


<p><i>Non-Executive Report of the:</i></p> <p><b>Audit Committee</b></p> <p><i>28th June 2016</i></p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> <i>Zena Cooke - Corporate Director - Resources</i></p>	<p><b>Classification:</b> <i>Unrestricted</i></p>
<p><b>Internal Audit Annual Report for 2015/16</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani and Bharat Mehta</i>
<b>Wards affected</b>	<i>All wards</i>

## **1. Summary**

- 1.1 This report provides the annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an adequate system of internal control which was in operation throughout 2015/16. The Head of Audit opinion is attached to this report at appendices 6 and 7 of this report.

## **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. Reasons for the Decisions**

- 3.1 The Audit Committee can gain assurance around the work of the Council's internal audit activity and ask questions around the systems of control operating within the Council.

## **4. Alternative Options**

- 4.1 That the Committee declines to note the content of this report.

## 5. Introduction

5.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards. 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.

5.2 This report is set out as follows:

- **Opinion and basis of opinion**
- **Summary of audit work undertaken in 2015/16**
- **Appendix 1 - Audit Charter and Internal Audit Strategy**, setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.
- **Appendix 2 - Audit Resources**
- **Appendix.3 -Summaries of reports not previously reported.** Summaries of all audit reports are submitted to the CMT and Audit Committee.
- **Appendix 4 – Follow Up Audits**
- **Appendix 5 – List of planned audits undertaken in 2015/16.**
- **Appendix 6 – Summary Head of Audit Opinion.**
- **Appendix 7 – Detailed Head of Audit Opinion.**
- **Appendix 8 – Benchmarking club/headline.**

## 6. **Statement of Responsibility**

6.1 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.

6.2 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.

## **7. Opinion**

- 7.1 It is my opinion that I can provide reasonable assurance that the authority has an adequate system of internal control and that this was operating effectively during 2015/16. The basis for this opinion is set out below.

## **8. Basis of Opinion**

- 8.1 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 2015/16. 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.
- 8.2 Internal audit work has been carried out in accordance with the Public Sector Internal Audit mandatory standards for Internal Audit in Local Government.
- 8.3 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.
- 8.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the External Auditors and other inspectors pertaining to or reported during 2015/16. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at Appendices 6 and 7.

## **9. Audit Resources**

- 9.1 The resources available to Internal Audit are set out in appendix 2 below. Internal Audit is provided in partnership with Mazars as part of Croydon Framework contract. An in-house team of four auditors works with resources provided under the Croydon framework arrangement.
- 9.2 The resources made available were adequate for the fulfilment of the Authority's duties although for the 2015-16 financial year, the resources had been increased in view of the Directions set out by the Secretary of State to support the work of the Council.
- 9.3 Productivity was maintained at planned levels. Sickness absence in the team was 2.9 days per person on average, compared with 3.6 days per person the previous year.

9.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2015/16, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 4.

## 10. Summary of Audit Work

10.1 A list of the audits undertaken in 2015/16 is attached to main body of the report at Appendix 5 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.

10.2 Summaries of the finalised audit reports are reported quarterly to CMT and the Audit Committee. Appendix 3 provides the summaries of those reports finalised in the period March to May 2016.

10.3 A summary of the audit assurance resulting from audit reports in 2015/16 is provided in the table below.

Audits 15/16		Full	Substantial	Limited	Nil	N/A
		Significance	Extensive	2	43	9
Moderate	3		29	7	1	2
Low	0		0	0	0	0
Total	5		72	16	1	3

- 10.4 The table shows that of 97 systems audits where we have issued final audit reports, 80% 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. 18% of systems audited were rated as limited or nil assurance, and the remainder 2% related to audits where an assurance was not given. In addition there are seven audits currently at draft report stage and their assurances have not been factored into the above table as these assurances are waiting to be agreed and two audits rolled forward into 2016/17 at management request. In total Internal Audit completed 105 pieces of audits during the financial year 2015/16.
- 10.5 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.
- 10.6 From the Internal Audit work during 2015/16 financial year, we identified risks in the Council's systems in a number of areas including Monitoring and Management of Public Health contracts; Highways Repairs and Maintenance; Pay by Phone Contract Monitoring; Control of Cash Income and Disbursements; Controls around Youth Offending Service; Signing and Sealing of Legal Contracts; and Procurement and Contract Monitoring. Further information is provided at Appendix 7. Management have given commitment to implement our recommendations and this should in turn improve control environment in these areas.
- 10.7 From our Internal Audit work during 2015/16, we can provide an overall assurance that Tower Hamlets has a reasonably 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.

## 11. Audit Performance

11.1. Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2015/16 is set out in the table below.

Performance Measure	2015/16	
	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%	78%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	87%

11.2 As at the 31<sup>st</sup> March 2016, 100% of the operational plan was completed in terms of days used as a number of unplanned audits were performed. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.

11.3 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 2015/16 as a whole, 78% of priority 1 recommendations had been implemented against a target of 100%, and 87% of priority 2 recommendations had been implemented against a target of 95%. Appendix 4 lists the results of those follow up audits finalised since the last Audit Committee meeting. 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. The S151 has noted the performance and has asked the Head of Audit and Risk Management to advise on further steps to improve on the implementation of recommendations.

11.4 The budget outturn is set out in Appendix 2. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. The results of benchmarking exercise for 2015/16 are attached at Appendix 8.

## 12. Comments of the Chief Financial Officer

12.1 This is the annual report from the Head of Internal Audit on audit activities carried out during 2015-15. Audit Committee are asked to note the contents of this report. There are no financial implications as a consequence of this report.

### **13. Legal Comments**

13.1 This report supports the Annual Governance Statement. The Head of Internal Audit is required by the Public Sector Internal Audit Standards 2013 to provide an annual audit report setting out their opinion on the effectiveness of the Council's system of internal control. The report assists the Council in meeting its duties under Part 2 of the Accounts and Audit Regulations 2015 to ensure that its financial management is adequate and that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

### **14. One Tower Hamlets**

14.1 There are no specific one Tower Hamlets considerations.

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

### **15. Best Value Implications**

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

### **16. Risk Management Implications**

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

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

17.1 There are no specific SAGE implications.

### **18. Crime and Disorder Reduction Implications**

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

## Appendix 1

### Internal Audit Charter

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

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

#### **Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

#### **Authority**

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

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



## **Responsibility**

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

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

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

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

## **Reporting**

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

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

### **Independence**

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

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

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

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

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

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

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

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

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

## Internal Audit Strategy

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter. The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

### Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs. It is the Council's intention to provide a best practice, cost efficient internal audit service.

### Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and

- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by the Council's internal audit team and the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and Management;
- The Council's Risk Register;
- Outputs from other assurance providers;
- Requirements as agreed in the joint working protocol with External Audit
- The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2015-16 is composed of the following:

- Risk Based Systems Audit: Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The

selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.
- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

### **Follow-up**

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

## **Reporting**

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

**Internal Audit – Resources 2015/16**

	<b>Revised Plan</b>	<b>%</b>	<b>Outturn</b>	<b>%</b>
In-house staff days	1398	73%	1439	68%
Mazars	505	27%	679	32%
	<b>1903</b>		<b>2118</b>	
<b>Gross days</b>				
<i>less</i> Leave	175	64%	170	57%
<i>less</i> Sickness absence	18	7%	18	6%
<i>less</i> Non Operational Time	80	29%	109	37%
<b>Unproductive time</b>	<b>273</b>		<b>297</b>	
<b>Net productive days</b>	<b>1630</b>		<b>1821</b>	

**Internal Audit Budget 2015/16**

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Salaries</b>	<b>424</b>	<b>424</b>	<b>-</b>
<b>Contract costs</b>	<b>241</b>	<b>203</b>	<b>+38</b>
<b>Running costs</b>	<b>24</b>	<b>11</b>	<b>-13</b>
<b>Central Recharges</b>	<b>150</b>	<b>150</b>	<b>0</b>
<b>Gross cost recharged</b>	<b>839</b>	<b>864</b>	<b>+25</b>



## Internal Audit Reports 2015/16 – 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.

### Direction of Travel

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

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


Appendix 3

**Summaries of 2015/16 audit reports not previously reported**

Assurance level	Significance	Directorate	Audit title
<b>Nil</b>	Moderate	Communities, Localities and Culture	Community Languages
<b>Limited</b>	Extensive	Communities, Localities and Culture	Pay by Phone – Contract Monitoring
	Moderate	Communities, Localities and Culture	Pest Control – Follow Up Audit
<b>SUBSTANTIAL</b>			
	Extensive	Development and Renewal	Client Monitoring of THH Follow UP
	Extensive	Development and Renewal	Watts Grove – Current Contract on Construction of New Affordable Homes
	Extensive	Tower Hamlets Homes	Out of Hours Repairs Follow Up
	Extensive	Tower Hamlets Homes	Unauthorised Occupancy Follow Up
		Tower Hamlets Homes	Planned Maintenance Follow UP
	Extensive	Resources	Payroll Account Reconciliation – Follow Up audit
	Extensive	Resources	Treasury Management
	Extensive	Resources	Business Rate Retention Scheme Follow Up
	Extensive	Resources	Housing Rents
	Extensive	Resources	General Ledger
	Extensive	Resources	Payroll
	Extensive	Resources	Debtors
	Extensive	Resources	Mainstream Grants Programme
	Moderate	Communities, Localities and	Transport Services Follow Up

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
		Culture	
	Moderate	Corporate	Use of Taxis by Council Staff – Follow Up
	Moderate	Education, Social Care and Wellbeing	Cleaning Services Follow Up
	Moderate	Education, Social Care and Wellbeing	Mowlem Primary School
	Moderate	Education, Social Care and Wellbeing	Bygrove Primary School
	Moderate	Education, Social Care and Wellbeing	Christ Church Primary School
	Moderate	Education, Social Care and Wellbeing	Chisenhale Primary School
	Moderate	Education, Social Care and Wellbeing	Ian Mikardo High School
	Moderate	Education, Social Care and Wellbeing	Bangabandu Primary School
<b>FULL</b>	Moderate	Development and Renewal	Landlord Incentive Scheme Follow Up

## Nil Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Community Languages	June 2016	<p>The Community Language Service (CLS) provides four separate educational programmes to school children across the borough, as follows: -            Out of School Language Classes; Early GCSE Programme; Primary Modern Languages; and First Language Assessment Service for Newly Arrived and Under Achieving EAL (English as Additional Language) Children.</p> <p>From September 2014 until June 2015 the CLS was under management review and the team worked with Idea Store Learning to identify the areas of most concern. In June 2015 the Deputy Head of Idea Store Learning assumed the line management of the CLS Team.</p> <p>The objective of the audit was to provide assurance to management as to whether the systems of control around the CLS system are sound, secure and adequate and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. Key findings arising from the audit were: -</p> <ul style="list-style-type: none"> <li>• Effective methods of measuring the performance of the service and key performance indicators have not been put in place. In addition, the value for money achieved by the service as a whole or in respect of individual classes is not effectively measured;</li> <li>• A number of issues were identified in respect of the service level agreements (SLAs) held with the provider organisations, such as not being returned in a timely manner, not being signed / signed by people unauthorised to do so, etc. In addition, the SLAs do not specify the terms and conditions under which the SLA is to operate;</li> <li>• There was no evidence that the student attendance registers were continually monitored. Although monitoring visits had been made by the CLS staff, visit reports were not prepared. As such there was no evidence that registers had been checked against student work during these visits;</li> </ul>	Moderate	Nil 

