaknesses outlined in the Audit report but were complex to introduce. One of these improvements is the development of a more robust IT system. It had been hoped to have introduced the new system earlier this year in which case the above comments would have been redundant. However the technical and procurement challenges have been significant and the target date for introduction of the new system is October 2011. Through out this period a judgement has had to be made about the extent to which it was cost effective to do further work on the outgoing system which would enable all the recommendations in the Audit report to be implemented. The service has taken the view that it has not on the grounds that the new system will address all of the outstanding system based recommendations.

Procedures had not been drafted on cash handling and controlled stationery. Reconciliations between the income receipted on CRM, income processed by the CLC finance team and the level of stock were not carried out. Income receipted on CRM system was not being reconciled with income processed onto JD Edwards.

It is important to place this audit recommendation in context. The income of the department averages around £300 per annum. Cheques are receipted and passed to finance for banking under the appropriate cost code. There are no issues with regard to controlled stationery, since online spreadsheets record every blue badge and every clock that is issued, together with the product number which relates to details of the recipient. It is accepted that the reconciliation exercise would test this small element of process but the service has struggled to afford it the necessary priority to get it done in an environment of radical short term change and much bigger priorities.

The Contract for Mobility Assessment Services was tendered in accordance with Council procedures in December 2009, but contract risk assessment had yet to be done to identify key risks for contract monitoring function. Due to lack of access to reports in CRM., a system of local performance indicators with clear targets to assess the efficiency and effectiveness of the service had not been introduced

As above this matter is subject to an improvement programme linked specifically to the ICT improvement programme targeted for October 2011.

