

Meeting of the

AUDIT COMMITTEE

Monday, 30 June 2008 at 7.30 p.m.

A G E N D A

VENUE

MEETING ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY
PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members:	Deputies (if any):
Chair:	
Councillor Helal Abbas	Councillor Shahed Ali, (Designated Deputy representing Councillor Abjol Miah)
Councillor Stephanie Eaton	Councillor Azizur Rahman Khan, (Designated Deputy representing Councillor Stephanie Eaton)
Councillor Denise Jones	Councillor Abdul Matin, (Designated Deputy representing Councillor Stephanie Eaton)
Councillor Abjol Miah, (Leader of the Respect Group)	Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah)
Councillor Joshua Peck, (Lead Member, Resources and Performance)	Councillor Tim O'Flaherty, (Designated Deputy representing Councillor Stephanie Eaton)
Councillor Mohammed Abdus Salique	

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Daniel Hudson, Democratic Services
Tel: 020 7364 4881, E-mail: daniel.hudson@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Monday, 30 June 2008

7.30 p.m.

1. APPOINTMENT OF CHAIR

To seek nominations and appoint a Chair for the Municipal Year 2008/09.

2. APPOINTMENT OF VICE CHAIR

To seek nominations and appoint a Chair for the Municipal Year 2008/09.

3. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

4. DECLARATIONS OF INTEREST (Pages 1 - 2)

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Chief Executive.

	PAGE NUMBER	WARD(S) AFFECTED
5. UNRESTRICTED MINUTES	3 - 10	

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 12th March 2008.

6. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP	11 - 14	
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7. DEPUTATIONS AND PETITIONS

To receive any deputations or petitions.

8.	UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION	
8 .1	Audit Progress Report	15 - 22
	Audit Commission report attached.	
8 .2	Audit and Inspection Plan 2008/09	23 - 50
	Audit Commission report attached.	
9.	UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION	
9 .1	Internal Audit Annual Report	51 - 136
	To note the annual audit opinion and the summary of audits undertaken.	
9 .2	Annual Anti Fraud Report 2007/08	137 - 144
	To note the contents of the report.	
9 .3	Annual Anti Fraud Plan 2008/09	145 - 154
	To note the contents of the report.	
9 .4	Anti Fraud and Corruption Strategy	155 - 160
	To note the contents of the report.	
9 .5	Progress on Follow Up Audits	161 - 164
	To note the contents of this report and endorse the escalation procedures set out at paragraph 7 of the report.	
9 .6	Annual Governance Statement for the 2007/08 Accounts	165 - 182
	To consider and agree the recommendations detailed in the report.	
9 .7	Final Accounts 2007/08 (to follow)	
10.	ANY URGENT UNRESTRICTED BUSINESS	

Agenda Item 4

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

What constitutes a prejudicial interest? - Please refer to paragraph 6 of the adopted Code of Conduct.

Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON WEDNESDAY, 12 MARCH 2008

**MEETING ROOM M72, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Joshua Peck	(Lead Member, Resources and Performance)
Councillor Rupert Eckhardt	
Councillor Carli Harper-Penman	
Councillor Abjol Miah	(Leader of the Respect Group)
Councillor Ahmed Adam Omer	
Councillor Stephanie Eaton	(Leader Liberal Democrat Group and Scrutiny Lead Member: Health)

Other Councillors Present:

Officers Present:

Chris Naylor	– Corporate Director, Resources
Tony Qayum	– Head of Audit Services
Minesh Jani	– Service Head Risk Management
Isabella Freeman	– Assistant Chief Executive [Legal Services] and Monitoring Officer)
Martin Smith	– Chief Executive
Mike Clarkson	– General Manager, Deloitte and Touche
Steve Lucas	– Audit Manager, Audit Commission
Steve Vinall	– Service Manager, Deloittee
Kash Pandya	– District Auditor, Audit Commission
Angus Dixon	– (Interim Senior Committee Officer, Democratic Services, Chief Executive's)
Zoe Folley	– Committee Officer, Democratic Services, Chief Executive's
	–

1. APPOINTMENT OF CHAIR

The Committee were asked to appoint a Chair.

RESOLVED:

That Councillor Joshua Peck be appointed Chair of the Committee for the remainder of the 2007/08 municipal year.

2. APPOINTMENT OF VICE-CHAIR

The Committee were asked to appoint a Vice-Chair.

RESOLVED:

That Councillor Ahmed Omer be appointed Vice-Chair of the Committee for the remainder of the 2007/08 municipal year.

3. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Waiseul Islam.

Noted

4. DECLARATIONS OF INTEREST

No Declarations of Interest were made pursuant to the Member Code of Conduct.

5. AUDIT COMMITTEE - TERMS OF REFERENCE AND MEMBERSHIP

It was noted that this was the first meeting of the newly established Audit Committee. The Chairman welcomed everyone to the meeting and asked them to introduce themselves.

The Committee considered the terms of reference for the Committee and the composition of its membership as agreed by full Council at its meeting on 11 February 2008.

RESOLVED:

That the Terms of Reference and the membership of the Committee be agreed.

6. ANNUAL AUDIT AND INSPECTION LETTER

Mr Kash Pandya, Audit Commission District Auditor, introduced the draft Annual Audit and Inspection Letter and informed the Committee that the report provided an overall summary of the Commission's Assessment of the Council.

Mr Pandya stated that the report drew on the most recent Comprehensive Performance Assessment (CPA), the findings of the Audit of the Council for 2006/07 and the use of resource work undertaken since the last Inspection letter. The letter contained many positive messages and reported on the key areas of improvements. The CPA had rated some of the Council services as 'excellent' and found that it had improved in other areas as well.

Mr Pandya stated that the report was available on the website at www.audit-commission.gov.uk and that it was intended that the finalised letter would be circulated to all Members of the Council.

The report recommended that the Council should take action to address a number of issues including the improvement of its recycling and environmental services. The Committee welcomed these aims. Another issue concerned the need to strengthen the arrangements for managing the Fixed Asset Register.

Mr Steve Lucas, Audit Commission Audit Manager, stated that in relation to the register errors had been identified in the information on disposals which had resulted in problems with 'double counting'. The problem had been discovered during the revaluation process for properties.

In response to a query from the Committee on who was responsible for these issues Mr Chris Naylor, Corporate Director Resources reported that Property collated the information but his team was responsible for ensuring the figures were correct.

Mr Naylor stated that efforts were now in place to address the problem and ensure accurate figures were produced in the future. This included the data being cross referenced with the NNDR data base and the purchase of a new Fixed Assets Register 'kit'.

In terms of future issues, it was noted that the issue of Housing was a key challenge for the Borough. Meeting the decent homes target for 2010 was a key challenge for all London Boroughs. Reference was also made to emerging plans to introduce new international standards for the reporting of performance information and audit work which would also result in additional work.

RESOLVED:

That the Draft Audit and Inspection Letter for 2007/08 be noted.

7. EXTERNAL AUDIT 2007/08 - PROGRESS REPORT

Steve Lucas, Audit Manager, presented the External Audit Progress Report for 2007/08. Mr Lucas stated that the report briefed the Panel on work completed by the Audit Commission since the last meeting of the Audit Panel in September 2007 and to report on current work.

Attention was drawn to page 27 (paragraph 11) which reported that a key element of the Audit and Inspection Plan had been the Corporate Assessment. It advised that the Council had completed its self assessment for this exercise.

It was also reported that discussions were taking place between officers regarding the content of the 2008/09 Plan. The Committee were invited to forward ideas for consideration as part of this process.

The Committee questioned whether the Members themselves could influence at the business of the Committee. For example, could they ask the Committee to look at their own personal concerns regarding risk management. It was reported that Members should report any concerns to either Chris Naylor or Martin Smith the Chief Executive in the first instance.

Mr Pandya also referred to the Common Area Assessment (CAA) and offered to deliver a presentation to the Committee on this aspect of work. The Committee agreed that this should be added to their work plan.