		<ul style="list-style-type: none"> <li>• There is no process in place to effectively monitor the existence of valid child protection policies at provider organisations;</li> <li>• Ineffective authorisation procedures are in place in respect of the payment of claims;</li> <li>• From the DBS details of all the permanent tutors, it was found that in the case of eight tutors, the DBS checks had expired and they were still taking classes without updated DBS checks being obtained. Upon testing 11 tutor appointments, in three instances it was found that the DBS certificate information was not destroyed by secure means and the copy of the certificate was found to still be held on file;</li> <li>• There is no evidence of the procedure note documents being formally approved by senior management or Human Resources (HR); and</li> <li>• The process for organising monitoring visits is not robust.</li> </ul> <p>All findings and recommendations were agreed with the Service Head - Culture Learning and Leisure and the final report was issued to the Corporate Director, Communities, Localities and Culture.</p>		
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**Management Comments**

The Community Languages Service (CLS) was transferred from ECSW to CLC in May 2013. Within months of the transfer it was clear that there were serious issues regarding the CLS that had not been addressed and poor practice with low levels of transparency being allowed to be continued for many years prior to it coming over to CLC. It was found that the service had been managed without adhering appropriately to scrutiny, rigour or to the standards required of it by the Council's policies and procedures and that inadequate corporate systems and HR support services were part of the problem rather than being effective in preventing it. The audit was requested by the Service Head (CLL) following an initial review of the Community Languages Service and serious concerns raised by Head of Idea Store. It was recognised that, prior to any fundamental service redesign being developed, the key issues of

- the internal systems (administration and management) of the Out of School Service and Early GCSE programme
- the quality of teaching and learning
- Safeguarding and Prevent


would need to be fully addressed.

To this end, two pieces of work were commissioned by the service in January 2016:

- 1) The Review of Teaching and Learning – carried out by Judicium Education School Improvement, an external organisation, commissioned by Idea Store Learning;
- 2) The Audit of the Community Language Service – carried out by Internal Audit

Idea Store management initiated a work programme with corporate HR to bring the CLS DBS checks up to date and this was completed in September 2015. All staff received Safeguarding training, new Safeguarding guidelines and materials were produced and Prevent (WRAP) staff training was delivered by December 2015. All provider agencies have been written to confirming their requirements and responsibilities in relation to prevent and safeguarding and retaining signed SLAs.

The audit is one piece of the wider service improvement work undertaken by CLC management to address the lack of review and poor performance of the CLS going back over many years. It was commissioned in order to confirm and support case for change needed in the CLS. Over the coming months the service will go through a fundamental whole system redesign with key considerations being given to the purpose and need for the service as well as the desired outcomes it should be achieving.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pay By Phone Contract Monitoring	May 2016	<p>The objective of this audit was to provide assurance that the systems for controlling and monitoring the contract for collection and processing of electronic income are sound, secure and adequate. The Council has entered into a contract from 01/12/12 to 30/11/17 with Pay by Phone which facilitates the payment by customers for parking in any of the Council's pay and park parking bays plus car parks by using their mobile telephone and pre-registered debit or credit card. The income for 2015/16 was some £3M. Our testing highlighted the following issues:-</p> <ol style="list-style-type: none"> <li>1. There were no documented systems and procedures for staff to monitor the contract and the income collected through the system. This key weakness resulted in total reliance on reports and information from the contractor without any independent verification.</li> <li>2. There was no monitoring arrangement to ensure that each day's income had been banked promptly, were in accordance with contractual conditions and that this income was accounted for appropriately in the Council's GL System.</li> <li>3. Refunds were being deducted from the gross income due to the Council and the audit trail in this area was poor. There was no effective system for checking, monitoring and accounting for refunds.</li> <li>4. There was no effective system for processing chargebacks in cases where merchant banks have not honored the transactions e.g. stolen cards .When the contractor is informed about the chargebacks, the user's account is blocked and chargeback is deducted from the income received for that day. Although the contract requires the contractor to indemnify the Council against loss of income arising from chargebacks, no such indemnification appeared to be in place.</li> </ol> <p>All findings and recommendations were agreed with the then Service Head - Public Realm and the final report was issued to the Corporate Director , Communities, Localities and Culture.</p>	Extensive	Limited  

**Management Comments**

We feel that appropriate resources have now been deployed to implement the recommendations outlined. This is however, an automated system used by the contractor, and involves the contractor only collecting data, with no exposure to monies. Therefore the risk of monies being misappropriated is minimal, which has been identified through subsequent reconciliations. We do appreciate that fully robust systems are required to monitor these transaction, and these are being implemented, with the remaining actions being planned as agreed.



**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pest Control Follow Up Audit	Mar 2016	<p>A full systems audit on Pest Control was undertaken as part of the 2013/14 internal audit plan, for which the final report was issued in June 2014. This audit area was assigned a limited assurance audit opinion, based on the findings and the recommendations raised.</p> <p>This report presented the findings and recommendations of the follow up audit, conducted in May 2015; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented.</p> <p>The Pest Control service offers advice and services to residents and businesses about how to eradicate insects, rodents and other potential health hazards. The service provides effective treatments for certain types of pests and can help with identifying pests and providing information to householders. They will carry out home visits and treat any infestations of rats, mice, cockroaches, bed bugs and pharaoh ants. The service is still free for most residents. However, it has been necessary to introduce charges for some customers.</p> <p>All services are still free for all state pensioners who live on their own. The service is also free for the treatment of rat infestations, whether the rat is in a dwelling, garden or other outdoor area. Services to both tenants and leaseholders of Tower Hamlets Homes (THH) remain free of charge. Services are also free for tenants and leaseholders of a number of Registered Social Landlords (RSLs) which have service level agreements in place with the Council:</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>Our follow up review showed that of the one high priority and four medium priority recommendations made at the conclusion of the follow up audit, none of the recommendations had been fully implemented, although four of them had been partly implemented.</p> <p>Following our testing, we have made a further five recommendations. The areas of weakness are as follows;</p>	Moderate	<p>Limited</p> <p>←</p>

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|  |  | <ul style="list-style-type: none"> <li>• Properties records are not being updated on Siebel.</li> <li>• The SLA between the Council and its ALMO (THH) expired in 2013 and is yet to be renewed. From our audit testing, we noted that in two out of eight cases tested, the Council did not hold a signed and current service level agreement with the RSL in respect of pest control services.</li> <li>• There are currently around 6,000 open cases that are over six months and need to be reviewed to consider closure.</li> <li>• Evidence in relation to detailed costing activity undertaken to determine the RSL charging rate has not been retained.</li> <li>• Procedure documents are not up to date reflecting the need to undertake the verification exercise. In addition, Pest Control Supervisors do not maintain appropriate records when checking the work of the Pest Control Officers (PCOs) on a daily basis</li> </ul> |  |  |
|--|--|--|--|--|

All findings and recommendations were agreed with the Manager for Pest Control and Laundry Services, and the Head of Consumer and Business Regulations Service and reported to the Service Head, Safer Communities, and the Corporate Director, Communities, Localities and Culture.

### Management Comments

- Information is awaited from the ICT Client Team about their discussions with Agilisys to carry out updates with no extra charge. Agilisys are currently upgrading all 14 Siebel Servers from 2003 to 2008, to be completed by the end of June. Once this work is completed they will be in a better position to look at our requirement/enhancements to the system. With regards to the future of Siebel, the latest update in May is that they are considering Siebel Cloud, which is the new improved version of Siebel. The matter will be further discussed at the next Siebel User Group meeting. The cost implication to the business of not keeping THH property records up to date is likely to be small, compared to the cost to the service to pay for regular THH property updates. The risk is where THH have handed over properties to other registered Providers that are not under contract to the service, but they are still shown as THH/ALMO on Siebel. There is however a very significant cost and reputational implication to the business of not updating the properties on Siebel for the RSLs that are under contract to the service.
- The SLA with THH has yet to be completed but the contract is rolling over. Six SLAs with RSLs have signed contracts. of the 2 outstanding SLAs with RSLs, Swan has terminated the agreement, and I am consulting with Legal about the SLA document with East End Homes.
- We will resubmit the WPR to Agilisys to reconfigure Siebel to automatically close all cases in future where there has been no activity for


6 months. This reconfiguration will cost the service approx. £4,500 and is unlikely to make a saving to the budget. There is not a cost implication to the business of cases remaining open on Siebel, so there is no financial reason for undertaking this database clean.

- This is a commercially competitive rate benchmarked against other similar contract at other Local Authorities. There is a very high risk we could lose the current contracts if we increase the RSL rate significantly, and we can't afford to decrease the rate. Swan Housing Association has recently terminated their SLA with us and previously Circle 33 terminated theirs with us, both giving financial reasons.
- We will resubmit the WPR to Agilisys to reconfigure Siebel to set up an OAP tick box for contact centre staff to mark when a free treatment is given to an OAP, and then a tick box for the PCO to verify at the visit. This reconfiguration will cost the service approx. £3,000 and is unlikely to make a saving of this amount.


**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Client Monitoring of THH Contract Follow Up audit		<p>This audit followed up the recommendations made at the conclusion of the original audit finalised in April 2015. Our testing showed that out of 3 medium priority recommendations made in the final audit report, all three had been progressed. However, the full embedding of the associated controls is still required.</p> <p>Our testing showed that the ALMO Client Procedures were updated, version controlled and finalised in April 2015. The Accounting Protocols had been updated with changes made since the inception of the Management Agreement. A document called "Protocol Between LBTH and THH with Respect to Internal Audit Reports and Recommendations" was provided to Audit. However, we noted that the Protocol document was not dated and version controlled. Moreover, there was no evidence to show that the Protocol was discussed at any of the governance meetings and that a standing agenda item on Internal Audit Matters was still required. The THH Business Continuity Plans had been updated, but it was not clear how LBTH monitors that the plans are periodically tested by THH.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy and Regeneration and final report was issued to Corporate Director of Development and Renewal.</p>	Extensive	<p>Substantial</p> <p style="text-align: center;">↔</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Watts Grove</p> <p>Current Contract Audit on Construction of New Affordable Homes</p>	<p>March 2016</p>	<p>This project involves the construction of 148 affordable homes. The contract for this work was awarded on 10<sup>th</sup> December 2014 for £23,210,758 on a fixed cost basis. The Cabinet at a meeting on 4<sup>th</sup> February 2015 approved additional costs of £868,000 bringing the revised total to £24,078,758. The current forecast is £26,607,000.</p> <p>The objective of this audit was to provide assurance that there were sound systems and controls in place for managing and monitoring the contract. Our review found that there was evidence of adequate on-site control arrangements and evidence of Health and Safety monitoring at the site by the contractor. There were regular and detailed reports by the managing agent with ad hoc visits by the council's project officer. Regular, documented client contractor meetings were taking place at which all relevant issues were discussed. We also noted that all variations to date had been appraised and approved and could be substantiated; interim payments were supported by evidence provided by the managing agent; and reviews of the project financial and construction profiles were carried out by the councils' project manager.</p> <p>However, we noted that there was no corporate guidance on the checking of the Health and Safety Executives' enforcement web site for any relevant information on the contractors' previous health and safety records. We have also recommended that the responsible client officer should have formal performance and contract monitoring meetings with Employer's Agent and that formal minute should be kept of these meetings.</p> <p>All findings and recommendations were agreed with the Service Head, Asset Management and Capital Delivery and final report was issued to the Corporate Director, Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p> <p style="text-align: center;">⇕</p>