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Health and Safety at Work</p> <p>Tower Hamlets Homes</p> <p>Systems Audit</p>	<p>March 2011</p>	<p>This audit was designed to provide assurance to management on adequacy and soundness of systems of control around Health and Safety at Work within THH.</p> <p>Our review showed that the Health and Safety Policy had been ratified by the THH Board in July 2008 and had been reviewed in May 2009. As one means of fulfilling its health and safety obligations, THH has compiled a range of codes of safe working practices. The roles and responsibilities of the THH Board, Chief Executive, Divisional Directors, Heads of Service, and the THH Health and Safety Manager had been clearly defined and appropriately delegated. The following issues needed to be addressed to improve the system further:</p> <p>The Regulatory Reform (Fire Safety) Order 2005 which covers communal areas of flats, maisonettes and sheltered accommodation, imposes responsibility for ensuring that a fire risk assessment (FSA) is carried out by a 'responsible person'. However, we noted that there was no programme of inspections outlining dates when risk assessments were to be undertaken, the timescales, and review dates.</p> <p>Health and safety issues were not incorporated in all service plans. At SMT and service level meetings, health and safety matters were not always considered as this was not a standing agenda item.</p> <p>The profile of health and safety and for increasing safety performance organisation-wide required to be increased across THH.</p> <p>All findings and recommendations were agreed with the then Director of Asset Management and a copy of final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Financial Systems</p> <p>Tower Hamlets Homes</p>	<p>April 2011</p>	<p>The objective of this audit was to provide assurance over the company's systems for managing creditors, debtors, VAT, treasury management and main accounting. Our review showed that overall these systems were sound and secure. However, the following weaknesses were reported:-</p> <p>Out of a sample of 20 creditor payments tested, in one instance the certifying officer had not been set up on the authorised signatory listing. We also noted that there had been a decline in paying invoices within 30 days.</p> <p>A Banking and Treasury Policy was in place but required updating to include the policy for current investments.</p> <p>Inspection of the Car and Season Ticket Loan files found no written procedure relating to maintenance of the respective files. Written procedures were in place for reconciliation of the bank accounts. Reconciliations are carried out every month and were found to be appropriately checked and certified. The number of manual checks have been reduced through a review of payees and obtaining their bank details for a more secure payment method. Although, a monthly payroll to JD Edwards's reconciliation had been undertaken, problems have remained in respect of payroll reports supplied by LBTH Payroll section for reconciliation purposes and cost centre information not submitted to LBTH Payroll in a timely manner.</p> <p>All findings and recommendations were agreed with the Director of Finance and Resources and a copy of the final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Housing Rents were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Policies and Procedures; • Rent Debits; • Cash Postings; • Housing Benefit Receipts; • Rent Increase; • Rent Arrears; • Segregation of Duties; • I.T. Security; and • Performance Management and Management Information. <p>Our review of a sample of rent accounts, identified that they were not always created within the five day target.</p> <p>In addition, although monthly reconciliations have been completed between SX3 and JDE since April 2010, there was a lack of evidence of an independent check of the reconciliations. Housing benefits are posted to the SX3 system on a weekly basis and the total transferred is recorded on a processing report. However, whilst the processing report records the total amount actually transferred we established that there is no process in place to determine whether all the Housing Benefit receipts that are due to THH have actually been posted to the rent accounts. This is as a result of there being no report provided to the Housing Rents Team that provides assurance that what should have been posted has actually been.</p> <p>The recommendation was agreed with the Assistant Rents Manager and a final report was issued to the THH Director of Finance and Customer Services and the Chief Executive. A copy of the report was also sent to the Corporate Director Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Implementation of Personalisation Agenda	April 2011	<p>The personalisation agenda forms part of Putting People First (PPF) programme which puts people at the heart of the decision-making process. It enables them to identify their needs and make choices about their support. The aim is to deliver high quality services tailored to individuals' wishes, and ensuring better health and wellbeing for everyone, including families and carers.</p> <p>Our review showed that overall, there were adequate systems and procedures in place for managing and implementing the transformation programme. We noted that the Council's Programme and Project Management methodology was being used for managing and implementing the transformation programme and the governance of the programme was satisfactory. Minutes of the meetings of the Programme Board showed that the status of each work stream – whether Green, Amber or Red – was being discussed and monitored. However, these meetings needed to consider the risk register to ensure that key risks and mitigating actions were brought to the attention of the Board. The risk of fraud and irregularities in the use of personal budgets needed to be identified and assessed. The work on prevention and detection of fraud and safeguarding of vulnerable adults was under review at the time of audit. The status of financial sustainability was Red moving to Amber recently. However, at the time of audit, there was no Medium Term Financial Plan which considered the financial planning and budgeting process of implementing personalisation agenda. The minutes of the November 2010 meeting of the Board showed that the Programme was slipping by a further 8 weeks.</p> <p>All findings and recommendations were agreed with the Programme Manager and a copy of the final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Frameworki Systems Implementation</p> <p>Adults, Health and Wellbeing</p>	<p>February 2011</p>	<p>The objective of this audit was to provide assurance on whether the systems of control around the Frameworki (Adults) Implementation were sound, secure and adequate.</p> <p>Our review identified that whilst management has noted that key project documents and stages were signed off by the Project Board and/or Team Managers, it was noted that formal records of such authorisations do not exist for the; Project Initiation Document (PID) User acceptance testing; and Setup of the worker roles and permissions. In addition, although issue and risk registers have been created, it was noted that the Risk Register does not identify who owns each risk. All of the issues are owned by the Project Board.</p> <p>A project budget was documented for phase one of the project relating to the implementation of the case management and finance modules. The monitoring of actual expenditure against the project budget was not formally performed and reported to the Project Board. Monitoring was performed at a grant level at budget surgeries. Although changes to the project go-live date were formally notified to the Programme and Project Boards and approved. It was noted that several smaller issues and changes were identified as part of the testing process and there was no evidence that these changes were formally assessed and approved prior to their implementation could not be identified.</p> <p>Our inspection of the PID, noted that eleven project benefits / success measures have been defined by management for the implementation of the system. However, these benefits / success measures have not been documented in a manner to enable their measurement. Nor have they been given time frames for their delivery.</p> <p>All recommendations were agreed with the appropriate officers and a final report was issued to the Corporate Director of Adults, Health and Wellbeing.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payments by BACS system Systems Audit	April 2011	<p>BACS (Banks Automatic Clearing System) is an electronic method of payment by which the system amalgamates all payments to the same creditor and batch processes straight through to the banks clearing system.</p> <p>Generally systems for controlling and processing of BACS payments within Corporate Finance were adequate. We recommended that procedures for managing and controlling BACS payments should be formalised and documented. This should include roles, responsibilities and accountabilities to ensure proper division of duties. In particular the duties and responsibilities between Payments and Financial Systems. We reported that all risks associated with BACS payments needed to be identified, assessed and mitigated.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head Corporate Finance and Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of VAT</p> <p>Follow Up audit</p>	<p>May 2011</p>	<p>This follow up audit assessed the progress of recommendations made at the conclusion of the original audit in August 2010. Our review showed that of the 13 recommendations made, 4 recommendations remained to be implemented. These related to the development of the VAT Manual and user updates on the intranet and also system for managing uncertified VAT and partial exemption reports.</p> <p>All findings were agreed with the Financial Strategy Officer and final report was issued to Service Head Corporate Finance and Corporate Director Resources.</p>	<p>Extensive</p>	<p>Substantial</p>