Mr Pandya explained that this would be the last meeting he would be attending as the Council's External Auditor. The post would be taken over by Mr John Hayes, also the Audit Commission's Lead for the CAA. He thanked officers and the Members for all their support and input into audit work over the last year. The Committee also expressed their thanks for the work Mr Pandya had carried out on their behalf.

RESOLVED:

That the External Audit Progress Report for 2007/08 be noted.

8. AUDIT COMMISSION INFORMATION ITEMS:

8.1 Code of Audit Practice

Mr Lucas, Audit Commission Audit Manager, introduced the item stating that the Code of Audit Practice had been attached to the agenda as an information item for Members to advise them of the nature of local audit work.

The aim of the Code was to facilitate a more stream lined and targeted audit, improve performance management, secure value for money, partnership work and allow clearer reporting of Audit work. It explained the role and responsibilities of the local auditor and the way in which they should carry out their functions, the process for auditing the financial statements and reporting the results of work.

The Committee noted the guidance.

RESOLVED:

That the Code of Audit Practice for 2005 be noted.

8.2 Statement of responsibilities of auditors and of audited bodies

Mr Lucas, Audit Commission Audit Manager, introduced the item stating that the Statement of responsibilities of auditors and of audited bodies had been attached to the agenda as an information item for Members.

The Committee noted the statement of responsibilities. The purpose of the statement was to assist auditors and audited bodies by summarising the different responsibilities of the auditor and the audited body.

RESOLVED:

That the Statement of responsibilities of auditors and of audited bodies be noted.

9. UPDATED ANNUAL INTERNAL AUDIT PLAN 2007-08

Mr Minesh Jani, Service Head Risk Management and Audit, introduced the updated plan. The report drew attention to the audit activity planned for this year and reflected changes made to the internal Audit Plan for 2007/08 as a result of changing priorities. The Committee were asked to note the contents of the report and endorse the changes.

Mr Jani highlighted that page 90 of the report detailed the main changes to the Internal Audit Plan for consideration and specified the days allocated to the new priorities.

It was noted the Annual Internal Audit report for 2007/08 would be submitted to the next meeting of the Committee.

The Committee queried the process for programming new days to the plan during the course of the year. Mr Jani explained that the plan was a risk based strategy and contained provision for the audit programme to be reprioritised during the course of the year to take into account urgent items which might arise.

It was noted that the Committee would receive an updated copy of the progress report around November/December 2008.

RESOLVED:

That the report 'Updated Annual Internal Audit Plan 2007/08' be noted and the updated Annual Internal Audit Plan for 2007-08 be endorsed.

10. QUARTERLY INTERNAL AUDIT ASSURANCE REPORT

Mr Minesh Jani, Service Head of Risk Management, introduced the report informing the Committee that it summarised the work of the Internal Auditor for the period September to December 2007. Mr Jani stated that the purpose of the report was to summarise the findings arising from the audit of the Council systems and provided an assurance to management from the work of internal audit.

The Committee was asked to note the report and consider the audit opinion assigned to the systems reviewed during the period. It was noted that from April 2005, each of the systems had been assigned an assurance rating: Full, Substantial, Limited or Nil. Mr Jani reported that two areas had been identified as 'Limited Assurance': Sickness Management and the Management and Control of Compensation Claims.

In relation to sickness management, it was noted that in September 2005 the Council put in place revised arrangements for managing sickness absence, however that there was a need to ensure that these were complied with by service managers. It was also noted that Deb Clarke, Joint Director Human Resources, was in the process of proposing additional measures for improving performance.

In relation to Compensation Claims, Mr Jani reported that new arrangements had been established for enabling claims for compensation to be dealt with by a Forum of London Boroughs. Claims over £5,000 were dealt with by Zurich Municipal. However the procedures for handling claims now needed to be formalised and disseminated to staff. It was also recommended that a system of performance targets should be established to enhance the service.

The Committee discussed that no reviews had been allocated a full assurance rating, and whether this was a concern. Mr Jani informed that the standards for this rating were very high, and few reviews would receive full assurance ratings. It was further highlighted that Audit tended to focus on those areas where improvement may be required, and that consequently were less likely to attract a full assurance rating.

RESOLVED:

That the Quarterly Internal Audit Assurance Report be noted, taking account of the overall assurance and audit opinion assigned to the systems reviewed during the period.

11. NATIONAL FRAUD INITIATIVE 2006/07 AND ANTI-FRAUD UPDATE REPORT

Mr Tony Qayum, Head of Audit Services presented the report. The report advised the Committee of the current progress of the National Fraud Initiative 2006/07 and associated initiatives developed in the area of Anti Fraud work during 2007/08.

He advised that a detailed report on the work and outcomes of the Anti Fraud Forum would be submitted to the next meeting.

RESOLVED:

That the National Fraud Initiative 2006/07 and Anti-Fraud Update Report be noted.

12. ANNUAL INTERNAL AUDIT PLAN FOR 2008/09

Mr Minesh Jani, the Service Head of Risk Management, presented the Annual Internal Audit Panel for 2008/09. It was noted that the paper detailed the methodology for developing the annual audit plan and set out the role of internal audit and the process for directing their work.

Mr Jani, advised that a number of days were available for new work. Members were invited to submit ideas on how this might be spent. The Chair requested that some time be spent examining the approach for managing large contracts at a Corporate and Directorate level – the ‘client side arrangements’. It was reported that Mr Steve Lucas, Audit Manager, was developing some work in this regard and that this should be dovetailed with any audit work to be undertaken on the area.

The Committee also queried whether the recording of reoccurring complaints from residents could be investigated. Mr Jani responded that the Statement of Internal Control would detect any patterns in complaints and therefore any potential risks associated with them.

RESOLVED:

That the Annual Internal Audit Plan for 2008/09 be noted.

The meeting ended at 7.55 p.m.

Chair,
Audit Committee

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Agenda Item 6

Committee Audit Committee	Date 30th June 2008	Classification Unrestricted	Report No.	Agenda Item No.
Report of: Service Head, Democratic Services Originating Officer(s): Daniel Hudson		Title: Audit Committee – Terms of Reference and Membership Ward(s) affected: ALL		

1. SUMMARY

- 1.1 This report sets out for members' information the decision of the Council to establish an Audit Committee and details of the Committee's Terms of Reference and Membership.

2. RECOMMENDATION

- 2.1 That the report be noted.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background paper"

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

Daniel Hudson
020 7364 4881

3. BACKGROUND

- 3.1 On 11th February 2008 the Council considered the recommendations of the General Purposes Committee to alter the composition of the Audit Panel to reflect guidance set out in "Audit Committees – Practical Guidance for Local Authorities" published by CIPFA, by establishing an Audit Committee as part of the Council's formal non-executive committee structure and separate from the Executive and Overview & Scrutiny functions. The General Purposes Committee also recommended changes to the title and terms of reference for the Pensions and Accounts Committee and the delegation of the duty to make proper arrangements for the financial affairs from the Council to the Audit Committee.

4. TERMS OF REFERENCE

- 4.1 The Council agreed to establish the Audit Committee with the terms of reference as set out below: -
- 1 To consider the Audit Plan and review the performance of Internal Audit against this target;
 - 2 To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary;
 - 3 To act as a forum for the Audit Commission (external audit) to bring issues to Members' attention including both specific reports and general item such as the Annual Audit Letter and the Annual Governance Report;
 - 4 To be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it;
 - 5 To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;
 - 6 To consider reports of audit activity together with specific investigations;
 - 7 To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates;
 - 8 To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds expect the appointment of the Chief Finance Officer which shall remain the duty of the Council; and

- 9 To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).

5. MEMBERSHIP

- 5.1 The Audit Committee is subject to the proportionality rules in the Local Government and Housing Act 1989. As part of the overall allocation of Committee places under those rules the Council has agreed that the Committee will comprise of 7 Members, allocated amongst the political groups as set out below. The following Councillors have been appointed to serve on the Audit Committee for the remainder of the 2008/09 municipal year.