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Out of Hours Repairs Follow Up Audit	April 2016	<p>Tenants are able to report by telephone the need for emergency repairs to their properties outside of normal working hours. Out of hours call handling is undertaken by an external contractor, General Dynamics Information Technology (GDIT).</p> <p>GDIT has a contract in place with LB Tower Hamlets (LBTH) to provide a holistic out of hours call handling service, and THH makes use of the services of GDIT under the terms of a service level agreement with the Council.</p> <p>GDIT is responsible for confirming that the reported issue is a genuine emergency and cannot be resolved on the next working day, and then obtaining sufficient details from the tenant or leaseholder and passing these to the relevant contractor to action. A detailed system is in place to allow this role to be performed by non-technical staff and to ensure that all the necessary information is obtained during the call.</p> <p>The repairs contractor, Mears, is then responsible for attending the site within the specified timeframe of one hour, making safe the issue reported, and recording the outcomes of the repairs visit and any further action to be taken on the Northgate SX3 system. The Council's Contact Centre is responsible for monitoring the performance of GDIT as well as the repairs contractors, and for resolving any issues or complaints received from service users..</p> <p>A full systems audit on the Tower Hamlets Homes (THH) Out of Hours Repairs was undertaken in November 2014, as part of the 2014/15 internal audit plan. This audit assigned Substantial Assurance to the area, based on the findings and the recommendations raised.</p> <p>This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>Our follow up review showed that of the five medium priority recommendations made at the conclusion of the follow up audit, three medium priority recommendations had been fully addressed, and the remaining two had been partly implemented. The main issues arising from our work were as follows;</p>	Extensive	Substantial 

		<ul style="list-style-type: none"><li>• From testing conducted on a randomly selected sample of five calls received by GDIT as per the daily reports sent to LBTH, it was found that in four cases there were no timely records created on Northgate SX3 by the contractor Mears. In two instances there were no records created for the calls, and in another two instances the work orders were recorded after completion.</li><li>• From testing of the same sample of five calls, it was found that in one case the GDIT system had not retained a recording of the call received from the service user on the Local Government Shared Portal. There was evidence of ten calls being sampled by LBTH Contract Centre Manager on a weekly basis (40 calls per month).</li></ul> <p>All findings and recommendations were agreed with the Head of Repairs and reported to the Director of Neighbourhoods, the Director of Finance and the Chief Executive.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Unauthorised Occupancy	Apr 2016	<p>Tower Hamlets Homes (THH) is responsible for the provision of 22,000 rented and leasehold homes on behalf of London Borough of Tower Hamlets (LBTH), with 50% of the stock relating to rented properties. The provision of tenancies for social housing and the methods used for recovering unlawfully sublet properties are under increased scrutiny as the demand for social housing far outweighs the supply. Under the Prevention of Social Housing Fraud Act 2013, the sub-letting of Council housing is now a criminal offence with the guilty facing criminal records, fines and prison sentences. Various methods or triggers are utilised by THH in order to detect suspicious cases of illegally occupied properties and tenancy fraud. Suspicious cases are referred to the Fraud Investigation Team based at LBTH with Legal Services providing assistance where necessary and undertaking prosecutions.</p> <p>THH continually monitors performance in relation to service provision and this includes the actions taken to recover illegally occupied homes. THHs' Executive Management Team (EMT) and the Neighbourhood Management Team (NMT) receive this performance information at their monthly meetings via detailed written reports and the use of a dashboard comprising key performance indicators (KPIs). One of the KPIs monitors the number of recovered illegally occupied homes. As per the latest report, 18 recovered properties were achieved to date against a target of 50 for the 2015/16 financial year. THH are working with LBTH to review working practices in relation to prevention, detection and investigation in order to improve performance. Increasing prevention and the recovery of illegally occupied properties will help to ensure that social housing is only allocated to the residents of the borough most in need.</p> <p>The audit was designed to provide assurance over the adequacy of the systems and procedures in place for the management and control of Unauthorised Occupancy, and also to evaluate the potential consequences which could arise</p>	Extensive	Substantial  



<p>from any weaknesses in the internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Documented procedures concerning the prevention and assessment of unauthorised tenancies are not up to date. The documentation is need of revision to ensure that it reflects new legislation, including the Prevention of Social Housing Fraud Act 2013 and best practice.</li> <li>• There is currently no strategy in place outlining the objectives in place for combatting unauthorised occupancy and tenancy fraud.</li> <li>• There is a need to improve the consistency and sufficiency of information available to residents of the borough concerning unauthorised occupancy, including clear contact details for reporting fraud to THH.</li> <li>• There is a need to raise publicity concerning tenancy fraud, including any successful prosecutions in order to act as a deterrent against future fraudulent activity.</li> <li>• Improvements are needed for monitoring the progress of cases that have been passed to the Council's Fraud Investigation Team.</li> <li>• There is a need for THH to benchmark its performance against other authorities' performance.</li> </ul> <p>All findings and recommendations were agreed with the Head of Neighbourhoods and reported to the Director of Neighbourhoods, the Director of Finance, and the Chief Executive at THH.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes Planned Maintenance Follow Up Audit	Mar 2016	<p>A full systems audit on the Management and Control of Planned Maintenance Works was undertaken in April 2014, as part of the 2013/14 internal audit plan. This audit assigned Limited Assurance to the area, based on the findings and the recommendations raised.</p> <p>This report presents the findings and recommendations of the follow up audit, conducted in October 2015; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented.</p> <p>The 2013/14 planned maintenance programme incurred a slippage of £502k. This was carried forward into the 2014/15 programme along with new schemes totalling £6.7m, including £1m contingency however, the £6.7m were not spent in 2014/15 and were carried forward into the 2015/16 programme. The planned maintenance programme is divided into 12 work streams and within those there are 83 individual schemes. Officers from within Property Services have reported that with the exception of a number of lift renewals the Planned Maintenance Programme is on target to be completed by October 2016.</p> <p>The original review concentrated on four Framework Contracts used within the Planned Maintenance Programme. These contracts were:</p> <ul style="list-style-type: none"> <li>- Communal Heating (GEM);</li> <li>- Boosted Water (GEM);</li> <li>- Door Entry (Openreach); and,</li> <li>- Lift renewals (21st Century Lifts).</li> </ul> <p>The original audit found that there was no framework contract that allowed for the replacement of communal boilers albeit orders in excess of £1m had been placed with the contractor GEM which was the appointed contractor for repairs and maintenance of communal heating.</p> <p>Furthermore, the replacement of these boilers had not been subjected to S20 leaseholder consultation, and there was therefore a risk that should a dispute arise regarding charges officers would not be able to adequately demonstrate that the rates charged by GEM for these replacements were obtained in open competition.</p> <p>It was also found that charges for overheads and profit had been included with the</p>	Extensive	Substantial  


<p>quotations supplied by GEM which in our opinion have not been interpreted in accordance with the conditions of contract to which they refer.</p> <p>The review also found that payments of 10% of the total contract sum had been made to 21st Century Lifts for the design and issuance of drawings; however a review of their framework agreement showed that there was no provision within the contract document that required officers to make an advance payment to the contractor.</p> <p>A Matrix system was in place that informed the methodology of the planned maintenance programme to support officer's decisions for prioritising works packages.</p> <p>It was understood that new asset management software (Keystone) was to be introduced and as such operational procedures needed to be developed to reflect the operational changes that will be incurred.</p> <p>The slippage to the following year's programme was not being reported upon and gave cause for concern as to whether the full programme would be achieved.</p> <p>Our follow up review identified that of the one high priority and four medium priority recommendations made at the conclusion of the original audit, the high priority recommendation and three medium priority recommendations had been fully addressed, although one medium priority recommendation was not implemented as yet.</p> <p>Following our work, we have made one recommendation to enhance the control environment within this area.</p> <ul style="list-style-type: none"> <li>• Senior Managers should ensure that there is sound governance and reporting around the Planned Maintenance Programme performance on a regular basis in order to make informed decisions by those charged with governance. Consideration should be given to develop a suite of key performance indicators (KPIs) and performance targets against which the performance of the planned maintenance programme can be tracked and monitored by the Board.</li> </ul> <p>The findings and the recommendation were agreed with the Support Officer, Property Services and reported to the Director of Finance, Interim Director of Asset Management, Director of Neighbourhoods, and the Chief Executive.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Account Reconciliations	Mar 2016	<p>Financial Procedures FA4 requires that the Council conducts frequent reconciliations of net payroll expenditure against approved bank account(s), payments of statutory and non-statutory deductions to third parties (e.g. pension contributions), and annual year-end statutory deductions compared to amounts paid to the Paymaster General.</p> <p>The Payroll Reconciliation is a three-way reconciliation between BACS payments totals to the Payroll system and also to the General Ledger.</p> <p>The objective of the payroll account reconciliations is to ensure that all records of transactions paid and received in relation to a given period as per the Payroll system, match the records of payroll expenditure and receipts in the general ledger. This is to ensure that all monies spent and received by the Council in relation to the payroll are accounted for in the main accounting system.</p> <p>The Payroll reconciliations involve the reconciling of the Council's payroll accounts in the general ledger against the payroll records, using reports generated from the Northgate ResourceLink and Agresso systems, respectively. This audit is being undertaken as part of the 2015/16 agreed Audit Plan.</p> <p>The Payroll system has an inherently high risk of errors and irregularities and a strong control environment is necessary to manage this level of risk. From 1 April 2015 to September 2015, the authority's payroll department processed the following:</p> <ul style="list-style-type: none"> <li>935 starters;</li> <li>968 leavers;</li> <li>972 deductions; and</li> <li>476 amendments.</li> </ul> <p>The estimated payroll expenditure for April 2015- September 2015 is: Gross pay: £154.9 million</p>	Extensive	Substantial  