<p>General Ledger including Budgetary Control</p> <p>Systems Audit</p>	<p>May 2011</p>	<p>The objective of this audit was to provide assurance on whether the systems of control around the General Ledger including Budgetary Control were sound, secure and adequate. Our review showed that policies and procedures were in place; control over the setting up and managing of coding system was adequate; budgetary control was satisfactory and year end procedures were adequate.</p> <p>However, at the time of our audit the suspense account balance was approximately £12.5m. It was established that the majority of the items (approximately £10m) in suspense had only recently been posted (less than four weeks old). Approximately £1.6m was less than a week old, £2.2m between one and two weeks, and £6.2m between three and four weeks old. We also identified 13 items (approximately £80k in value) that had been on suspense for over one week where the first stage of the investigation / resolution process did not appear to have been started (the report is annotated with the dates action is taken). In addition, our testing of a sample of 20 journals posting since April 2010 from across a sample of Directorates, identified two entries from Children, Schools and Families where officers had not provided journal narrative to describe the purpose, date and contact officer of the journal transfer.</p> <p>The recommendations were agreed with the appropriate officers and a final report was issued to the Service Head - Corporate Finance and Corporate Director - Resources.</p>	<p>Extensive</p>	<p>Substantial</p>
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Accounting Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Capital Accounting were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Capital Budget Setting; • Capital Receipts; • Capital Expenditure Monitoring; • Fixed Asset Register; • Approving the Capital Programme; • Budgetary Control; • Variance Analysis; • Management Review and Action; • Classification, Depreciation and Accounting; and • Year-End Procedures. <p>Controls were adequate in all the above areas, with the exception of fixed assets reconciliation. Our review identified that quarterly reconciliations take place between the Fixed Assets Project Management system and the fixed asset register maintained by the Chief Accountant's Team. However, at the time of our audit there were some discrepancies that had been identified leading to the fixed asset verification exercise not being finalised.</p> <p>The recommendation was agreed with the Senior Financial Accountant and a final report was issued to the Service Head - Corporate Finance and Corporate Director - Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Cashiers were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Policies and Procedures; • Reliability and Integrity of Transactions and Records ; • Receipting and Transaction Processing Cash Office, Postal Remittances, Collections; • Imprest Account; • End of Day Cash Balancing; • Banking & Unpaid Cheques; • Systems Reconciliation; and • IT, Systems and Security. <p>Our review identified that the Cashiers procedure notes are not annotated with the date that they were last reviewed. In addition requisition forms for controlled stationery are not always being completed.</p> <p>Testing also identified that the Cashiers Office does not receive updated signatory lists confirming who can authorise transactions on behalf of the Council.</p> <p>The recommendation was agreed with the Chief Cashier and a final report was issued to the Service Head Customer Access and ICT and Corporate Director Resources.</p>	Extensive	Substantial