Political Group	Labour (4)	Respect (1)	Conservative (1)	Liberal Democrat (1)
Members	Councillors Joshua Peck; Denise Jones, Helal Abbas & Md. Abdus Salique. (Deputies Cllrs M. Uz-Zaman & R. Ahmed)	Councillor Abjol Miah. (Deputies Cllrs S. Ali and H. Miah)	No nominations yet received.	Councillor Stephanie Eaton. (Deputies Cllrs T. O'Flaherty, A. R. Khan & A. Martin)

6. QUORUM

- 6.1 In accordance with Council Procedure Rule 8.1, the quorum for the Audit Committee will be 3 Members.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

- 7.1 The Chief Finance Officer has noted the contents of the report and has no further comments to make.

8. COMMENTS OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 8.1 Pursuant to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) the duty to make arrangements for proper administration of financial affairs and the duty to approve the Council's statement of accounts etc are non-executive functions.

8.2 Under section 101 Local Government Act 1972 the Council may arrange for the discharge of its functions by a committee and pursuant to Section 15 Local Government and Housing Act 1989 the committee seats should be allocated to the political groups in proportion to the political breakdown of the Council (as far as reasonably practicable).

9. EQUAL OPPORTUNITY CONSIDERATIONS

9.1 There are no specific Equal Opportunities issues arising from this report.

10. ANTI-POVERTY CONSIDERATIONS

10.1 There are no specific anti poverty issues arising from this report.

11. RISK MANAGEMENT IMPLICATIONS

11.1 There are no specific risk management issues arising from this report.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

12.1 There are no specific SAGE implications.

Progress Report

London Borough of Tower Hamlets

Audit 2007/08

30 June 2008 Audit Committee

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to directors/members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director/member or officer in their individual capacity, or to any third party.

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www.audit-commission.gov.uk

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Summary

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work completed by the Audit Commission since the Audit Committee meeting in March 2008 and to inform the Committee of work currently being planned or undertaken. In addition, we draw to Members attention recent relevant Audit Commission publications.

2007/08

- 2 We prepared and agreed the 2007/08 Audit and Inspection Plan with officers in April and presented it to the Audit Panel in July 2007. A summary of the work programme and progress to date is shown in Appendix 1. Since the last Audit Committee meeting the key areas we have been working on are:
 - completing the corporate assessment and discussing the findings with officers. The report is due to be published in July 2008; and
 - reviewing the Council's financial systems. To date there is nothing we need to bring to the Audit Committee's attention.
- 3 We expect to receive the Council's financial statements on 30 June and work will commence on these as soon as we receive them.

2008/09

- 4 The 2008/09 audit plan, which has been discussed with the Chief Executive and Director of Resources, is a separate item on the agenda.
- 5 We have started the initial work on data quality management arrangements and assisted officers in three data quality workshops.

Recent Audit Commission publications

Looked-after children – toolkit (March 2008)

- 6 The Audit Commission's toolkit on the education of looked-after children has been designed to help councils improve the outcomes of looked-after children. It will help councils to assess the effectiveness with which they manage cross-cutting functions and responsibilities.
- 7 The primary aim of the toolkit is to enable councils to identify their strengths in order to maintain them, and clarify weaknesses so that they can be rectified - ultimately making life significantly better for vulnerable looked-after children for whom life has often dealt a poor hand.
- 8 Central to the toolkit is a self-assessment against standards in eight key lines of enquiry (KLOEs). The downloadable self-assessment tool will generate spreadsheets and charts to show the council's progress against the KLOEs.
- 9 We encourage councils to test their initial findings with a range of reality checks. This will help ensure that there is evidence on the ground of actions which benefit young people to back up the self-assessment findings. In order to facilitate this, a range of tools for checking outcomes is included:
 - an attendance survey, including downloadable guidance, forms and spreadsheets;
 - a case tracking exercise;
 - data formats for analysing local data on looked-after children and comparing with national data; and
 - a survey of looked-after children and young people, including a suggested questionnaire.

Latest UoR guidance for councils now available (March 2008)

- 10 The Use of Resources Guidance for Councils for the 2008 assessments is now available on the Audit Commission website. The guidance supports, and focuses on the changes made, to the key lines of enquiry which were published last August. The key lines of enquiry have been updated mainly to reflect legislative requirements and some new areas which will appear as part of use of resources under CAA.

National Fraud Initiative report 2006/07 (May 2008)

- 11 The Audit Commission's National Fraud Initiative (NFI) has published the 2006/07 report. The report shows a record £140 million in fraud and overpayment (an increase of 26 per cent from £111 million in 2004/05). Since its inception in 1996, the NFI has identified a total of around £450m in fraud and overpayments.
- 12 The NFI is the country's largest public sector anti-fraud programme. It is a computer based system which matches information such as housing benefit claims, pensions and social housing records from local councils, the NHS, police authorities, local probation boards and fire and rescue authorities across England.
- 13 The matching process enables public bodies to share and compare information through a secure website, and to identify those taking services or money that they are not entitled to. Typical examples include home owners pretending to be homeless and renting (and sub-letting) council property in two different authorities, fraudulent claims for housing benefit and pensions being claimed for deceased people.
- 14 The Audit Commission are urging all public bodies to put in place the necessary trained staff to work with us and follow up any matches. Our aim is to ensure that we work together towards zero tolerance for those that commit fraud.

Comprehensive Area Assessment and Use of Resources (May 2008)

- 15 The Audit Commission, along with our partner inspectorates - Commission for Social Care Inspection, Healthcare Commission, HM Inspectorate of Constabulary, HM Inspectorate of Prisons, HM Inspectorate of Probation and Ofsted - has published a summary of the responses to the consultation on Comprehensive Area Assessment (CAA).
- 16 Overall, the consultation responses show strong support for the principles of CAA, its greater focus on the area and partnership working to deliver shared priorities, and for putting citizens at the heart of the assessment.
- 17 There have been concerns raised too and we appreciate that there are aspects that require further clarification; for example, the perceived complexity of the proposed set of assessments and the interpretation of 'area' where multiple organisations with different boundaries are working together.

Appendix 1 – Detailed Progress on 2007/08

Table 1 Progress on 2007/08 outputs

Product	Tower Hamlets lead	Audit Commission lead	Timing	Current position
The Accounts				
Interim work on financial systems	Alan Finch	Steve Lucas/ Paul Jacklin	January - July 2008	Work in progress
Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • opinion memorandum 	Alan Finch/ Chris Naylor	Jon Hayes/Steve Lucas/ Paul Jacklin	July - September 2008	
Use of resources				
Best value performance plan	Martin Smith	Kash Pandya/ Steve Lucas	July - December 2007	Audit conclusion issued in December 2006. Plan met requirements.
VFM arrangements	Alan Finch	Sarah Evans	May - August 2007	Work completed and report finalised.
Housing arrangements	Maureen McEleney	Tim Campbell	April - October 2007	Work completed and report finalised.
Procurement	TBA	Neil Foss	September – December 2008	Review postponed until September 2008.

Product	Tower Hamlets lead	Audit Commission lead	Timing	Current position
Use of resources (Contd)				
Value for money conclusion	Martin Smith/ Chris Naylor	Jon Hayes/ Steve Lucas	August 2007 - September 2008	Detailed work will be completed in August and September.
Data quality arrangements Performance Indicators	Lucy Sutton	Steve Lucas/ David Howson	June - November 2007	No reservations given on 6 key indicators audited. Report issued on findings.
Use of resource judgements	Martin Smith/ Alan Finch	Kash Pandya / Steve Lucas/ Carolyn Shoosmith	August - November 2007	Work completed and scores included in CPA 2007. Report issued and agreed with officers.
Inspection and CPA				
CPA/ Direction of Travel	Martin Smith/ Alan Steward	Kash Pandya / Steve Lucas/ Carolyn Shoosmith	October 2007 - January 2008	Results published by the Audit Commission in February 2008.
Corporate Assessment	Martin Smith	Barbara Conradi	February – May 2008	Work completed and feedback to the Council. Report to be published in July 2008.
Overall				
Annual Audit and Inspection Letter	Martin Smith/ Chris Naylor	Jon Hayes / Steve Lucas	December 2008 - February 2009	
Grant claims				
Claims for year ended 31 March 2008	Alan Finch/Akrom Miah	Steve Lucas/Paul Jacklin	April - December 2008	

Audit and Inspection Plan

London Borough of Tower Hamlets

Audit 2008/09

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 As I have not yet completed my audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and audit work is undertaken in the context of these responsibilities.