	<p>Net pay: £112.3 million No. of payments – 65,760</p> <p>The average monthly payroll amounts are: Gross pay: £25.8 million Net pay: £18.7 million No. of payments – 10,960</p> <p>The audit was designed to provide assurance to management that the systems at corporate level for the reconciliation of the payroll account are sound, secure and effective, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The weakness identified was as follows:-</p> <ul style="list-style-type: none"> <li>• Policies and Procedures are work in progress that are not yet fully completed.</li> <li>• There is a lack of effective staff contingency planning in place to cater for the absence of the Operations Assistant Accountant.</li> <li>• There is a lack of formal training for staff.</li> <li>• Information is not provided with regards to unreconciled items to senior management as well as how long the items have been unreconciled.</li> <li>• Discussions regarding the key performance indicators (KPIs) at the Finance Management Team (FMT) meetings are not included in the body of the minutes.</li> </ul> <p>All findings and recommendations were agreed with the Senior Accountant, and the Payroll Manager and reported to the Service Head – Human Resources and Workforce Development, Interim Service Head, For Finance and Procurement, and the Corporate Director, Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management	Mar 2016	<p>The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow, imposes a duty on local authorities to determine an affordable borrowing limit and it provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.</p> <p>The Treasury Management function is responsible for the ongoing monitoring and forecasting of monetary assets of the Council and for the effective investment of funds surplus over any given period of time to generate a sufficient financial return. A total of 96 term investments (TI) transactions were made between February 2015 and September 2015, with the largest investment of £20m. As at 31<sup>st</sup> August 2015, the Council had a total of outstanding investments of £415.7m, of which £70.7m was invested overnight with the remainder being invested for longer periods as follows;</p> <p>&lt; 1 month      £40m  1 – 3 months    £45m  3 – 6 months    £105m  6 – 9 months    £120m  9 – 12 months   £20m  &gt; 12 months    £25m</p> <p>The 2015/16 Treasury Management Strategy was approved by the Council at its meeting of 25th February 2015. The strategy details the investment procedures and controls. Investments are made taking into account the forecasted cash position which forms the basis of the investment strategy. Relevant criteria for investments have been identified such as credit rating of financial institutions, investment horizons, scenarios requiring a reappraisal of strategy, individual institutional limits for investing, etc.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the Treasury Management function are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main</p>	Extensive	Substantial  ↔

	<p>weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• In one out of six reconciliations undertaken in the current financial year for the 'Investment Reconciliation Money Market Funds 2015/16' there was no evidence of an independent review having been undertaken.</li> <li>• Three out of 30 daily dealings had not had the appropriate level of approval, in that no second approval was given.</li> <li>• Face to face meetings are not currently held with senior management to discuss the position of the Treasury Management function; instead emails are sent. This issue was raised in the 2014/15 internal audit report.</li> <li>• No date of review had been included on the Treasury Management procedure notes.</li> </ul> <p>All findings and recommendations were agreed with the Investment and Treasury Manager and reported to the Interim Service Head, Corporate Finance and Procurement, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Business Rate Retention Scheme Follow Up Audit	Apr 2016	<p>The business rates retention scheme provides a direct link between business rates growth and the amount of money councils have to spend on local people and local services. Councils are able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. This is designed to provide a strong financial incentive for councils to promote economic growth. Business rates retention is at the heart of the Government's reform agenda and aims to achieve two priorities: economic growth and localism. In the case of Tower Hamlets, the Council retains 30% of the NNDR collected, with 20% going to the Greater London Authority and the remaining 50% going to central Government.</p> <p>At the beginning of the scheme, the Government carried out calculations to ensure that councils with more business rates than their current spending will make a tariff payment to Government. Similarly, where councils have greater needs than their business rates income, they will receive a top-up payment from the Government. The total sums of these payments will equal each other. Tower Hamlets falls within the 'top-up' category, which provides the Council with an incentive to increase its NNDR collection.</p> <p>A full systems audit on Business Rates Retention Scheme was undertaken in March 2015 and the final audit report was issued in April 2015. This audit was assigned substantial assurance.</p> <p>This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>Our follow up review showed that of the four recommendations made in our original report (all medium priority) three have been fully implemented, and one partly implemented. As a result, we have made a recommendation that the outstanding issue be addressed, in order to enhance the control environment within this area.</p> <p>The sole issue arising from our review is as follows</p> <ul style="list-style-type: none"> <li>• Although work has commenced, the system linking all accounts relating to</li> </ul>	Extensive	Substantial  




		<p>the same organisation is not yet fully in place. All findings and recommendations were agreed with the Head of Revenue Services, and reported to the Corporate Director, Resources.</p>		
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
Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents	May 2016	<p>Tower Hamlets Homes (THH) is an Arms Length Management Organisation (ALMO) owned by Tower Hamlets Council, the Council. The THH rents function is responsible for the correct billing of rent increases, amendments, arrears and the collection of rental income from Council owned housing stock.</p> <p>The current arrears figure as at 6<sup>th</sup> April 2015 was £2.62m, which had increased to £2.76m as at 18<sup>th</sup> January 2016.</p> <p>The housing rents section is split across four areas. There are North and South Arrears Teams which chase current tenant arrears. There is a manager who oversees the recovery of debt from former tenants and an Accounts team who deal with the processing of rent charges and increases.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Housing Rents system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There is an issue with the lack of notification by the Northgate system in certain cases where a tenant does not adhere to a repayment plan in terms of rent arrears. Where a tenant has entered into an agreement with THH to repay rent arrears in instalments and, where an unexpected payment is received and credited to the rent account, e.g. a back payment of housing benefit, and subsequently the tenant does not keep up with the agreed payments in the repayment plan, this is not reported by the system. Although manual controls are in place to identify where such cases occur, it would be more efficient if the identification of these cases were to be automated.</li> <li>• It was noted that tenants whose entitlement to housing benefit had ceased were not being routinely contacted and chased regularly to identify if the entitlement was likely to restart. Previously, it was possible for THH to make contact directly with the housing benefit service at the Council to discuss such</li> </ul>	Extensive	Substantial  


		<p>issues. However, this is no longer possible due to data protection considerations.</p> <ul style="list-style-type: none"><li>• We identified examples of monthly write off reports which were not completed in full or appropriately authorised.</li><li>• We noted an example where an enrolment form had not been completed with relevant signatures and dates prior to access being granted to the Northgate (Sx3) system.</li></ul> <p>All findings and recommendations were agreed with the Rents Manager and reported to the Director of Finance, the Director of Neighbourhoods, and the Chief Executive at THH.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	Apr 2016	<p>The Council uses the Agresso general ledger system which was installed at the beginning of the 2013/14 financial year.</p> <p>The Council has set an annual revenue budget of £291m for the financial year 2015/16 and a capital budget of £328m, and at the time of the audit (quarter 2 report) a break even position was being forecasted. There was some concern around in respect of the social care budgets, since it was unclear as to whether these areas would be able to achieve the full savings targets which had been set and further investigation was being undertaken to determine if this was the case. This could potentially lead to a budget overspend of approximately £2m, which we were advised would be funded through the Council's reserves.</p> <p>There are approximately 1,690 cost centres within the Council and its general ledger system; these are grouped into service areas, known as votes.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the General Ledger system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There is no automated checking process in place in terms of the upload of data from the feeder systems to the Agresso system. A manual checking process is in place to ensure the integrity of data uploads from the feeder systems. We understand that the development of an automated system is on the Agilysis workplan to be delivered, but the timescale for the delivery of this functionality is not known.</li> <li>• The standard proforma for journal entries is not being used in all cases and therefore there is insufficient information regarding input (processor) details.</li> </ul> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Interim Service Head, Finance and Procurement, and the Corporate Director of Resources.</p>	Extensive	Substantial  ↔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll	Apr 2016	<p>The Payroll function at the London Borough of Tower Hamlets is responsible for the effective management of payroll processing, including processing starters, leavers, deductions and amendments, and for paying staff promptly and accurately.</p> <p>The Payroll system has an inherently high risk of errors and irregularities and a strong control environment is necessary to manage this level of risk. From 1 April 2015 to September 2015, the authority's payroll department processed the following:</p> <p>935 starters;  968 leavers;  972 deductions; and  476 amendments.</p> <p>The estimated payroll expenditure for 2015/16 to date at the time of the audit, in the period April 2015 to September 2015 was:</p> <p>Gross pay: £154.9 million  Net pay: £112.3 million  No. of payments – 65,760</p> <p>The average monthly payroll amounts to date are:</p> <p>Gross pay: £25.8 million  Net pay: £18.7 million  No. of payments – 10,960</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of Payroll are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Payroll policies and procedures in place appear to be appropriate. However, we were unable to evidence that all of these had been recently reviewed since not all of the documents incorporate version history control.</li> </ul>	Extensive	Substantial 


		<ul style="list-style-type: none"> <li>• From our sample testing it was noted that in the case of one deduction of 20 sampled, there was no evidence of a second review having been completed.</li> <li>• From our testing of a sample of 20 amendments, it was found that in one instance the amendment agreement had not been signed and dated by either the officer who processed the amendment or the officer who reviewed it.</li> <li>• It was previously agreed as a result of the audit conducted in 2014/15 that an electronic workflow process should be developed for leavers, in order to ensure that Payroll are notified in a timely manner. This process has not yet been implemented.</li> </ul> <p>All findings and recommendations were agreed with the Payroll Manager and reported to the Service Head, Human Resources and Workforce Development, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	Apr 2016	<p>The Income and Debtors function is responsible for the invoicing, collection and recording of income received. A debtor is a person or organisation with an obligation to pay a debt to the Authority. The London Borough of Tower Hamlets implemented a new general ledger system, Agresso, during the 2013/14 financial year. Agresso's accounts receivable function is fully integrated with the general ledger.</p> <p>As at 22<sup>nd</sup> October 2015, there was a total of £12.8m of outstanding debt owed to the Council.</p> <p>The total value of invoices raised in 2015/16 as at 29<sup>th</sup> February 2016 was £93.8m.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of Debtors are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The policies and procedures should be regularly reviewed and updated if necessary, i.e. on an annual basis. However, the Council's Financial Regulations and the Corporate Write-Off Policy show no version history control. This issue was previously raised in the 2014/15 audit report.</li> <li>• There are currently no policies and procedures in place for write-offs regarding debt for Meals in the Homes.</li> </ul> <p>All findings and recommendations were agreed with the Senior Income Officer and reported to the Service Head, Revenue Services, and the Corporate Director of Resources.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
MSG Programme 2015 to 2018.	April 2016	<p>This audit shadowed the new round of the Main Stream Grants programme in order to provide assurance that grants application, eligibility, assessment and allocation systems achieved Council's objectives.</p> <p>On the 29th July 2015, the Commissioners received a report seeking approval for officer's recommendations to the new allocation of the Council's MSG Programme. The total number of applications received by the Council was 370, of which 23 were ineligible, 216 were not recommended for funding and 131 projects were recommended and approved for grant funding. totalling £9.2 M.</p> <p>The key findings contributing to the assurance assigned are:</p> <ul style="list-style-type: none"> <li>• We found sound arrangements in place for approving, monitoring and reviewing all Mainstream Grants Programmes across the Council.</li> <li>• A complete audit trail was provided in terms of eligibility checks, assessments and officers MSG funding recommendations,</li> <li>• We noted that there was a pre-requisite that MSG awards would not provide 100% of Total Lifetime Project Costs and therefore, organisations were required to contribute a minimum of 15%. Our testing showed that seven organisations in the audit sample of 20 had received in excess of 85%. There was no specific authority to approve funding in excess of 85%. In addition one organisation would appear to have not fully met the financial viability assessment criteria.</li> <li>• Although the required checks were completed in terms of the organisations' financial viability, our testing has shown that these checks needed to be more in depth and we have recommended that these checks are undertaken including checks against the Charities Commission and Companies House records.</li> <li>• We noted that there was no specific requirement for Declarations of Interests (DOI) to be completed for all staff involved at the beginning of the MSG process. However, audit testing showed that for a sample of Grant Officers, DOI's had been completed in the previous 12 month period. It was further noted that there was a DOI clause set out in the service level agreement with East End Community Foundation (contracted to carry out</li> </ul>	Extensive	Substantial  