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Procurement of goods, services and works below EU thresholds</p> <p>Development and Renewal</p>	<p>April 2011</p>	<p>The Council's procurement policy requires individual Directorates to have local procedures for securing the necessary level of competition by means of prices and quotations for those goods, services and works costing below EU thresholds - viz. £139,893 for goods and services and £3,497,313 for capital works.</p> <p>Our review showed that at Development and Renewal Directorate level, standard local procedures needed to be developed. These should be supported by standard pre-contract documents and templates for selection of contractors, tender invitation, tender receipt, tender opening, evaluation and award of contracts. Division of duties needed to be strengthened, and particularly checking by the approving officer that competition requirements have been complied with needed to be reinforced. Although there are clear corporate processes in place covering Declaration of Interests, officers at the operational level were not always aware of this requirement. We also found instances of non-compliance with financial and procurement procedures and recommended that there should be system for monitoring compliance with procedures.</p> <p>All findings and recommendations were agreed with the Service Head, Resources and final report was issued to the Corporate Director – Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Programme and Project Management</p> <p>Development and Renewal</p>	<p>April 2011</p>	<p>The objective of this audit was to assure management that the systems of control for programme and project management within D&R were in accordance with the Corporate Project and Programme Management framework.</p> <p>Our review found that Directorate level policy and procedures for PPM were in place. There were systems for identifying and initiating programmes and projects. A Register had been set up to record programmes and projects which had met the Directorates criteria for inclusion. Each programme/project was steered by a dedicated project Board. Project briefs had been formulated in most cases supported by Project Initiation Documents. However, we noted that other key documents like project plans, lessons learned logs, minutes of project board meetings and risk registers etc. were not being completed in some cases by the project managers. Officers were generally complying with the principles under the guidance of the Programme Review Group (PRG), but there were administrative variations and omissions of key documents that were being used / prepared for the recording of project information.</p> <p>The PRG's role in monitoring compliance with the required procedures was found to be effective. High level reports on programmes and projects which required focused discussion were reported to the DMT to provide challenge and scrutiny on a Directorate-wide basis in order to ensure that all projects were aligned to the corporate standard.</p> <p>All findings and recommendations were agreed with the Service Head Resources and final report was issued to the Corporate Director – Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
On Street Parking Income Follow Up audit	March 2011	<p>The objective of the audit was to assess the progress made in implementing audit recommendations made at the conclusion of a full audit. We followed up fifteen recommendations made in the original report. Of these, one was priority 1 and fourteen were priority 2 recommendations. Our follow up review showed that the priority 1 recommendation was implemented and twelve priority 2 recommendations were progressed. Out of the two priority 2 recommendations not implemented, one was due to insufficient level of funding. The follow up review found that procedures had been revised and responsibilities for monitoring of income had been transferred to the CLC Finance Team. Income was being disbursed on a regular basis. Some old P&D machines had been replaced with new ones. However, we noted that 100% of income collected from individual P&D machines was still manually checked and monitored by the Finance team, which may not represent effective use of staff resources. An increased level of automation was recommended in the original report, but due to lack of funding this was not considered. Some additional recommendations have emerged from the follow up work including better co-ordination between CLC Finance team and the parking team to monitor income more effectively.</p> <p>All findings and recommendations were agreed with the Acting Head of Parking and final report was issued to the Service Head and Corporate Director – CLC.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Household Waste Recycling Follow Up audit	April 2011	<p>This follow up audit assessed the progress in implementing the agreed recommendations made in the final internal audit report issued in February 2010.</p> <p>The audit found that out of 12 key recommendations, made in the original report, five recommendations had been fully implemented and the remaining 7 had not been fully implemented. Our review showed that there was no formal signed copy of the contract either with Legal Services or with Procurement. The collection database had yet to be matched with the Council Tax database to ensure that the waste collection schedule was complete and accurate. A risk assessment of the contract was not carried out to identify the critical aspects of the contract that needed to be monitored on a regular basis so that monitoring resources can be concentrated on these aspects. A monitoring manual to include the elements of contract performance to be monitored, had not been introduced. Contract monitoring meetings needed to be around the key deliverables for the recycling contract. A complete analysis had not been carried out of all payments made up to March 2010 and reconciled with the payments that should have been made.</p> <p>All findings and recommendations were agreed with the contract manager and final report was issued to the Service Head, Public Realm and Corporate Director, CLC.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Procurement of goods, services and works below EU thresholds</p> <p>Children, Schools and Family (CSF)</p>	<p>April 2011</p>	<p>The Council's procurement policy requires individual Directorates to have local procedures for securing the necessary level of competition by means of prices and quotations for those goods, services and works costing below EU thresholds - viz. £139,893 for goods and services and £3,497,313 for capital works.</p> <p>Our review showed that arrangements within CSF were adequate. Clear separation of duties was required to ensure that systems were robust enough so that a single officer was not involved in selecting contractors for quotation, sending out invitation letters, receiving quotes, opening quotes, evaluation and awarding the contract. There were clear corporate processes in place covering Declaration of Interests. However, officers at the operational level were not always aware of this requirement which presented a risk in this area. Standard pre-contract documents had not been developed corporately. From our review we concluded that systems were adequate as far as possible at Directorate level.</p> <p>All findings and recommendations at Directorate level were agreed with the Service head, Resources and final report was issued to the Corporate Director, CSF. Findings and recommendations at corporate level were reported to the Service Head, Procurement.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Framework i</p> <p>Systems Application audit</p> <p>Children, Schools and Family (CSF)</p>	<p>Nov. 2010</p>	<p>The objective of this audit was to provide assurance on whether the systems of control around the Frameworki application were sound, secure and adequate.</p> <p>Our testing identified that 10 separate Social Worker roles existed on Framework i. Two of these have not been assigned to any users. Furthermore, team members within Social Care IT have created additional roles, which have not been authorised through appropriate change control.</p> <p>The Social Care IT team relied solely upon management to provide an e-mail detailing leavers. At the time of the audit, we identified 59 accounts that had not been used since January 2009 and 36 accounts that had not been used from 2007. Any record episode is able to be amended following manager authorisation. Currently, episodes are amendable until a user marks the episode as 'Finished'. Unless the manager performs the episode outcome step, a Social Worker can change episode details after the assessment has been authorised by a manager. Episodes may be passed to other workers to action the outcome. Testing of the names looked up when using this search facility identified that the list displays all workers in Framework i, not only those who are system users.</p> <p>The weekly Initial Assessment to Core Assessment tracking report does not specify the date on which the report was generated and does not display the report name. To prepare for the annual returns to the Department for Education, exception reports are generated throughout the year for data cleansing. There is currently no facility directly in Frameworki to audit user activity, and Business Objects reporting is being used to track user actions. Social Care IT staff have access to create roles and there have been instances of roles being created by users without supporting authorisation.</p> <p>All recommendations were agreed with the appropriate officers and a final report was issued to the Corporate Director – Children, Schools and Families.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Osmani Primary School Probity Audit	Feb.2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • Inconsistencies between the School's Scheme of Delegation and Financial Management Code of Practice in respect of authorising expenditure; and authorising budget virements. • Declarations of business interests have not been obtained from two Governors on the Governing Body. <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
Mowlem Primary School Probity Audit	March 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes. However, no key issues (priority 1 recommendations) were raised as a result of our audit work.</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
<p>Manorfield Primary School</p> <p>Probity Audit</p>	<p>Feb 2011</p>	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • Whilst the school has a Code of Financial Practice which incorporates the Scheme of Delegation, there was a lack of evidence to show that the Code of Financial Practice had been approved by the full Governing Body on an annual basis. • There was a lack of evidence to show that the School Development Plan had been approved by the Governing Body on an annual basis. <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>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Mayflower Primary School</p> <p>Probity Audit</p>	<p>Feb 2011</p>	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes. However, no key issues (priority 1 recommendations) were raised as a result of our audit work.</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>	<p>Moderate</p>	<p>Substantial</p>