Fees

- 8 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £507,000, which compares to the planned fee of £595,000 for 2007/08.
- 10 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit and Inspection fee

Audit area	Planned fee 2008/09	Planned fee 2007/08
Audit (excluding Pension Fund)	£442,000	£445,000
Audit (Pension Fund)	£37,000	
Total audit fee	£479,000	£445,000
Total inspection fee	£28,000	£150,000
Certification of claims and returns	£100,000	£100,000*

** this has been revised downwards from the £160,000 estimated in the 2007/08 audit plan*

- 11 The Audit Commission scale fee for the Council is £449,000. The fee proposed for 2008/09 is 1 per cent below the scale fee and is within the normal level of variation specified by the Commission.
- 12 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2007/08;
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements.

Further details of the assumptions are outlined in Appendix 2.

- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

Specific actions the Council could take to reduce its audit fees

- 15 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. I have identified the following actions the Council could take:
 - self assessment for all areas of Use of Resources; and
 - strengthened final accounts working papers.

Process for agreeing any changes in audit fees

- 16 As set out in paragraph 4, I expect that the initial risk assessment may change as the year progress. Where this is the case, I will discuss this in the first instance with Chris Naylor, Director of Resources. Supplements to the plan will be issued to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 17 I am required to issue an audit report giving my:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 18 I have not undertaken a risk assessment for the audit of the financial statements as many of the specific risks which may become apparent after I have completed the 2007/08 audit. A separate opinion plan for the audit for the financial statements will be issued in December 2008.

Pension fund

- 19 I am carrying out a separate audit of the pension fund scheme. A separate report will be issued to those charged with governance. A detailed opinion plan will be issued in December 2008.

VFM conclusion

- 20 In reaching my conclusion I will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 21 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
The Council is making arrangements to bring its current housing stock up to the Decent Homes standards, primarily through a transfer to an arms length management organisation.	Review the Council's management arrangements and consideration of associated risks for bringing its housing stock up to the Decent Homes standards.
The number of people in temporary accommodation and length of stay remains relatively high.	Review the Council's overall arrangements for managing homelessness and compare them to good practice.
The Council works very closely with local partners in delivering services and is increasingly reliant on other bodies to assist in achieving its targets.	Review the governance arrangements for partnership working, including the Local Area Agreements.

Use of resources 2007/08

- 22 This audit plan covers the last year of the current regime for the use of resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 use of resources assessment is fully aligned to that required to arrive at the auditor's 2007/08 value for money conclusion.
- 23 Appendix 1 outlines the criteria and scoring.

Use of resources 2008/09

- 24 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 25 The Commission proposes that the approach to the new use of resources assessment will be focussed on three themes with the detailed Key Lines of Enquiry to be confirmed. For each of the significant risks identified in relation to the use of resources work, I consider the arrangements put in place by the Council to mitigate the risk, and plan the work accordingly.
- 26 Appendix 1 highlights the expected themes that the assessment will be based upon.

Mandated work

27 As part of the audit, the mandated work programme comprises:

- data quality for 2007/08; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

- 28 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 29 The Audit Commission’s CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 30 The Council’s CPA category is, therefore, a key driver in the Commission’s inspection planning process. For CPA 2007, the Council was categorised as three stars.
- 31 I have applied the principles set out in the CPA framework, ‘CPA - The Harder Test’, recognising the key strengths and areas for improvement in the Council’s performance. Strengths in the Council’s performance include:
- excellent children services;
 - excellent adult services; and
 - strong financial standing.
- 32 Areas for improvement in the Council’s performance include:
- recycling and waste collection performance;
 - processing planning applications and
 - housing stock meeting Decent Homes standards.
- 33 On the basis of the planning process I have identified where inspection activity will be focused for 2008/09 as follows.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM)	To act as the Commission’s primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission’s website.

Advice and assistance

- 34 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 35 If you wish the Commission to provide additional services under these powers, please contact either Jon Hayes or Steve Lucas.

The audit and inspection team

- 36 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Jon Hayes Relationship Manager	j-hayes@audit-commission.gov.uk 0844 798 2877	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Jon Hayes District Auditor	J-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Steve Lucas Audit Manager	s-lucas@audit-commission.gov.uk 0844 798 2652	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources.

Quality of service

- 37 I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Head of Operations, Les Kidner.
- 38 If I am unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

Planned outputs

- 39 Reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 5 Planned outputs

Planned output	Indicative date
Audit and Inspection plan	April 2008
Updated opinion audit plan	December 2008
Interim audit memorandum (if required)	June 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Final accounts memorandum	October 2009
Data quality report	November 2008
Use of resources report	December 2008
Direction of Travel	January 2009
Value for money conclusion	September 2009
Housing	TBA
Homelessness	TBA
Governance arrangements in partnerships	TBA
Annual Audit and Inspection Letter	TBC

Appendix 1 – Elements of our work

Financial statements

- 1 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 I am required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 I am also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 In meeting this responsibility, I will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 I will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment 2007/08

- 7 The use of resources themes and key line of enquires are outlined below in table 6. We will arrive at a score of 1 to 4, based on the underlying key line of enquiry for each of the themes.

Table 6 Use of Resources

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • preparation of financial statements • external reporting
Financial management	<ul style="list-style-type: none"> • medium-term financial strategy • budget monitoring • asset management
Financial standing	<ul style="list-style-type: none"> • managing spending within available resources
Internal control	<ul style="list-style-type: none"> • risk management • system of internal control • probity and propriety
Value for money	<ul style="list-style-type: none"> • achieving value for money • managing and improving value for money

- 8 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to improve.
- 9 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

Use of resources assessment 2008/09

- 10 The Commission has now consulted on its proposals for the 2008/09 Use of Resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.
- 11 The Commission proposes that the assessment will be based upon the evidence from three themes:
- Managing money;
 - Managing the business; and
 - Managing other resources.
- 12 The Commission proposes that Data Quality will become an element of the Use of Resources framework from 2008/09.

Data quality 2007/08

- 13 This plan covers the 2007/08 data quality work. This is based on a three-stage approach covering:
- Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of 2007/08 performance indicators.
- 14 Work will be focused on the 2007/08 overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.
- 15 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Whole of government accounts

- 16 I will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 17 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 18 I will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on the audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 7 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned fee 2007/08
Audit (excluding the Pension Fund)		
Financial statements including planning and reporting	£276,000	£285,000
Local Use of Resources work to support value for money conclusion	£79,000	£82,000
Use of resources 2007/08	£34,000	£32,000
Use of resources 2008/09	£10,000	
Data quality 2007/08	£35,000	£39,000
Whole of government accounts	£8,000	£5,000
Audit of the Pension Fund	£37,000	
Total audit fee	£479,000	£445,000
Inspection		
Relationship management	£14,000	£13,000
Direction of Travel	£14,000	£13,000
Corporate inspection		£124,000
Total inspection fee	£28,000	£150,000
Total audit and inspection fee	£507,000	£595,000
Certification of claims and returns	£100,000	£100,000

Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
The Council is making arrangements to bring its current housing stock up to the Decent Homes standards, primarily through a transfer to an arms length management organisation.	Senior officers are involved in identifying risks and preparing for the transfer.	Yes	Review the Council's management arrangements and consideration of associated risks for bringing its housing stock up to the Decent Homes standards.	Value for money conclusion. Use of Resources
The number of people in temporary accommodation and length of stay remains relatively high.	The Council has a range of services to assist people who could potentially become homeless.	Yes	Review the Council's overall arrangements for managing homelessness and compare them to good practice.	Value for money conclusion. Use of Resources.
The Council works very closely with local partners in delivering services and is increasingly reliant on other bodies to assist in achieving its targets.	The Council has strengthened its governance arrangements over the past few years.	Yes	Review the governance arrangements around partnership working, including possibly the Local Area Agreements.	Value for money conclusion. Use of Resources.
The Council is reliant on IT to deliver its services to a high quality standard.	The Council monitors risks to its IT arrangements on an ongoing basis.	Yes	Complete an IT survey of the Council's staff to identify their awareness of security controls.	Value for money conclusion. Use of Resources. Opinion.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Major regional regeneration is taking place in the Thames Gateway area which will bring opportunities and risks to the borough.	The Council is working with local partners to manage the risks and take advantage of the opportunities.	Yes	Review of the arrangements in place across the local boroughs for ensuring the approach is joined up.	
A number of recommendations on strengthening arrangements within the Council were made during the past audit year.	The Council agreed action plans with named officers to implement the recommendations made.	Yes	Follow up progress on recommendations made on: <ul style="list-style-type: none"> • approach to value for money; • cultural services; and • review of internal audit. 	Value for money conclusion. Use of Resources. Opinion.
The Audit Commission has carried out a corporate assessment in April 2008 and this may highlight areas the Council could strengthen.	The Council has a good track record of addressing recommendations made by external bodies.	Yes	Monitor action taken by the Council to address any areas that could be strengthened.	Value for money conclusion. Use of resources.

Appendix 4 – Independence and objectivity

- 1 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
 - The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 8 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Director of Resources	District Auditor (DA) Audit Manager (AM)	Quarterly	General update plus: <ul style="list-style-type: none"> • April - Audit and Inspection Plan; • September - accounts progress
Directors	As appropriate	As appropriate	General update
Head of Finance	AM and Team Leader (TL)	As appropriate	Update on audit and opinion issues
Chief Internal Auditor	AM and TL	Quarterly	Update on audit progress and issues
Audit Committee	DA and AM, with TL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • annual governance report; • Annual Audit and Inspection Letter; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

Agenda Item 9a

Report To Audit Committee	Date 30 June 2008	Classification	Report No.	Agenda Item
Report From: Corporate Director of Resources Originating Officer(s) Service Head – Risk Management and Audit - Minesh Jani	Title: Internal Audit Annual Report 2007/08 Wards Affected : N/A			

1. Summary

The report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).

- 1.1 The report concludes that the Council has an effective system of internal control which was in operation throughout 2007/08. The Head of Audit opinion is attached to this report.

2. Recommendation

The Committee is asked to note the annual audit opinion and the summary of audits undertaken.

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

Brief description of "background papers"

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

Minesh Jani, 0207 364 0738

3. Introduction

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

3.2 This report is set out as follows:

Opinion and basis of opinion

- **Summary of audit work undertaken in 2007/08**
- **Appendix 1 – Audit Resources**
- **Appendix 2 – List of audits undertaken in 2007/08**
- **Appendix 3 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee.
These are the outstanding summaries for 2007/08.

4. Statement 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.

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

5. Opinion

It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2007/08. The basis for this opinion is set out below.

6. Basis of opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2007/08. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.
- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2007/08. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix one below. Internal Audit is provided in partnership with Deloitte & Touche Public Sector Ltd. An in-house team of nine auditors works with resources provided by Deloitte under the contract.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 5 days per person on average, compared to 3.5 days in 2006/07.
- 7.4 During the year, there was a greater emphasis on risk based audits, which reflects the internal audit strategy in delivering assurance to the Council. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of audit work

- 8.1 A list of the audits undertaken in 2007/08 is attached to main body of the report at appendix 4 (page 10) including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.
- 8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 3 provides the summaries of those reports not complete at the time of the last report on audit findings for 2007/08.
- 8.3 A summary of the audit assurance resulting from audit reports in 07/08 is provided in the table below.

Audits 07/08		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	1	26	11	0
	Moderate	0	36	19	1
	Low	0	2	1	0
Total		1	64	31	1

- 8.4 The table shows that 65 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. 32 of systems audited were rated as limited or nil assurance.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses. The one case where nil assurance was given related to Purchase Cards. A follow-up audit was conducted later in the year following remedial action and the assurance rating was upgraded to limited assurance.

8.6 Internal Audit work therefore indicates that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to recommendations.

9 Performance information

9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2007/08 is set out in the table below.

Performance Measure	2007/08	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	99%
Percentage of recommendations followed up that have been implemented by 6 month review date	95%	79%

9.2 As at the 31st March, 99% of the operational plan was complete. A number of audits were still in progress, but have now been completed/ or are awaiting management comment.

9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. At the point of follow-up, 79% of recommendations had been implemented. Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.

9.4 The budget outturn is set out in appendix one. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2007/08 will be submitted and key points will be reported to a future CMT and Audit Committee.

10. Comments of the Chief Financial Officer

10.1 The comments of the Corporate Director of Resources have been incorporated into this report.

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

11.1 There are no immediate legal implications arising from this report.

12. Equal Opportunity Considerations

12.1 There are no specific Equal Opportunities issues arising from this report.

13. Anti-Poverty Considerations

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

14. Risk Management Implications

14.1 The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. This report identifies areas of risk for management to mitigate.

15. Sustainable Action for a Greener Environment (SAGE)

15.1 There are no specific SAGE implications.

Internal Audit – Resources 2007/08

Available audit days

	Revised Plan	%	Outturn	%
In-house staff days	1728	74%	1728	71%
Deloitte	686	26%	662	29%
<u>Gross days</u>	2414	100%	2390	99%
<i>less</i> Leave	218	9%	218	9%
<i>less</i> Sickness absence	50	2%	40	1%
<i>less</i> Non Operational Time	200	8%	246	10%
<i>Unproductive time</i>	468	19%	504	20%
<u>Net productive days</u>	1946	81%	1886	79%

Internal Audit Budget 2007/08

	Budget £	Actual £	Variance £
Salaries	535	575	40
Contract costs	204	204	0
Running costs	40	38	-2
Central Recharges	92	92	0
Gross cost recharged	871	909	38

Internal Audit Reports 2007/08 – 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.

Summaries of 2007/08 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
NIL	Extensive	Resources	Control and Monitoring of Purchase Cards
LIMITED	Extensive	Communities Localities and Culture	Waste Disposal Contract Monitoring
		Development and Renewal	S. 106 Planning Obligations
		Housing	Right to Buy
		Chief Executive	Document Management (Imaging Systems)
	Moderate	Communities Localities and Culture	Highways Inspections
		Adult, Health and Wellbeing	Family Rent Deposit Scheme
		Chief Executive	Corporate Governance – Staff Hospitality and Gifts
		Children's Services	Beatrice Tate School
		Children's Services	Canon Barnett Primary School
		Children's Services	Christchurch Primary School
		Children's Services	Harbinger Primary School
		Children's Services	Globe Primary School
		Children's Services	Smithy Street Primary School
		Children's Services	Stebon Primary School
		Children's Services	Bluegate Fields Primary School
		Children's Services	Chisenhale Primary School

Assurance level	Significance	Directorate	Audit title
		Children's Services	Guardian Angels Primary School
		Children's Services	St Anne's Primary School
		Children's Services	Stepney Greencoats Primary School
SUBSTANTIAL	Extensive	Children's Services	End of Year School Accounts Reconciliation
		Resources	General Ledger
		Resources	Council Tax
		Resources	Treasury Management
		Housing	Housing Rents
		Resources	NNDR
		Resources	Cashiers
		Resources	Bank Reconciliation
		Resources	Data Protection Act
		Resources	Extended Network F/Up Systems Audit
		Resources	Data Security IT Audit
		Resources	Internet and Email
		Resources	Pensions
	Moderate	Children's Services	Student Finances
		Housing Management	Gas Repairs and Maintenance
		Adult Health and Wellbeing	Direct Payments
		Children's Services	Bigland Green Primary School
		Children's Services	Bonner Primary School