		<p>external assessments). However, no DOI's were required to be submitted for examination by the Council.</p> <ul style="list-style-type: none"> <li>• In 1 out of 20 cases, we found that pre-award conditions of grant had not been reflected in the Grant offer Letter and,</li> <li>• It was acknowledged that the proposed MSG timeline and process was extremely ambitious with which to deliver the new MSG programme with considerable resource pressures as a timeframe of 7 weeks from the deadline for receipt of MSG applications through to decision required by the Commissioners was put in place. However, the risks associated with any slippage to the MSG process were not captured in the corporate risk register.</li> </ul> <p>All findings and recommendations were agreed with the Head of Benefits Service and final report was issued to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transport Services Follow Up Audit	May 2016	<p>A full systems audit on the Transport Services was undertaken as part of the 2014/15 internal audit plan. This audit assigned an opinion of substantial assurance to the area, based on the findings and the recommendations raised.</p> <p>This objective of this follow up audit, conducted in April 2016, was to assess whether the agreed recommendations at the conclusion of the original internal audit had been implemented.</p> <p>Transport Services comprises two main elements, Fleet Management and Passenger Services. The Fleet Management section manages all of the Council's vehicle fleet, which currently consists of over 250 vehicles, of which 46 are used for passenger services. It oversees the provision and disposal of vehicles, their legal operation, their management, maintenance and repair, and provides first-call accident, tyre, breakdown and insurance management. It also monitors and undertakes regular assessment of all drivers of Council vehicles.</p> <p>Passenger services provide routine operations through an agreed Service Level Agreement (SLA) with Education and Social Services, as well as other Council departments requiring passenger transport. Under this SLA it schedules, provides and manages journeys, operated by its own fleet and by external providers, carrying children with Special Educational Needs and vulnerable adults and elders from their homes to schools, day centres and lunch clubs. Passenger Services also provides regular journeys for schools.</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>Our follow up review showed that of the one high priority recommendation and four medium priority recommendations made at the conclusion of the original audit, three medium priority recommendations had been fully addressed.</p> <p>Following our audit work, we have made one high priority and one medium priority recommendations to enhance the control environment within this area. The areas of weakness are as follows;</p> <ul style="list-style-type: none"> <li>• A record of stock inventory is not being maintained and there is no effective stock management system in place.</li> <li>• Non-professional drivers have not been subjected to training and assessment. Furthermore, there no continuous training provided to non-</li> </ul>	Extensive	Substantial  

		<p>professional drivers in relation to the Council's requirements.</p> <p>All findings and recommendations were agreed with the Fleet Operations Manager, and reported to the Interim Service Head, Development, Compliance and Commissioning, the Service Head, Parking, Mobility and Transport and the Corporate Director – Communities, Localities and Culture.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Use of Taxis by Council Staff Follow Up audit	May 2016	<p>This audit assessed the progress made in implementing the recommendations raised at the conclusion of the original report issued in July 2015. Our testing showed that progress was made in implementing three out of the four high priority recommendations made in the final audit report. The one medium priority recommendation was implemented.</p> <p>The key findings contributing to the assurance assigned are:</p> <ul style="list-style-type: none"> <li>• There were 8 contracts which needed to be signed by the contractors and on behalf of the Council, although the contract is to be re-procured in due course.</li> <li>• All taxi journeys undertaken by Council staff needed to be authorised in line with the Corporate Travel Policy.</li> <li>• Invoices from providers needed to include details of wait time to ensure that the charges invoiced for waiting times can be verified correctly.</li> <li>• Reports on usage of taxis at directorate and users level needed to be produced and provided to the respective DMTs and budget holders to ensure scrutiny.</li> </ul> <p>All findings and recommendations were agreed with Service Head, Asset Management and Capital Delivery and final report was issued to Corporate Directors.</p>	Moderate	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cleaning Services Follow Up Audit	Apr 2016	<p>Cleaning Services for schools, youth centres and children’s centres are provided by the Cleaning Team at the Council. Currently there are 44 sites with service level agreements with the Council for cleaning services. Agreements can be taken out for one year, three years, or a more flexible rolling service with a three month notice period.</p> <p>Cleaning staff are trained and supervised by the Cleaning Team, while cleaning materials are ordered from a third party supplier as needed. Schools and centres are invoiced on a monthly basis for the cleaning services as per the service level agreements in place, and other services can be ordered in addition. The service will also broker third party services for specialised services. A quality assurance process is in place to review and monitor the performance of the cleaning services, through regular site inspections.</p> <p>The department uses a combination of permanent and agency staff to deliver services to their clients. Cleaning Services generates £1.26 million a year in income</p> <p>A full systems audit on Cleaning Services was undertaken in March 2015 and the final audit report was issued in April 2015. This audit was assigned Limited Assurance.</p> <p>This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>Our follow up review showed that, of the six recommendations made in our original report (four high priority and two medium priority), two have been fully addressed, and four have been partly implemented. As a result, we have made recommendations that those outstanding issues be addressed, in order to enhance the control environment within this area.</p> <p>The main issues arising from our review are as follows</p> <ul style="list-style-type: none"> <li>• The SLA Online System will not be implemented until the 2017/18 financial year.</li> <li>• The biometric system is still experiencing operational issues and has only</li> </ul>	Moderate	Substantial ⇒

		<p>been implemented in two schools.</p> <ul style="list-style-type: none"><li>• There has been no contact with agencies regarding creating a process for notifying Contract Services for differences in staff performing the work.</li><li>• There is a lack of meaningful KPIs being monitored.</li></ul> <p>All findings and recommendations were agreed with the Interim Head of Contract Services, and reported to the Head of Children’s and Adult’s Resources and the Corporate Director, Children’s Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mowlem Primary School	Feb 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and an Operations Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Examination of the minutes of the Full Governing Body shows that the terms of reference for the committees were approved by the Full Governing Body on 20/12/2015. However, further examination of the terms of reference for the committees showed that these documents did not include the year to which it relates, and nor were these documents signed by as approved by the Chair of the Full Governing Body.</li> <li>• The School produces a monthly reconciliation for the Local Authority. However, the only signature evidenced on the report and all supporting documentation is that of the Head Teacher, and the document is not signed by the officer completing the reconciliation.</li> <li>• A sample of five new starter files was tested. In two instances, documentation to evidence that a medical check had been completed was not held on file. We were informed that the documents had been requested, but had not been provided by HR at the time of the audit.</li> <li>• In a sample of leavers files, there was no documentary evidence that there is a standard process for the recovery of all the School's assets. We were informed that being a small School, everyone is aware of the staff member leaving and all appropriate assets are always collected by the Premises Manager.</li> <li>• It was established that an 'End of Journey' statement, which details the income and expenditure of the journey, was not prepared and presented to Governors in respect of the most recent School Journey.</li> <li>• The guidance on the HMRC website states that, "A worker's employment status, that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement." The Employment</li> </ul>	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		<p>Status Indicator (ESI) tool on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions must be made at source. From examination of a sample of three transactions there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments.</p> <ul style="list-style-type: none"> <li>• Whilst it was evidenced that the School Voluntary Fund was audited on 5 November 2015, from a review of the financial statements, we noted a number of payments had been made relating to gifts for staff.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children’s Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bygrove Primary School	Mar 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and a Finance Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School's "Financial Management Code of Practice and Scheme of Delegation" document stated competitive quotes would be obtained for expenditure between £5,001 and £10,000. However, The School's "Financial Management Code of Practice and Scheme of Delegation" document did not state the expenditure limit at which the School would seek to obtain tenders.</li> <li>• Examination of the committee meeting minutes from the past 12 months established that in one instance, the Resources Committee meeting minutes had not been signed (meeting on 20 March 2015). In addition the Pupil Achievement Committee minutes from November 2014 – June 2015 were not signed until 1 November 2015.</li> <li>• The Declaration of Interests form was not completed by one of the governors. Upon further examination of the previous declaration of interests signed earlier in the year, it would appear that the same Governor had signed a declaration of interest form but this was incomplete (name of school was omitted and the date of signing was incorrect).</li> <li>• The School Development Plan could not be evidenced as having been approved by the full Governing Body in any of the meeting minutes over the past 12 months.</li> <li>• From a sample of five high value purchases, one had not been approved by the Governing Body as required. In this instance, there were three separate transactions, paid with one cheque. A Purchase Order (PO) was raised by the School for the amount of £13,590 and, whilst the individual invoices were below the threshold, the value of the order required Governing Body approval. Furthermore, for a sample of 10 applicable transactions there was no evidence that POs were raised in two instances</li> </ul>	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		<p>and three of the purchases invoices were received prior to the PO being raised.</p> <ul style="list-style-type: none"> <li>• Examination of five equipment loan forms noted that in two cases the member of staff has not signed the register; and in two cases, loan of a laptop had not been independently authorised. In addition, no return date was included on the form, just “when asked to do so”. Testing also noted that the Parago Register records were inconsistent with the register signed by staff.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children’s Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Christ Church Primary School	Mar 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, which has overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From a sample of two higher value contracts held by the School, it could not be confirmed that Governing Body approval had been obtained or value for money had been sought. For one contract over £10,000 in value three written quotations from alternative suppliers could not be evidenced. For another contract over £20,000 in value, a full tendering process was not evidenced. We noted that one alternative quote was obtained; however, the additional quote was from the same supplier and a full tendering process should have been performed. Furthermore, from examination of full Governing Body and Resources Committee meeting minutes, there was no evidence that these contracts had been formally approved as required. (The School's Financial Procedures Manual, page 29, states that three written quotations should be obtained for orders above £10,000 and a full tendering process should be performed for orders over £20,000).</li> <li>• The School had also entered into a lease agreement: (Canon – lease value £937.02 per quarter); however, there was no evidence that appropriate advice or approval from the Local Authority / Director of Finance had been obtained.</li> <li>• For three out of 10 purchase orders sampled there was no evidence that an official order form had been completed where this should have been the case. (For 10 applicable cases, three invoices were paid over 30 days after issue/receipt. One of the payments was three months overdue.</li> <li>• Examination of Resources Committee meeting minutes (committee in operation since March 2015) identified that in all instances the meeting minutes had not been signed (namely on 6 May 2015 and 23 March 2015). In addition, the minutes did not include a declaration of business interests as an opening agenda item.</li> </ul>	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		<ul style="list-style-type: none"> <li>• Discussion established that transfers of cash and cheques removed from the School's safe for banking by the School staff were not signed for. Discussion established that an income banking sheet or similar was not produced by the School to evidence that an independent check of the banking against income collection records by a more senior officer was carried out.</li> <li>• A sample of five new starter files was tested and the following issues were noted: In one instance a new starter application form to evidence when key documentation had been checked was not held on file. In all instances documentation to evidence a medical check had been completed was not held on file. In two instances documentation to evidence only one valid reference had been obtained was held on file. It was noted that for one of these, two references were obtained from the same employer; however a reference from an alternative employer should have been sought. If no alternative employment references were available, a second reference could have been sought from the employee's last educational establishment.</li> <li>• Discussion established that the School did not maintain a record of the actual costings vs budget allocation or that an 'End of Journey' statement was prepared. Invoices for trip expenditure were obtained including preliminary costings prior to commencement of the trip.</li> <li>• Discussion established inventory records are checked on an ongoing basis; however, there was no evidence that an annual stock check had been performed and the results presented to the full Governing Body or Interim Executive Board from the meeting minutes over the past 12 months.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children's Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Chisenhale Primary School	Mar 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Head Teacher advised us that the School Improvement Plan 2015-16 is due to be approved at the next Full Governing Meeting. The Plan is a live document and is available on the School website. A further review was carried out on the 2014-15 School Improvement Plan (formerly called the Raising Achievement Plan). Although it can be evidenced as being actively referenced and discussed in the School Improvement (SI) Committee meetings, it could not be evidenced as being approved in any of the SI or full Governing Body meeting minutes over the past 12 months.</li> <li>• Testing of a sample of 10 purchases identified one where there was no evidence of a purchase order being raised; and one where the purchase order was raised after the invoice was received.</li> <li>• From a sample of five high value purchases, one had not been approved by the Governing Body as required.</li> <li>• The guidance on the HMRC website states that, “A worker's employment status that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement.” The Employment Status Indicator (ESI) tool on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions must be made at source. From examination of a sample of three transactions for self-employed individuals, there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments.</li> <li>• On examination of the income and expenditure for the School Journey, Whilst it was evidenced that the School produces a detailed income and expenditure statement in the finance system, the School does not retain</li> </ul>	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