Internal Audit Coverage – 2010/11

Internal Audit Reports 2010/11 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Core Management Processes	Extensive	To be determined
Management of Efficiency Programme	Extensive	Substantial
National Performance Indicators	Extensive	N/A
Recruitment	Extensive	Limited
Management of Leavers	Extensive	Substantial
Establishment Control	Extensive	Limited
Purchase cards	Extensive	Substantial
Health and Safety at work – Follow Up audit	Extensive	Substantial
Assistant Chief Executive's		
Registrars	Moderate	Limited
Information Security Incident Management – Paper based data and disposal	Extensive	To be determined
Local Area Agreements	Extensive	Substantial
Legal Planning Meetings – FU audit	Extensive	Substantial
Children, Schools and Family		
Youth Service Contract Monitoring	Extensive	Substantial
Offending Youth	Extensive	Substantial
Bygrove Primary and Elizabeth Selby – Schools Extension works – Current contract audit-	Moderate	Substantial
Procurement of supplies and provisions for Central Kitchen	Moderate	Substantial
Procurement of goods, services and works below EU threshold	Extensive	Substantial
Programme and Project Management	Extensive	Substantial
Children's Social Care Commissioning – FU audit	Moderate	Substantial
Contact Point Grant certification	Extensive	N/A

Audit Description	Significance	Assurance
Alice Model Nursery	Moderate	Substantial
Bangabandhu Primary	Moderate	Substantial
Bigland Green Primary	Moderate	Substantial
Blue Gate Fields Junior	Moderate	Substantial
Bonner Primary	Moderate	Substantial
Bygrove Primary	Moderate	Substantial
Canon Barnett	Moderate	Substantial
Chisenhale Primary	Moderate	Substantial
Christ Church Primary	Moderate	Substantial
Clara Grant Primary	Moderate	Substantial
Columbia Primary	Moderate	Substantial
Cubbit Town Junior	Moderate	Substantial
Cyril Jackson Primary	Moderate	Limited
Hague Primary	Moderate	Substantial
Halley Primary	Moderate	Substantial
Harbinger Primary	Moderate	Substantial
Hermitage Primary	Moderate	Substantial
Langdon Park Secondary Follow Up	Moderate	Substantial
Manorfield Primary	Moderate	Substantial
Marion Richardson Primary School	Moderate	Limited
Marner Primary	Moderate	Limited
Mayflower Primary	Moderate	Substantial
Mowlem Primary	Moderate	Substantial
Old Ford Primary	Moderate	Substantial
Osmani Primary	Moderate	Substantial
St Anne's Catholic Primary	Moderate	Limited
Smithy Street Primary	Moderate	Substantial
Stebon Primary	Moderate	Limited

Communities, Localities and Culture		
Pollution Control	Moderate	To be determined
Grant certification – Illegal Money Laundering and Olympics	Moderate	N/A
CCTV Control Room and Management monitoring	Moderate	Substantial
Procurement of goods, services and works below EU threshold	Extensive	Substantial
Parking Permits – Follow UP audit	Moderate	Substantial
On-street Parking Income – Follow Up audit	Extensive	Substantial
Recycling of Household waste Follow UP	Extensive	Substantial
Management and Control of Blue Badges	Extensive	Limited
Tower Hamlets Homes		
Gas Repairs and Maintenance	Extensive	Substantial
Leaseholder Income Collection	Extensive	Substantial
Financial Systems	Extensive	Substantial
Caretaking Service	Extensive	Limited
Contract Audits – Lift Contracts	Extensive	Limited
Health and Safety	Extensive	Substantial
Effectiveness of Probationary Tenancies	Extensive	Limited
Management of garages, sheds and estate parking spaces	Extensive	Limited
Budgetary Control Follow Up Audit	Extensive	Substantial
Housing Major Works Follow Up	Extensive	Substantial
Caretaking Services Follow Up	Extensive	Substantial
Control of Keys to Decants	Moderate	Substantial
Control of Keys to Voids	Moderate	Substantial
Strategic Management of SLAs	Extensive	Substantial

Audit Description	Significance	Assurance
Development and Renewal		
Housing Property Buyback	Extensive	Substantial
Planning fees and charges	Extensive	Substantial
Building Schools for the Future	Extensive	Substantial
Programme and Project Management	Extensive	Substantial
Procurement of goods, services and works below EU thresholds	Extensive	Substantial
Client Monitoring of THH – FU audit	Extensive	Substantial
Homeless Payments and Placements – FU audit	Extensive	Substantial
St Paul's Way School – Building Schools for the Future Project – Follow Up audit	Extensive	Substantial
Adults Health and Wellbeing		
Community Equipment Store	Moderate	Limited
Contract management and monitoring	Extensive	Substantial
Implementation of Personalisation Agenda	Extensive	Substantial
Out of Hours Social Care	Moderate	Limited
Establishment Control	Extensive	Limited
Quality Assurance systems	Extensive	Substantial
Resources		
Investments /Loans/Prudential Borrowing	Extensive	Limited
Grant Claim of Teachers Pensions	Extensive	N/A
VAT Management	Extensive	Limited
Housing and Council Tax Benefit	Extensive	Substantial
General Ledger incl. Budgetary Control	Extensive	Substantial
Cashiers / Cash income	Extensive	Substantial
Council Tax	Extensive	Substantial
Sundry Debtors including Recovery and Write offs	Extensive	Substantial