Assurance level	Significance	Directorate	Audit title
		Children's Services	Bygrove Primary School
		Children's Services	Clara Grant Primary School
		Children's Services	Cubitt Town Primary School
		Children's Services	Hermitage Primary School
		Children's Services	Marnier Primary School
		Children's Services	Mowlem Primary School
		Children's Services	Cherry Trees Primary School

Nil Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Purchase Cards Systems Audit	March 2008	<p>The Council spends some £5.5M p.a on goods and services by using corporate purchase cards. The system involves named authorised officers to be issued with corporate Barclaycards which are then used to purchase and pay for goods and services, with expenditure limits being set for each authorised officer. The system avoids the need to raise official orders and also to pay invoices, thereby reducing transaction and processing costs.</p> <p>Our review identified that the Council had a procurement strategy and procedures for controlling and using purchase cards were also in place. However, apart from school catering purchases, there was no preferred suppliers' list which could be used by officers. Our testing of a sample of random cardholders' and their purchase transactions showed that controls needed to be improved significantly to ensure that the expenditure met the principles of good value for money, probity, scrutiny and safeguard against the risk of abuse and unauthorised expenditure. The role and responsibilities of Corporate Purchasing in the overall control and monitoring of purchase card activities and performance needed to be clearly defined.</p>	£5.5 M ***	Nil *

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Purchase Cards (cont) Systems Audit		<p>All findings and recommendations were agreed by the Service Head, Procurement and the Corporate Director – Resources.</p> <p>Management Comment – Immediate action has been taken by advising all 2nd and 3rd tier officers of the need for proper controls to ensure purchases made through the use of purchase cards are legitimate and valid. They are also advised that any improper use of the card will be dealt with severely.</p>	£5.5 M ***	Nil *