	<p>initial costings of the School Journey because the venue is well known to them. A School Journey statement had not been produced for the most recent residential trip, but the School advised it will be produced and presented at the next Full Governing Body meeting. As there is no evidence a statement has been produced in the past, a copy of the full Governing Body minutes was requested post audit and it was established that a subsequent 'End of Journey' statement' was not prepared and presented to Governors in respect of previous residential trips.</p> <p>Other Items to note as part of the audit:</p> <p>At the time of audit, it was noted that there were three 'Declaration of Interests' missing. One of the Governors has moved away and no longer attends meetings. As the School subsequently obtained the two missing forms, a recommendation was not raised.</p> <p>At the time of audit, the safe limit could not be confirmed. It was subsequently established to be £500 and as a result there were occasions where cash held would have exceeded this limit. The School requested an increase in the safe limit during the audit which has been approved by the Borough's Insurance Department; a recommendation was not raised.</p> <p>The terms of reference for the School committees did not have details of the frequency of meetings. These were updated post audit, and therefore a recommendation was not raised.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children's Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo High School	May 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and a Finance and Premises Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From examination of the School Fund ledger and bank statements, we could not evidence that a reconciliation between the School Fund ledger and bank statements had taken place.</li> <li>• Delivery notes or evidence of goods/services received checks could not be evidenced in four out of 10 cases tested.</li> <li>• From a sample of two leavers, there was no evidence of notification to Payroll and Personnel services retained on file. In both cases payments were made the following month after they had left employment. The School Office Manager advised that EPM (the Schools Personnel provider) was notified immediately and it is EPM who notify the Local Authority (the Schools Payroll provider) of leavers; however, there was no audit trail for this process. The payment was stopped and rectified when the School Office Manager checked the payslips and report received and identified the anomalies.</li> <li>• Examination of two new starters' records identified that in both instances, staff members did not have evidence of a health check on file.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children's Services.</p>	Moderate	<p>Substantial</p> <p style="text-align: center;">⇒</p> <p>The direction of travel has improved from the previous audit undertaken in 2014/15</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bangabandhu Primary School	May 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and a Finance and Premises Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School has a high interest bank account at Lloyds Bank whereas the main disbursement account is maintained at NatWest. There is no up-to-date mandate in place for the high interest account and it has not been updated during the current Head Teacher's tenure.</li> <li>• From the sample of five new starters it was noted that four of them did not have a DBS check prior to the staff members starting their role. The details of these staff members have been made available to the school.</li> <li>• From our sample testing of 10 purchase orders there was no evidence that an official order form had been completed in five instances. Two related to regular services under a contract and one was part of a larger order. However, there were no purchase orders in respect of two payments. It was also evidenced that the School Business Manager certifies the goods purchased as received as well as raising the purchase order itself. There is no clear segregation of roles as required by the School's Financial Procedures Manual.</li> <li>• Our testing identified that, although the School has a number of processes in place to ensure that business continues in the event of an incident, including IT emergency backup. However, the wider Business Continuity Plan is out of date.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children's Services.</p>	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Landlord Incentive Scheme Follow Up Audit	Apr 2016	<p>The Landlord's Incentive scheme is a way of helping individuals and families who need a home to find one in the private rented sector. The Council will pay the landlord a non-refundable sum and payments are made according to the size of the property and duration of the tenancy that is offered.</p> <p>For the financial year 2015/16, there were 64 incentive payments made to landlords, totalling £252k. Of these, 21 payments totalling £158k were incentives for the delivery of multiple private licence agreements (PLA) properties; the remainder were for private rented sector offers.</p> <p>A full systems audit on Landlord's Incentive Scheme was undertaken in 2013/14 for which the final report was issued in May 2015. This audit was assigned substantial assurance.</p> <p>This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>This follow up audit was undertaken as part of the 2015/16 internal audit plan.</p> <p>From our audit work, we have confirmed that the two medium priority recommendations made as a result of our previous audit of this area have been implemented as required, i.e;</p> <ul style="list-style-type: none"> <li>• A revised scheme of delegation has been created, approved and implemented for use in the directorate.</li> <li>• From our testing of five private sector access scheme agreements with landlords, it was confirmed that all agreements were in place and had the relevant supporting documentation retained on the system. Provider folders have been created on Comino in order to provide a general filing point for documentation.</li> </ul> <p>We have therefore not raised any further recommendations.</p> <p>The findings were agreed with the Service Manager Housing Options &amp; Procurement, and reported to the Service Head, Strategy, Regeneration &amp; Sustainability, Development and Renewal, and the Corporate Director, Renewal and Development.</p>	Moderate	Full 

**Appendix 4**

**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>
Use of Taxis by Council Staff	The Head of FM in consultation with the Head of Procurement should ensure that the decision to continue placing orders with Mile End Cars who is not the cheapest provider should be approved by an appropriate officer with the required delegated authority.	Ann Sutcliffe	Amanda Baird
Transport Services	<p>Transport Services should maintain a record of all stock purchased and this should be reconciled to stock being consumed. Ideally, an automated stock control system should be implemented.</p> <p>A physical check of all stock should be undertaken at regular intervals and any discrepancies addressed and reported as appropriate.</p> <p>The check should be undertaken by an officer independent of maintaining the stock register, and the check should be evidenced as such (i.e. signed and dated).</p>	Mirsad Bakalovic	Fleet Operations Manager pending the recruitment of a new Workshop Manager

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

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Client Monitoring of THH	The Protocol between LBTH and THH with respect to Internal Audit should be dated, version controlled and agreed with THH formally and minuted as such in a Monthly Operational Meeting.	Jackie Odunoye	John Kiwanuka
Client Monitoring of THH	The Client Team Manager should ensure that Business Continuity Plans have an annual review and there is evidence that the plans are periodically tested to ensure that should a disaster arise the Service is best placed to react to it.	Jackie Odunoye	John Kiwanuka
Transport Services	<p>Transport Services should ensure that all drivers, including non-professional drivers are subject to a driving assessment and eyesight test at prescribed intervals.</p> <p>Transport Services should introduce a continuous training programme for all drivers, in consultation with the various Council departments.</p> <p>Training should be made available to drivers, completed in full and evidence retained.</p>	Mirsad Bakalovic	Fleet Operations Manager, Service Heads for the various operational departments of the Council and Audit Team.
Planned Maintenance	Senior Managers should ensure that there is sound governance and reporting around the Planned Maintenance Programme performance on a regular basis in order to make informed decisions by those charged with governance. Consideration should be given to develop a suite of KPIs and performance targets against which the performance of the planned maintenance programme can be tracked and monitored by the Board.	Les Warren	Josh Hadley, Stewart King and Brian Golton

## List of Planned Audits Undertaken in 2015/16

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Law, Probity and Governance</b>		
Contracts Signing and Sealing	Extensive	Limited
Registrar's Office	Moderate	Limited
Data Quality	Moderate	TBC
<b>Corporate</b>		
Management and Control of Sickness	Extensive	N/A
Establishment Control	Extensive	Limited
Transparency Code – Compliance	Extensive	Substantial
Management and Control of Taxis/Cabs	Moderate	Substantial
Procurement Procedures – Compliance audit	Extensive	Limited
Control and Monitoring of Best Value Action Plans for Property, Procurement, Communications and Grants	Extensive	Substantial
<b>Adults Services</b>		
Recovery of Unspent Funds from Individual Budgets for Adults Social Care	Moderate	Substantial
Financial Safeguarding	Moderate	Into 2016/17
Quality of Care Audits	Extensive	TBC
Management of the Action Plans resulting from Serious Case Reviews	Moderate	Substantial
Management and control of "No Recourse to Public Fund" cases	Moderate	TBC
Customer Journey First Response Follow Up	Extensive	Substantial
Troubled Families Programme – (Systems)	Moderate	TBC
<b>Children's Services</b>		
Olga School Building Contract	Extensive	Substantial
Follow Up – Excluded Children	Moderate	Full
Management of Missing Children's Register	Extensive	Substantial
Management and control of "No Recourse to Public Fund" cases	Moderate	TBC
Management of the Action Plans resulting from Serious Case Reviews.	Extensive	TBC
Cleaning Contract Services Follow-Up	Moderate	Substantial
Troubled Families Grants Verification	Moderate	N/A

<b>Schools</b>		
Alice Model Nursery School	Moderate	Substantial
Bangabandhu	Moderate	Substantial
Ben Jonson Follow Up	Moderate	Substantial
Bigland Green	Moderate	Substantial
Blue Gate Fields Junior School	Moderate	Substantial
Bonner	Moderate	Limited
Bygrove	Moderate	Substantial
Canon Barnett	Moderate	Substantial
Chisenhale	Moderate	Substantial
Christ Church	Moderate	Substantial
Clara Grant	Moderate	Substantial
Columbia	Moderate	Substantial
Cubitt Town Junior	Moderate	Substantial
Hague	Moderate	Substantial
Halley	Moderate	Substantial
Harbinger	Moderate	Substantial
Hermitage	Moderate	Substantial
Kobi Nazrul	Moderate	Limited
Manorfield	Moderate	Limited
Mayflower	Moderate	Substantial
Mowlem	Moderate	Substantial
Osmani	Moderate	Substantial
Smithy Street	Moderate	Substantial
Langdon Park	Moderate	Limited
Ian Mikardo	Moderate	Substantial
<b>Communities, Localities and Culture</b>		
Flare – Data Quality	Moderate	Substantial
Licence Applications	Moderate	Substantial
Trading Standards	Extensive	Substantial
Park and Phone Cashless Parking Income	Extensive	Limited
Highways Contract	Extensive	Limited
Community Language Service	Moderate	Nil
Poplar Mortuary	Moderate	Substantial
Markets – Management of Vouchers for Traders	Moderate	Limited
Rechargeable Works – Follow Up	Moderate	Substantial
Follow Up - Parking Cash Income	Extensive	Substantial
Follow Up – Animal Wardens Service	Moderate	Substantial
Follow Up – Blue Badges	Extensive	Full
Follow Up – Pest Control	Moderate	Limited
Follow Up – Transport Services	Extensive	Substantial