Audit Description	Significance	Assurance
Creditors and R2P	Extensive	Limited
Capital Accounting	Extensive	Substantial
Pensions	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll	Extensive	Substantial
Housing Rents	Extensive	Substantial
Payments by CHAPS	Extensive	Limited
Payments By BACS	Extensive	Substantial
Out of Hours Emergency Service	Moderate	Substantial
Competitive tendering	Extensive	To be determined
VAT Management – FU audit	Extensive	Substantial
Computer Audit		
Government Connect	Extensive	N/A
Frameworki (Adults) Implementation	Extensive	Substantial
Frameworki Implementation	Extensive	Substantial
HB Application	Extensive	TBC

Head of Audit Opinion - Summary**Background**

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

The Code of Practice also states at Paragraph 10.4 that:

“The Head of Internal Audit should provide a written report to those charged with governance.”

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations. These state that:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2010/11

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2011) that is included in the statement of accounts for the year ended 31 March 2011.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under

the Local Government Act 1999 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.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore **only provide reasonable and not absolute assurance of effectiveness**. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Internal Control Environment

The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these three key areas.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2010/11, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2010/11 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

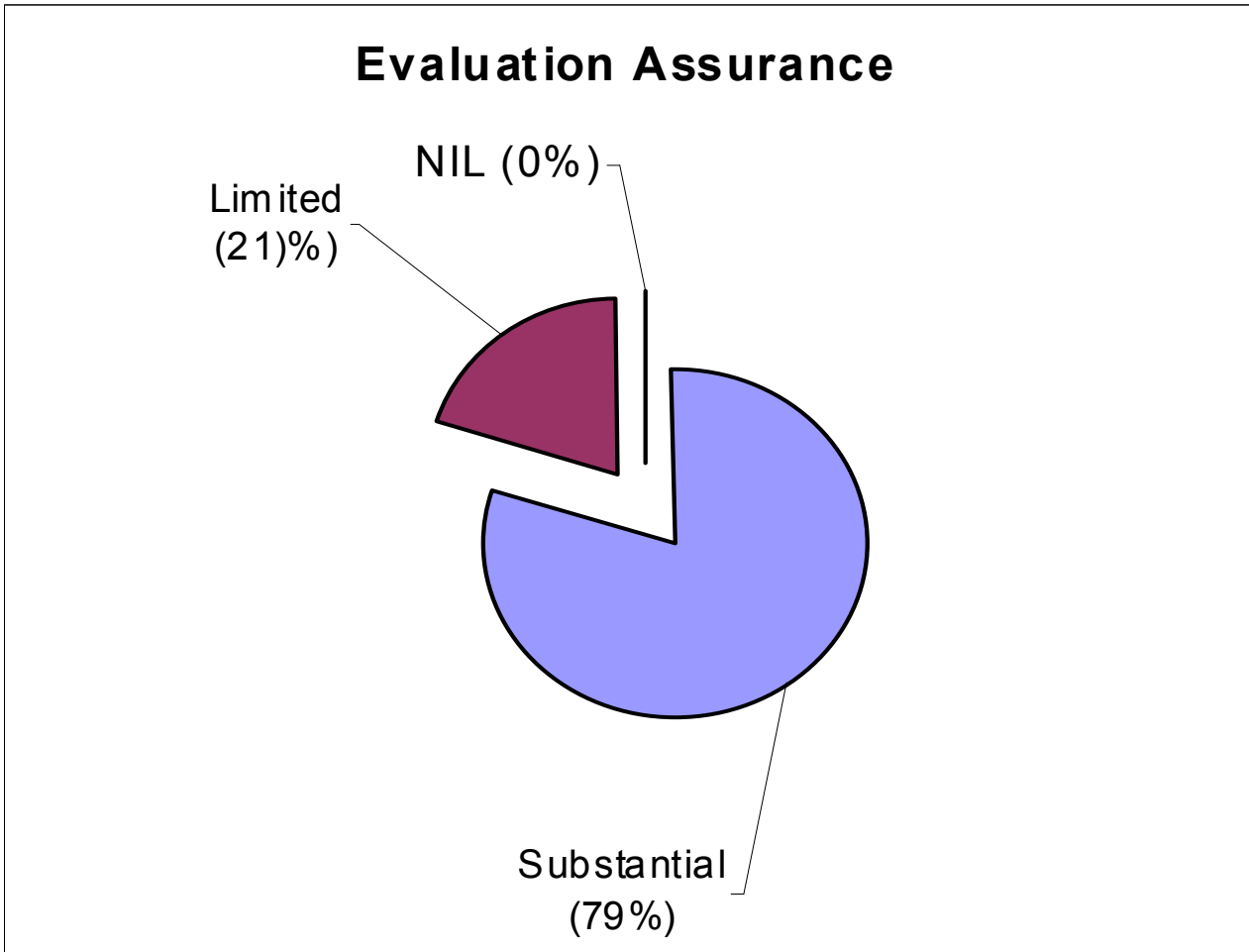
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at Appendix 3.