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Waste Disposal Contract Monitoring Systems Audit	March 2008	<p>The objective of this audit was to provide assurance that the systems for controlling and monitoring the contract were sound; that services provided by the contractor were adequately monitored to ensure Best Value; and that payments were made in accordance with the contract conditions.</p> <p>The Waste Management Services contract was let to Veolia from 01/01/06 for a period of 15 years at a total price of £126M. The contract comprises the management of the Northumberland Wharf Waste Transfer Station together with the transportation and treatment of waste including landfill.</p> <p>Our review found that adequate controls were in place for managing and monitoring key elements of the waste disposal and management contract. Generally, the controls for administering the Landfill Allowance Trading Scheme and the system for supervision and inspection were satisfactory. However, there were some issues of non compliance and improvements were required in a number of areas. These include the need for review of the current waste strategy, the availability of performance monitoring information and a more stringent payment authorisation process.</p> <p>Findings and recommendations were agreed with the interim Service Head – Public Realm.</p> <p>Management Comment - The Service Head has confirmed that a new Waste Strategy is in the process of being finalised and this will be reported to the appropriate Committee later in this financial year.</p>	<p>£126M Over 15 year contract period</p> <p>***</p>	<p>Limited</p> <p>**</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
S. 106 Planning Obligations Systems Audit	March 2008	<p>This audit examined the systems in place for controlling and managing financial and non-financial planning obligations resulting from S.106 planning agreements. Currently S.106 Obligations are managed between a combination of teams within Development and Renewal Directorate, all of which are accountable to the working body called the Planning Contributions Overview Panel (PCOP) chaired by the Corporate Director. The importance of the planning obligation funding is cross-Directorate which increases the need to manage and utilise the funding strategically for the benefit of residents of the borough.</p> <p>We can report that since the last Audit in 2001/02, there have been improvements in the management, control and administration of planning obligations. However, our review has also reported some key issues still to be addressed. For example, the audit trail between pre-application negotiations and the final S.106 agreements needed strengthening. Governance for the PCOP required strengthening in a number of areas to uphold transparency. Reports submitted to PCOP did not clarify the full impact of the development. The system for instigating and receiving financial obligations and the related income also needed to be strengthened.</p>	Extensive ***	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
S. 106 Planning Obligations Systems Audit (cont)		<p>All findings and recommendations were agreed with the then Corporate Director of Development and Renewal.</p> <p>Management comment - Even before the Audit had started D&R's own operational assessments (practical testing) had revealed areas of the process and procedure that could and should be improved. As the Audit mentions, these were already being actioned during the Audit;</p> <p>- All of the Recommendations, save where further consideration of their implications is required, are now being actioned and amendments are being made, proposed or more detailed consideration planned in accordance with the audit priority rating.</p>	Extensive ***	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Right to Buy (Cont) Systems Audit	Jan 2008	<p>The objective of this audit was to assure management that the systems for administration, management and control of RTB applications and valuations were sound and secure, and that legislative requirements were being complied with. Following issues were reported:-</p> <ul style="list-style-type: none"> • Generally procedures for processing and administering RTB applications, carrying out tenancy checks, informing applicants of their entitlement to RTB, arrangements for carrying out valuations and calculations of discounts were in place. • However our review identified instances in not meeting the various statutory timescales for administering RTB applications. Specifically, S.125 notices had not always been served within the statutory timescales and TRB17 reminders for applicants who have failed to accept the offer were not sent out within specified time resulting in RTB applications being left open allowing sales to be made based upon historic valuations. Although a number of performance indicators had been established, we found that most of the key indicators were not measured as there was no effective means to capture the data. Therefore management could not effectively measure and monitor the section's effectiveness in meeting various statutory timescales and priorities. 	Extensive ***	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Right to Buy Systems Audit	Jan 2008	<p>All findings and recommendations were agreed with the Service Head – Housing Management.</p> <p>Management comment - Housing have now reported that these issues have subsequently been addressed.</p>	Extensive ***	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Document Management (Imaging Systems) I.T. Audit	May 2008	<p>Eight recommendations were raised as a result of this audit including two priority 1 issues. The main issue is summarised below:</p> <p>Corporate requirements for document imaging and management standards to meet the requirement of the business, legal admissibility and document management/retention were at early stages of development.</p> <p>The policy and strategic direction for document management have yet to be identified, although there is a direction for use of the IDOX system in Environment and the TRIM system in Children's Services.</p> <p>Requirements to achieve legal admissibility for documents imaged have not been identified corporately and neither the IDOX nor the TRIM system have full audit trails recording the actions of users on the system which diminishes accountability on these systems.</p> <p>An action plan was agreed with Service Head – ICT and the Information Governance Manager.</p> <p>Management comment - All audit requirements have been incorporated into the Information Governance work plan. ICT are looking at current use of DIP systems and scanning requirements. Advice is being sought to analyse the Council's confidence with legal admissibility. A scanning policy is being developed sitting alongside the Information Management Strategy.</p>	Extensive ***	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Inspections Systems Audit	Jan 2008	<p>The Council has a statutory duty to maintain its highways and footways to a satisfactory standard. To enable efficient and effective highways and to manage the risk of third party claims resulting from falls and trips, the Council requires its highways network to be regularly inspected. The objective of this audit was to assure management that systems for managing and controlling highway inspections were sound. The following issues were reported:-</p> <ul style="list-style-type: none"> • A comprehensive asset management plan was not in place at the time of the review. This could result in asset data being incomplete, not held in a standardised format and or the application of non uniform referencing across the different teams within the Service. The service was, however, in the process of commissioning an electronic asset management system at the time of audit. • The inspection regime was fragmented in its recording and provision of relevant information of the Highway network. The frequency levels were not adhered to consistently and there was a need for standardised process for recording inspections. There was a need to maintain evidence to show that each highway within the LAP areas was inspected, hence Audit could not provide assurance on the soundness of control in this area. Moreover, there was a need to build on management information for assessing and monitoring the performance of the service. Local performance indicators would allow the team to monitor the efficiency and effectiveness of the service. 	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Inspections (Cont) Systems Audit	Jan 2008	<p>Management comment - In response to Audit findings the Interim Head of Public Realm has instigated a Public Realm Improvement Project. Major elements of the project will include:</p> <ul style="list-style-type: none"> • A review of how highways inspection staff operate and their relationship with other frontline staff • A review of data management how it is captured and used effectively. <p>The main objective of the review is to improve performance management within Highways by standardising the process and procedure for Highways inspections.</p>	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Family Rent Deposit Scheme Systems Audit	Jan 2008	<p>The objective of the Family Rent Deposit Scheme introduced on the 1st July 2004 was to prevent homelessness and re-homelessness by making housing in the private sector more accessible. It offers private landlords a financial cover against rent arrears, damage to the property and contents or missing items. Our review identified that there was a strategy in place supported by written procedures and the scheme was successful in preventing homelessness by paying the rent deposit and advance to the landlord in the private sector. However, we reported the following issues:-</p> <ul style="list-style-type: none"> • There needs to be standard clauses within the Tenancy Agreements for recovering deposits from tenants. • Debtors' accounts need to be raised on a consistent basis over financial years, which increase the risk of income due to the council being billed to the family and recovered. • The debt recovery rate could not be accurately determined as the spreadsheet maintained by the Finance section did not correctly reflect payments made by the family. Therefore, the effectiveness of the spreadsheet as a monitoring tool could not be assured. As at July 2007, cumulative Rent in Advance and deposits payments totalled £970,518 of which £714,370 was still to be recovered. Some of this was recoverable from housing benefit, but a system for doing so had to be set up. <p>Management comment - All findings and recommendations were agreed with the Head of Homelessness, who has confirmed that action has now been taken to rectify these issues.</p>	£402 K **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Corporate Governance – Staff Hospitality and Gifts Systems Audit	March 2008	<p>This audit examined the systems and procedures for controlling and monitoring staff hospitalities and gifts. In order to regulate employees' ethical standards, the Council has a Code of Conduct for employees, which includes staff hospitality procedures stating that employees should not normally accept outside hospitality, being mindful that acceptance may cause difficulties in avoiding a subsequent obligation to the host or bring into question an employee's impartiality in carrying out their official duties.</p> <p>Our review found that there were documented procedures in place for managing and controlling hospitalities. However, we noted that some of these procedures needed to be brought into line with the Employees' Code of Conduct with respect to management approval process and a review was required in this area. Our testing identified instances of non-compliance with the procedures which could expose the systems to unnecessary risks.</p> <p>All findings and recommendations were agreed with the Joint Director of Human Resources whose comments are as follows:-</p> <p>Management comment - This audit makes a number of recommendations which are being implemented by Human Resources together with Corporate Directors and the Audit function. In particular, guidance is being strengthened and more frequently communicated across the organisation. High risk areas have been identified and targeted for a reinforced message.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Beatrice Tate School Regularity Audit	Feb. 2008	<p>21 recommendations were raised as a result of this audit including six priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> The Code of Practice for Financial Management and Financial Authority clearly states that the Governing Body has established a Resources Committee to which its financial functions (except for the approval of the budget) have been delegated. However, at the time of audit there was neither a Resources Committee nor a Finance Committee as there were insufficient governors available to establish a working committee. Therefore, at the Governing Bodies meeting of the 5th November 2007, it was agreed that as an interim measure, the full Governing Body would deal with all matters that would have normally been delegated to such a committee. The school is unable to fully demonstrate value for money through its current procurement process where the school is failing to independently specify the extent/scope of the works required and produce an estimate of the costs of the works involved and where no alternative quotations are being sourced. Goods are not consistently checked against the delivery note, therefore there is a lack of assurance that the goods received are the correct quantity, quality or what was officially requested. 	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Beatrice Tate School (Cont) Regularity Audit	Feb. 2008	<ul style="list-style-type: none"> • Petty cash was found to be paid in advance in several cases. There is a risk that the intended purchase is not made and the system is misused. • Analysis of the Loans Register has showed that records were not kept for loans issues for 2005/06 and 2006/07 and although the serial number is recorded on a separate insurance form (staff have to complete), it is not always recorded within the loans register. The school is also failing to comply with the boroughs ICT policy, where staff has been sharing their personal ICT password logon ID's. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Canon Barnett Primary School Regularity Audit	April 2008	<p>19 recommendations were raised as a result of this audit including three priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Schools Financial Policy and Procedures do not detail delegated financial responsibilities. This is in the process of being reviewed, however at present inadequate financial responsibility is delegated in this document. • The school is in the process of drafting a School Improvement Plan relating to the period 2007 -2010. However at the time of the audit no plan was in place. This document needs to be formally approved by the Governing Body, with a plan always being in place at the school so as to allow the effective decision making process. • Whilst official orders were being raised by the school in the majority of cases, commitments were not being raised upon the RM Finance system at the time of being raised. As such, this leads to inaccurate financial information being held on the finance system, with no commitments being set out. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Christchurch Primary School Regularity Audit	May 2008	<p>12 recommendations were raised as a result of this audit including four priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • A Finance Procedures Manual with defined financial limits has not yet been approved by the Governing Body. • Although the school maintained a Register of Business Interests, entries were not present for some members of the Governing Body. • There was no documentary evidence of a recent stock check having been conducted. Further, it was also found that there was no evidence of the results of any annual stock check having been reported to the Governing Body. • The school does not have an approved policy for the disposal of assets. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Harbinger Primary School Regularity Audit	March 2008	<p>19 recommendations were raised as a result of this audit including five priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • There was no documentary evidence of approval of the School's Financial Code of Practice. The document does not clearly define the roles and responsibilities of the sub committees. • The subcommittee meetings have not been conducted regularly. • Updated register entries are not present for all members of the Governing Body and the staff with financial responsibilities. • The budget monitoring reports are not being presented to the Governors on a regular basis. The school does not have an approved surplus expenditure plan in place. • Adequate procedures are not in place to document income into the school Fund. It was also found that the school does not prepare summary accounts of the School Fund. • It was found that the school does not currently have a formally approved Grants Policy in place for the subsidisation of school journeys. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Globe Primary School Regularity Audit	May 2008	<p>16 recommendations were raised as a result of this audit including six priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • Whilst the Governing Body have established Terms of Reference for most of its sub committees, no Terms of Reference were found for the Curriculum Committee. • Whilst discussion of the proposed 2007/2008 budget could be seen in the Governing Body minutes, there was a lack of evidence to show that the budget was formally approved by the Governors. Also, invoices are not generally signed as approved for payment. • No reconciliations of banking is conducted with respect to income collected from sales of goods such as bookbags, water bottles and pens etc. This is, in part, because all income is recorded under a 'blanket' title, making reconciliations difficult. It was agreed at the time of the audit that this income is to be entered separately on to the system as well as the ledger. At the time of audit, it was found that no checks were being performed to ensure that income was being correctly banked. 	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Globe Primary School (Cont) Regularity Audit		<ul style="list-style-type: none"> Whilst an inventory is maintained for all valuable equipment, it was found that insufficient detail is recorded in the inventory. For many items, no serial number had been entered, and there were no dates of acquisition for any of the items recorded. Also, items checked on the inventory had not been security marked. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>		