<b>Tower Hamlets Homes</b>		
Major Works	Extensive	Limited
Unauthorised Occupancy	Extensive	Substantial
Corporate Health and Safety	Extensive	Limited
Specialist Repairs Contracts	Extensive	Substantial
Declaration of Staff Interests	Extensive	Substantial
Management of SLAs	Extensive	Substantial
Bancroft TMO	Extensive	Substantial
Right to Buy Follow Up	Extensive	Substantial
S20 Major Works Follow Up	Extensive	Substantial
Tenancy Successions and Exchanges Follow Up	Moderate	Full
Planned Maintenance Follow Up	Extensive	Substantial
Housing Repairs Follow Up	Extensive	Substantial
Out of Hours Repairs Follow Up	Extensive	Substantial
Management of Asbestos Follow Up	Extensive	TBC
<b>Development and Renewal</b>		
Temporary Accommodation	Extensive	Substantial
Management and Monitoring of Emergency Funds	Moderate	Substantial
Mainstream Grants Programme– Allocation and Assessment	Extensive	Substantial
Watts Grove Current Contract Audit on Construction of New Affordable Homes	Extensive	Substantial
London Mayor and LBTH Community Infrastructure Levy (CIL)	Extensive	Substantial
Lettings arrangements	Extensive	Limited
THH Client Monitoring Follow Up	Extensive	Substantial
Energy Management – Follow Up	Extensive	Substantial
Development Management Follow Up	Extensive	Limited
Landlord Incentives Scheme Follow Up	Moderate	Full
<b>Resources</b>		
Management of VAT	<b>Extensive</b>	<b>Substantial</b>
Medium Term Financial Plan	Extensive	Full
Management of Efficiency Programme	Extensive	Substantial
Payroll Account Reconciliation	Extensive	Substantial
One Stop Shops – Regularity Audit	Moderate	N/A
Management of Insurance Claims	Extensive	Substantial
Bailiff Contract Monitoring	Moderate	Substantial
Treasury Management	Extensive	Substantial
HR/payroll	Extensive	Substantial
General Ledger	Extensive	Substantial

Budgetary control	Extensive	Substantial
Creditors	Extensive	Substantial
Debtors	Extensive	Substantial
NNDR	Extensive	Substantial
Council Tax	Extensive	Substantial
Capital Programme and Accounting	Extensive	Into 2016/17
Pensions	Extensive	Substantial
Housing Benefit and Council Tax Reduction Scheme	Extensive	Substantial
Housing Rents	Extensive	Substantial
Business Rate Retention Scheme Follow Up	Extensive	Substantial
Bank Reconciliation Follow Up	Extensive	Substantial

## **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 Public Sector Internal Audit Standards. The purpose of this report is to:

- 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.

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 2015/16**

This opinion statement is provided for the use of the Council in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2016.



## **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 2015/16, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2015/16 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### **Basis of Assurance**

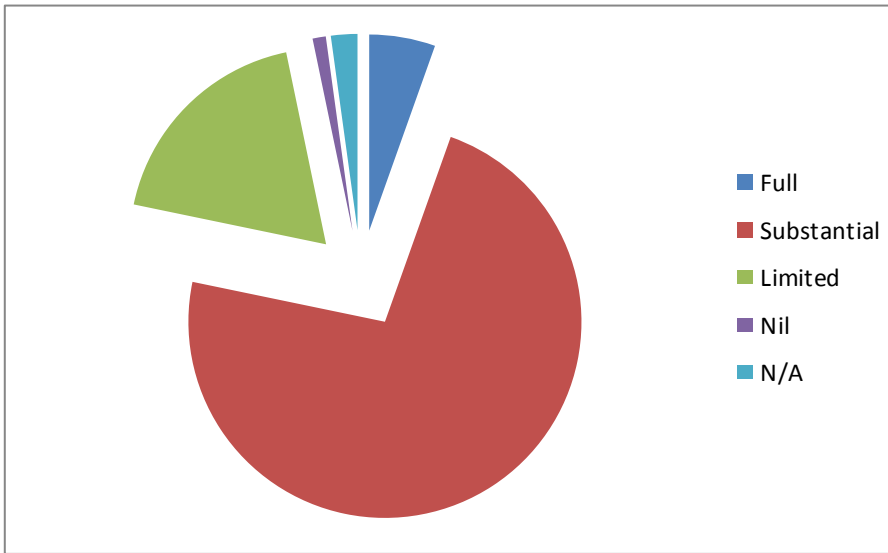
Audits have been conducted in accordance with the Public Sector Internal Audit Standards. The programme of work carried out during 2015/16 is at [Appendix 5](#).

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 reasonable 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 2016 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted in 2015/16 are depicted in Graph 1 below. This shows that 67% of the systems audited achieved an assurance level of full or substantial assurance, whereas 17% of systems audited achieved limited or nil assurance. This is an adequate performance by the council. There are currently 18 audits (16%) in progress which have assurance levels yet to be confirmed.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. Given that 78% of priority 1 and 87% of priority 2 recommendations followed up had been implemented when the audit revisited the area, this is an area of concern and has been reported to the CMT and the Audit Committee previously. Stronger escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

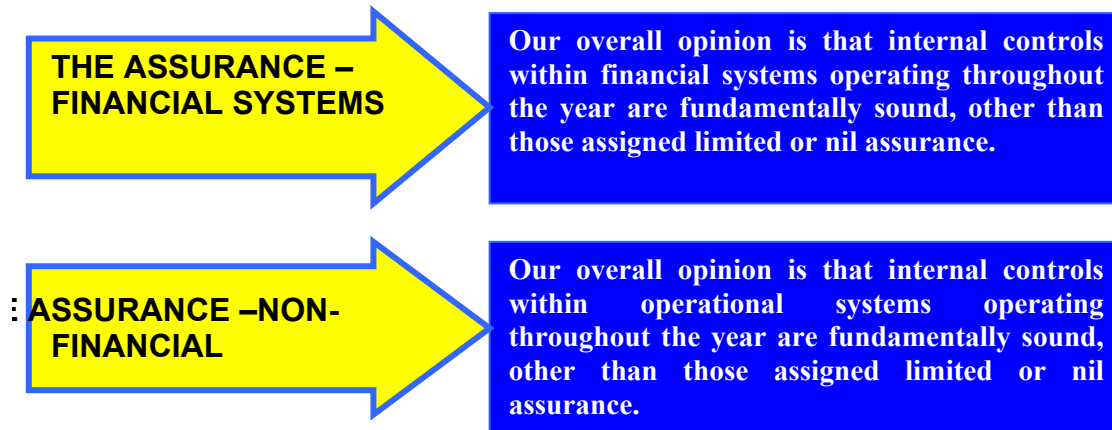
**Graph 1 – Levels of Assurance for 2015/16**



## **2015/16 Year Opinion**

### **Internal Control**

From the Internal Audit work undertaken in 2015/16, it is my opinion that I can provide a satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31<sup>st</sup> March 2016 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 80-87**. The assurance can be further broken down between financial and non-financial systems, as follows:



### **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. The Audit Committee will receive an **annual Risk Management report in June 2016.**

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 Audit and Risk Management**

**June 2016**

## DETAILED REPORT

### Introduction

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2015/16 year against the original Internal Audit plan; and
- 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 2015/16. Key issues included the following which had all been responded by management:-

### Monitoring of Public Health Contracts for Smoking Cessation; Healthy Start Vitamins and Health Trainers

This audit examined the arrangements for monitoring Public Health Contracts commissioned by the Council following the transfer of the service from NHS. The Council procured some £22.4 Million of new contracts from various providers.

Our review of a sample of three contracts showed some common and specific issues which are detailed below:

- Although there were overarching contract monitoring procedures in place, these were not dated and version controlled. There were no contract-specific monitoring procedures devised for each individual contract. In absence of these procedures, we could not carry out full testing to provide assurance over the quality of monitoring. For example, we could not evidence how the output and outcome information provided by the contractors was substantiated and verified for accuracy.

- There were no unplanned visits to contractors' sites/offices to carry out an assessment and verification of the integrity of the contractor's performance data. Contracts were still with legal services for signing, and some of these were near completion of their first anniversaries.
- Operational risks had not been identified by contractors or by monitoring officers, to ensure that monitoring was focused on these critical areas.
- Although payment procedures were stipulated in contracts, we found some cases where payment conditions were not entirely compliant.
- There were no procedures that defined how monitoring information on outputs and outcomes would be evaluated and reported holistically to higher level management

All findings and recommendations were agreed with the Public Health Programme Manager and final reports were issued to the Director of Public Health and Director of Adults Services.

### **Management Comments from the Director of Public Health**

*Public health commissioning transferred to the Council in April 2013 and since then all public health contracts have been re-procured under Council procurement procedures. We welcomed the audit review as an opportunity to identify where we need to strengthen contract management and we are implementing a programme to ensure compliance with contractual requirements, and to improve performance monitoring and performance management.*

*Since the audit reported we have checked levels of compliance with the risk issues identified by the audit across all the public health contract portfolio and are identifying a detailed action plan for each contract to address any gaps. All contracts will be risk-assessed and reviewing the risk register with the contractor will be embedded in the quarterly monitoring procedure. We are carrying out more cross checks on performance information supplied and have started a programme of visits to services. We have introduced a new contract payments process that establishes a stronger link between the checking of performance each quarter and the authorising of appropriate payments to the contractors. As far as we are aware there was only one overpayment identified and this was detected by our own payment system and the amount returned to the Council.*

*The audit findings and changes to our contract procedures were discussed at our last Delivery Board meeting on 14<sup>th</sup> October. We have implemented a quarterly process for the reporting of key KPIs across all contracts to our Delivery Board meetings which are attended by the Director of Public Health and senior managers. We now ensure that our Contract Management Procedure Note is version controlled and dated and each commissioning officer is required to agree a specific monitoring schedule for the contracts they are responsible for.*

*There has been a significant increase in the number of signed contracts but it remains challenging to get signed contracts in place from some of our key contractors, notably Barts Health.*

*We would like to note additionally that the Smoking Cessation Network Enhanced Service is a service delivered through GP networks and transacted via the CCG. It is subject to slightly*

*different processes and there is a joint monitoring process with the CCG. We are discussing with the CCG how we can ensure that the performance monitoring meets all the requirements.*

## **Highways Repairs and Maintenance Works**

This audit was undertaken at the request of the Interim Service Head, Public Realm, who had concerns around some control weaknesses in the system for highways repairs and maintenance works. The Council is responsible for undertaking repairs and maintenance of roads and highways that have been legally adopted by it. The Council procured a five year contract in October 2014 for these works. The estimated value of the contract is £1.2 million per annum. The objective of this audit was to work with Management to identify key controls and risks in order to make the system more sound and secure.