My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisation's Assurance Framework, that are covered by Internal Audit's programme. Where principal risks are identified within the organisation's framework that do not fall under Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.

100% of Internal Audit work for the year to 31 March 2011 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT and the Audit Committee in 2010/11 are depicted in Graph 1 below. This shows that 79% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 21% of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a positive performance by the Council, particularly given that 93% of priority 1 and 90% of priority 2 recommendations followed up had been implemented when the audit revisited the area. I have therefore developed escalation procedures over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee. In particular, all priority 1 recommendations must be implemented as a matter of course.

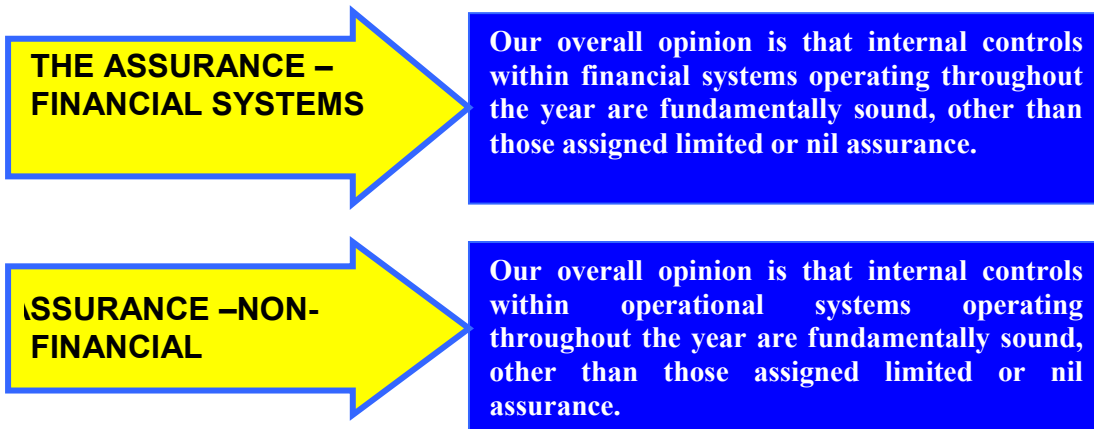
Graph 1



2010/11 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2010/11, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2011 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 53-55**. The assurance can be further broken down between financial and non-financial systems, as follows:



In reaching this opinion, the following factors were also taken into particular consideration:

- 1 In its Annual Audit and Inspection Letter 2009/10, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission's definition of the Council's achievement of a score of three means that the Council is performing well and the direction of travel was positive.

Risk Management

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process.

I would like to take this opportunity to formally record my thanks for the co-operation and support received from the management and staff during the year, and I look forward to this continuing over the coming years.

Minesh Jani – Head of Risk Management and Audit

June 2011

DETAILED REPORT

Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2010/11 year against the original Internal Audit plan; and
- 1 a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2010/11. Key issues included:

Establishment Control – The Council's Financial Regulations CR9 requires senior managers to ensure that staffing budget is an accurate forecast of staffing levels and that staffing budget is not exceeded without due authority. Audit testing in 12 service areas across 6 Directorates showed that the Council's Establishment List maintained by HR at the time of audit (April 2010) did not accurately reflect the true operating structure as at that date. There were a number of inconsistencies. For example, number of staff in post were different to the number of posts shown on the List; instances of pay grades being different to the actual grades; some cases of duplicate entries on the List; vacant posts were not correctly identified on the List; vacancies covered by agency staff were not identified; and officers moving across work areas were not reflected on the List. There was no process for periodically providing service managers with Establishment Lists for their review to ensure that changes could be identified on a regular basis. Our analysis of budget reports for the 12 service areas in the audit sample showed that staffing budgets did not reflect staffing levels, as required by the Council's Financial Regulation CR 9.3. This resulted in staffing budgets being either underfunded or overfunded in some cases.

Creditors and R2P – The R2P system is the tool used to pay suppliers and contractors. The new system went live in July 2010 and the planned audit was carried out in January 2011. The audit identified a number areas where the control

framework needed to be improved, particularly around the reconciliations between R2P and JDE, examining how duplicate payments arose and ensuring this does not happen again, the timely review of suspense items and ensuring the matching process between the requisition raised, the order and the invoice was as smooth as possible.

Contract Management and Monitoring – our audit of this area found that effective contract management and monitoring was required to ensure that there was clear corporate guidance and governance on contract management of revenue contracts so that benefits are derived from improved monitoring. Individual contracts were not risk assessed to ensure that monitoring effort was focussed on key risks. Monitoring meetings needed to be more effective and benefits e.g. efficiencies and savings emerging from each procurement needed to be clearly identified.

Information Security of Paper Based Data and Disposal – this review identified that whilst there were clear policies and guidance relating to the security and management of ICT based systems, further clear guidance was required to inform staff as to how paper based material should be securely handled and disposed of. A cross-Directorate group called the Information Governance Group (IGG) provide the governance framework, we have recommended that direct representation from Facilities Management responsible for the Council's Archive and Data Disposal be invited to the group to provide a forum to discuss paper based records. The systems for paper based data disposal was weak, our visit to the contractor's off site archive store showed that a considerable number of boxes had not been destroyed in accordance with their recorded destruction dates. There was no system to capture and record paper based security incidents. This increases the risk of confidential paper based information loss not being investigated and reported.

Management and Monitoring of Framework Contract – our review of the systems for monitoring the framework contract for Lift Maintenance and Repairs within Tower Hamlets Homes showed some major weaknesses in contract administration. This resulted in an overpayment to the contractor of £29,671. The quotations submitted by the contractors in the framework agreement were subject to management checks and approval, but the errors were not picked up by the system which demonstrated that checks were not robustly applied in practice. The risk of errors, omissions, fraud and irregularity occurring was high due to poor separation of duties. The Lift engineers managed individual projects from the initial selection of the contractor through to the payment and completion of each project. Any intervening management checks were not robust enough to detect or prevent errors, omissions etc. We, therefore, recommended that the management and supervision control over all framework contracts managed by THH must be reviewed and improved.

Caretaking Service Tower Hamlets Homes - systems for delivering caretaking services needed significant improvement to meet defined objectives and standards. Documented procedures covering the management, control and monitoring of the service standards needed to be developed. The current caretaking work flows had not been documented and quality checked, which increased the risk of inconsistent service delivery. The administration, control and management of CRB checks was

not adequate. We had specific concerns around compliance with procurement procedures for caretaking supplies and very poor stock control systems for stores which increased the risk of fraud and irregularity in this area. A Follow up audit recently conducted on this activity showed that improvements had been made by implementing the agreed recommendations. However, the areas of procurement and stock control needed to be tackled effectively.

Qualifications to the Opinion

Internal Audit has had unfettered access to all areas and systems across the authority and has received appropriate co-operation from officers and members.

Other Assurance Bodies

In formulating the overall opinion on internal control, I took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) Audit Commission
- b) Benefit Fraud Inspectorate
- c) Care Quality Commission
- d) Ofsted

Risk Management Process

The principle features of the risk management process are described below:

Risk Management Strategy: The Council has established a Corporate Risk Management Strategy that sets out the Council's attitude to risk and to the achievement of business objectives and has been communicated to key employees. The policy:

- 1 Explains the Council's underlying approach to risk management;
- 1 Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- 1 Outlines key aspects of the risk management process; and
- 1 Identifies the main reporting procedures.

Corporate Risk Register: This register records significant risks that affect more than one directorate. The register also includes major corporate initiatives, procurement and projects.

Directorate Risk Registers: Each directorate maintains its own register recording the major risks that it faces.

Corporate Risk Group: The Group identifies and oversees the management of corporate risk, and reviews directorate registers to identify emerging corporate risks.

Comparison of Internal Audit Work

The Operational Plan for 2010/11 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

100% of audit fieldwork is complete for audits relating to the 2010/11 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2010. A summary of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

A table is provided at section 9 of the main body of report setting out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against the targets that were set in advance.

Internal audit was also subject to a peer review by the Head of Audit of London Borough of Redbridge and benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 6.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

Internal Audit has comprehensive quality control and assurance processes in place to confirm compliance with the CIPFA standards. Assurance is drawn from:

- 1 The work of external audit; and
- 1 My own internal quality reviews.

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

Internal Audit is compliant against the 11 code of the CIPFA code of Practice;

The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.

That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

Minor recommendations were raised which are being addressed.

Peer Review and Benchmarking Club Results

1. Peer Review

1.1. The Accounts and Audit (Amendment) (England) Regulations 2006

states that:

- (a) An authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
- (b) The authority shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.

1.2. Circular 03/2006 provided by the Department for Communities and Local Government states that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 would be acceptable as the appropriate professional guidance to determine what is “proper practice”.

1.3. In order to ensure that a robust review of the internal audit service has been carried out, Financial Directors (or equivalent) agreed that in addition to the internal reviews, peer reviews would be undertaken to ensure that internal audit service has been externally assessed as well. As a part of this reciprocal arrangement, in May 2011, the Head of Internal Audit from the London Borough of Newham conducted a peer review of the effectiveness of internal audit at LBTH. The review focused on compliance with the 11 Professional Standards set out in the CIPFA Code of Practice on Internal Audit. The review is currently on-going and any issues arising from this will be reported separately.

2. Benchmarking Club Results

2.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.

2.3. As part of the 2009/10 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities

selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.

- 2.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £350 compared with the comparator group average of £370 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.