From our review we found the following issues:

- Clear procedures needed to be put in place to document key roles, responsibilities and processes for ordering, payment control, variations control, post-inspections etc.
- Clear monitoring procedures needed to be documented defining the duties and functions to be undertaken by the nominated Contract Manager for an effective monitoring to be undertaken of the contract.
- At the time of audit, the contractual access to the contractor's Asset Management System was not in place for the management and monitoring of the highways assets and the contract.
- A complete audit trail to track requisitioned work, orders and payments was not in place and a clear process for carrying out quality checks of materials used and works undertaken was not in place;
- Whilst KPIs were being measured and reported upon on a quarterly basis, there were no local KPIs for overall monitoring of the contractor's performance.

All findings and recommendations were agreed with the Interim Head of Clean and Green and final report was issued to the Interim Service Head, Public Realm and Corporate Director, CLC.

### ***Management Comments from Service Head Public Realm***

- *All procedure documents have been created to document key roles and responsibilities for both internal and external stakeholders. Process maps detailing procedures have been. Process maps have been created for functions such as; Scheduled highway inspections, Payments, Pre/Post monitoring inspections and reactive inspections.*
- *Workflow in Mayrise will provide evidence of how variations are authorised and controlled. Variations that exceed set tolerances will need to be approved by manager before works is carried out.*
- *All procedure and monitoring documents have been distributed to internal and external stakeholders.*

- *Access to Mayrise has been given to LBTH officers. LBTH officers have received training and the system is now being used. Handheld devices associated with the Mayrise system have been issued and will be allocated to LBTH staff carrying out reactive inspections. A workflow has been set up to approve works orders for lower category defects.*
- *New procedure put in place, where LBTH highway officer approves CAT 2 works on Mayrise. Procedures circulated to officers to check repairs are carried out in accordance with the timescales stipulated within the contracts.*
- *All jobs created as a result from planned inspection are recorded on Mayrise via handheld. The category of the defect and all necessary repair details is recorded and actioned according to procedure set. LBTH have access to Mayrise and are able to view all jobs created.*
- *Approval of invoices, is a Corporate Finance problem as the Agresso System does not provide the details of each works order (Applications for Approval) to reconcile against the order number. This is out of our control and the matter has been raised with the Agresso team to find a suitable solution.*
- *Overall monitoring of the contractors performance will done via checking of Variation orders which will be discussed on a regular basis within the monthly contract management meetings. Variation orders are set as item on agenda. Procedures for checking rates of charges are in place. Highway team tasked to monitor charges on a frequent and random manor. This will ensure a stricter monitoring regime is adopted on the contractor.*

## **Control and Monitoring of Cash Income and Disbursements (C&D)**

This audit reviewed the Council's arrangements for managing and monitoring cash and cheque income collected and banked by some 66 designated Collecting Officers across the Council. With the implementation of the Agresso system, posting of cash income was centralised. Collecting Officers are required to submit electronic C&D returns along with supporting documentation on a weekly or monthly basis to the Operations Accountancy Team (OAT) at the Centre, where necessary checks are undertaken before submitting the C&D electronic returns for uploading to Agresso GL system. For 2014/15, the total cash and cheque income collected and banked for period up to 16<sup>th</sup> March 2015, amounted to some £9.6M.

Our testing showed that a system was set up for receiving, recording and processing C&D Returns and to carry out reconciliations of amounts recorded on C&D returns with amounts banked. A system was also in place to manage the uploading of C&D onto Agresso GL. However, we noted that clear guidance needed to be provided to cash collecting officers to ensure that completion of the C&D's and supporting documentation complied with sound financial practice. In addition, cases where errors were reported at the uploading stage, were referred to Finance Officers for further investigation, which were in turn referred to the Collecting Officers rather than an independent officer for investigation and rectification. Regular management reports were not always produced



to take pro-active action to deal with issues like bankings not supported by C&D returns; missed bankings; mis-matched items in GL; undisbursed income etc. Internal Audit, requested such a report for 2014/15, which showed that of the £9.6M income banked, £1.8M remained to be credited to the correct accounts at the time of the audit. Other issues reported included, timely and consistent recording, reviewing and monitoring of Control Logs and alerting the relevant officers promptly where bankings have been missed.

All findings and recommendations were agreed with the Interim Service Head, Finance and Procurement and final report was sent to the Corporate Director, Resources.

### ***Management Comments from Service Head Finance and Procurement***

*Officers in the Operations Accountancy team have implemented the recommendations of the Internal Audit report. This includes the revision and standardisation of C&D returns and procedure notes. Officers in the Operations Team took on the C&D work in February 2014 following a re-organisation and have reviewed procedures to improve processing.*

*Exception reports are produced by the Operations Team to identify un-disbursed income. Control logs will be used to ensure errors are recorded and escalated to Finance Business Partners and resolved. A system of escalating non-compliance is being introduced.*

*Operations officers are aiming to clear the back-log of undisbursed income by the end of 2015. This is dependent on receiving records from the collecting officers.*

*Officers are also considering the introduction of a new C&D processing system used at another London Borough to make processing of C&Ds easier.*

### **Youth Offending Service**

The Youth Offending Service (YOS) comprises staff from a range of agencies, including the Council, Police, Probation Service and health care professionals. There are three teams within the Service – Early Intervention and Prevention Team, Court Team and Community Supervision Team.

The teams work with young people from arrest through to sentencing and provide services to the youth court, and work with young people given final warnings by the Police and those given community sentences. The Service also works with young people and the community to prevent young people from entering the criminal justice system. In addition, the Council has a number of schemes designed to prevent young people from re-offending by addressing the causes of criminal behaviour and offering help and support.

The Service works with approximately 250 to 350 youth offenders at any one time. The audit was designed to provide assurance to management as to whether the systems of control around the Youth Offending Service are sound, secure and adequate, and also to evaluate the potential consequences

which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-

- Examination of the purchase card statements for members of the Youth Offending Team (YOT) identified two officers who had failed to attach receipts to the bank statements on a monthly basis. When the two officers were approached on this matter they produced all receipts. In addition, receipts could not be located at all for two items of expenditure incurred on purchase cards.
- For a sample of 10 YOS officers tested, there was one instance where the DBS check was out of date but the officer had continued to work as a sessional support worker.
- We were unable to determine if a supervision policy was in place. Examination of one operations manager's records in respect of staff supervision identified that these were insufficient, as they took the form of an email and problems with cases were not clearly specified, which is not in compliance with guidance from the Social Care Institute for Excellence.
- The YOT Management Board, which is, amongst other roles, responsible for delivering the principal aim of reducing offending and reoffending, has an out of date Terms of Reference (ToR). The ToR refers to targets for the financial year 2010-2011.
- Recommendations from independent bodies have not been implemented. This refers to two recommendations by the HM Inspectorate of Probation.
- Youth Justice Board minutes for the heads of services meetings were not provided in respect of meetings held after September 2014, and so we are unable to provide assurance in this area.
- Although budget reports are produced, meetings are not held to discuss them.
- Discussion with the Office Manager identified that she is not informed of training undertaken by the staff of Operations Managers.

All findings and recommendations were agreed with the Service Manager Family Interventions/Troubled Family Co-ordinator and reported to the Service Head, Children's Social Care, and the Interim Corporate Director, Children's Services.

#### **Management Comments Received from Service Manager, Youth and Family Interventions Service**

*The issues raised in this helpful audit process relate to historical management issues and period of time in the YOT when compliance, adherence to financial procedures and management oversight were at a lower level than should be acceptable.*

*Management changes in October 2015 have resulted in a much tighter compliance focus that has addressed all of the issues raised in audit. There has been clear communication between the Operational manager and the audit team that has confirmed progress, and progress reports have been made to the Youth Offending Management Board in November 2015 and February 2016. The Youth Justice Board have been closely involved in the progress of matters raised by audit as they relate to compliance to Youth Justice Standards.*

*There were no outstanding issues as of 25th February 2016.*

## **Signing and Sealing of Contracts**

This audit reviewed systems for the signing and sealing of contracts for goods, services and works procured by the Council. The delay in signing and sealing of contracts was included as an issue within the PWC Best Value Inspection Report.

From our review, we concluded that improvements were required in systems of control and information management flow to enable prompt contract advice, signing and sealing of contracts. The following weaknesses were highlighted:-

- A lack of procedures, templates and checklists to enable the prompt signing and sealing of contracts to take place.
- There appears to be an inefficient and elongated process from the project formation stage to receipt of the contract award notification, through to the signing and sealing of the contract.
- There was lack of a system for identifying the sources of the delay in signing and sealing of contracts and reporting this to Management so that the root cause can be identified and dealt with.

All findings and recommendations were agreed with the Acting Head of Legal Services and final report was issued to the Director of Law, Probity and Governance.

### ***Management Comments Received from Service Head Legal Services***

*Following the issue of the final report, the action plan and the accompanying the recommendations are being progressed. We have discussed our approach with the audit team and would want to see an improvement when a follow up audit is carried out in due course.*

## **Procurement and Contract Management/Monitoring Compliance**

Our audits on the Council's arrangements for procuring and monitoring various contracts found that effective monitoring of compliance with procurement procedures and contract management and monitoring was required at Directorate and corporate level with a view to strengthen the category management function. Quarterly off contract expenditure report was not being sent to the Financial Compliance Manager on a regular basis by Procurement to identify and escalate matters of non-compliance with Procurement procedures. Clear corporate guidance on contract management of revenue contracts have now been put in place to ensure that critical areas are effectively monitored throughout the life cycle of each contract so that benefits are derived from improved procuring and monitoring. Monitoring meetings needed to be more effective and financial benefits e.g efficiencies and savings emerging from each procurement needed to be clearly identified and monitored. In addition, the arrangements for monitoring and

reporting of the successful delivery of community benefits by the procured contractors needed to be made robust.

The above matters have been raised in the Annual Governance Statement which includes an action plan to improve governance in this area.

### **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) Care Quality Commission
- c) 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:

- Explains the Council's underlying approach to risk management;
- Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- Outlines key aspects of the risk management process; and
- 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 2015/16 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.

The Internal Audit plan was agreed at the start of the year and revised in December 2015. A summary of the revised plan is provided at Appendix 2 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 is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 8.

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:

- The work of external audit; and
- 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 (applicable at the time);

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 and were addressed.

Following the implementation of the Public Sector Internal Audit Standards in April 2013, Tower Hamlets will on a five year cycle, be subject to an independent peer review from the Head of Audit of another London borough. A peer review is planned for the next financial year. Findings from this review will be brought to the Audit Committee in due course.

## **Benchmarking Club Results**

### **1. Benchmarking Club Results**

- 1.1. 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).
- 1.2. 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.
- 1.3. As part of the 2015/16 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.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £317 compared with the comparator group average of £390 per day. In comparison with the other London Boroughs, LBTH was a medium cost service. However, in terms of cost of the Audit service per million turnover, the group average was £606 against LBTH cost of £520, showing that the LBTH Audit service is relatively low cost as a whole.