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Smithy Street Primary School Regularity Audit	Feb 2008	<p>14 recommendations were raised as a result of this audit including four priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The School's Financial Code of Practice document does not clearly define the roles and responsibilities of the curriculum sub committee, Senior Admin Officer and the budget holders. • The Terms of Reference of the Resources (Finance) Committee do not define financial limits and the quorum needed for the meetings. Audit could not obtain the Terms of Reference of the Curriculum sub committee. The Resources (Finance) committee meetings have not taken place regularly and Audit could not obtain minutes of the Finance committee meetings. • The register entries are not present for all staff members with financial responsibilities. • There was no documentary evidence that the School Improvement Plan has been approved by the Governing Body. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Stebon Primary School Regularity Audit	May 2008	<p>14 recommendations were raised as a result of this audit including two priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • It was highlighted that the School's Financial Policy has not been subject to annual review and re-approval. As a result, there is reduced assurance that the information contained within this policy remains relevant to the daily operation of the school. • No up to date inventory of desirable and portable items was maintained by the school. As such, this reduces the likelihood of the school successfully reclaiming values of items in the case of loss or theft. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Bluegate Fields Primary School Regularity Audit	Draft Final - June 2008	<p>13 recommendations were raised as a result of this audit including five priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The School did not have a documented Financial Procedures Manual and a Scheme of Delegation, it was confirmed by the Head Teacher that this document will be drafted and submitted to the next Governing Body meeting for approval. • Terms of Reference documented for each Sub Committee define the responsibilities of each Committee, quorum, and frequency of meeting requirements. However, audit testing showed that the Terms of Reference for the Standards and Resources Committee had not been drafted including required quorums and frequency of meetings. • Sub Committee minutes held showed limited evidence that they have been signed off consistently as a true record of the proceedings of the meeting and discussions held. • Entries for all members of the Governing Body have not been completed and the last review of the register was undertaken in October 2006. 	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Bluegate Fields Primary School Regularity Audit	Draft Final - June 2008	<ul style="list-style-type: none"> • Whilst the school has developed a School Development Plan, there is a lack of evidence showing that this has been formally approved by the Governing Body. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Chisenhale Primary School Regularity Audit	Draft - June 2008	<p>19 recommendations were raised as a result of this audit including 12 priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Code of Practice for Financial Management policy is not complete and was not formally approved at the time of the audit. • Of the 3 sub-committees set up by the Governing Body, only the Resources sub committee had terms of reference at the time of audit. Whilst this clearly defined the role and responsibility of this particular committee, there are no documented upper financial limits. • The register of interest entries did not include all governors, the headteacher or other key office staff or budget holders who also have financial responsibilities. • There was no evidence of budget monitoring and the authorisation of higher value purchases or projects in the minutes of the Governing Body meetings. There was a lack of evidence to show that monthly budget reports are produced. Weekly meetings are held between to review the budget, however records are only held when changes are made. Analysis of the paying in and cheque book identified that payments have not entered onto the cash book since July 2007. 	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Chisenhale Primary School (Cont)		<ul style="list-style-type: none"> • Whilst financial implications of objectives within the School Improvement Plan (SIP) are noted, they are not clear enough to be tracked back to the annual budget. Therefore, audit analysis of the SIP and the annual budget could not track objectives from the SIP to the budget. • Whilst the school has an asset register, there was a lack of evidence to show when the last asset check had been undertaken, or who had completed this check. The register did not hold sufficient information, including the location of items held by the school. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>		

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Guardian Angels Primary School Regularity Audit	Draft - June 2008	<p>10 recommendations were raised as a result of this audit including five priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • There was a lack of documentary evidence to show that existing copy of the Local Authority Financial Procedures has been formally completed and adopted by the Governing Body to support the designation of key financial responsibilities to staff within the school. • There was a lack of documentary evidence to show that the Terms of Reference for each sub committee of Governing Body has been maintained. Only one finance committee meeting minutes was identified and available for review during the audit. It was not possible to confirm that issues discussed and documented were recorded in meeting minutes and signed and dated by the Chair of Sub-committee as a true record. • Whilst the school maintains a register of interests for the Governing Body, there was a lack of evidence that all Governors and staff responsible for financial decisions have declared their business interests where applicable. 	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Guardian Angels Primary School Regularity Audit	Draft Final - June 2008	<ul style="list-style-type: none"> Whilst the school maintains all meeting minutes of the Governing Body, there was a lack of documentary evidence that the decisions such as formal approval of the School Improvement Plan and the School budget plan 2007/08 were clearly documented in the minutes. Minutes have not been signed off by the Chair of the Governing Body. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
St Anne's Primary School Regularity Audit	Draft Final - June 2008	<p>16 recommendations were raised as a result of this audit including five priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Terms of Reference of the Resources Committee (Finance) do not define financial limits and the quorum needed for the meetings. • There was no evidence of the School Improvement Plan (SIP) being approved by the Governing Body. • The school does not prepare cash budgets documenting projected income and expenditure. The cash flow monitoring spreadsheets have not been reported to the Governors at the Governing Body meetings or Resources (Finance) committee meetings. • The school did not have a Charging Policy at the time of the audit. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Stepney Greencoats Primary School Regularity Audit	Draft - June 2008	<p>20 recommendations were raised as a result of this audit, however there were no priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The school did not have adequate segregation of duties for the production of cheques, with the officer responsible for writing the manual cheque also being allowed to be a signatory. • The Voluntary Fund had not been subject to an independent audit since April 2005. • Whilst the school performed budget monitoring, with reports being run, where variances were identified, there was a lack of evidence to support appropriate corrective action being taken. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Limited **

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
End of Year School Accounts Reconciliation Systems Audit	Feb 2008	<p>This audit was undertaken to give assurance on the soundness of systems in place for end of year reconciliation of school accounts.</p> <p>From our review, we have established that controls have been put in place to carry out end of year accounts reconciliations for schools. For 2006/07, reconciliations were carried out for each school and supporting evidence was available to demonstrate the process. However, it was noted that the end of year statements completed by schools were not used to prepare the reconciliations, as the figures submitted by schools might not be final. The focus should now be to ensure that inconsistencies schools might be making are fed back to schools with a view to educate and train schools finance staff to prepare full end of year statements which reconcile to their bank accounts. Our review also identified that as at 31st March 2007, schools owed the LA some £3.5M relating to the over-advances in previous years and that the LA owed schools some £349K. It was noted that the LA has recovered the sums due from those schools which had surplus balances swiftly, but this has not been applied to schools having deficit budgets for obvious reasons.</p> <p>All findings and recommendations were agreed with the Service Head – Resources and Head of Children’s Services Finance.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
General Ledger Systems Audit	June 2008	<p>11 recommendations were raised as a result of this audit, however no priority 1 issues were raised. The main issues are summarised below:</p> <ul style="list-style-type: none"> • One of the feeder systems 'Payroll' is not incorporated in the feeder timetable document, there is a risk that the Payroll upload may is not being carried out effectively or in a timely manner. • There were 5 items in excess of £100k that still remained in suspense - all were in the 06/07 period. • No variance reports are produced to detail any balances for investigation. Instead, the daily 'in balance' report is produced for the Ledger system. It was verified that the daily 'in balance' report had been produced for the previous six period ends, and it was found that from August onwards, an amount for £970,000 was present as the total difference. This was discussed with the Financial Systems Manager, and it was brought to attention that this amount was present in all reports after and including August, as an error. It was confirmed that the support team were in the process of dealing with the error. 	Extensive ***	Substantial ***

Title	Date of Report	Comment	Comments / Findings	Scale of Service	Assurance Level
General Ledger (cont) Systems Audit	June 2008	<ul style="list-style-type: none"> <li data-bbox="418 447 667 1507">• Audit were not able to obtain adequate evidence for all the respective journal authorisers. From the sample of 25 journal entry forms only 13 were provided by the corresponding authoriser. For the 12 that were obtained, in 1 case, the journal header form seemed to be a copy, and hence was not dated or signed, however in the remaining 11 cases journals were supported by adequate evidence to support legitimacy and reasonableness. <p data-bbox="711 506 740 1507">An action plan was agreed with the Service Head – Corporate Finance.</p>		Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Council Tax Systems Audit	April 2008	<p>Five recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Although all refunds were authorised by a senior officer of the Council Tax Section, one authorised certifying officer was authorising payments in excess of their financial limits, and one other officer was certifying payments that could not be traced to the Authorised Signatories List maintained by the Central Payments Team. It was also noted that records for the Head of Service – Revenue Services also require updating. <p>An action plan was agreed with the Service Head - Revenues.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Treasury Management Systems Audit	April 2008	<p>Three priority 3 recommendations were raised as a result of this audit. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Monthly and quarterly reports are not currently being prepared as per the Treasury Management Practices schedule. The Corporate Accountancy Manager identified that informal discussions are held with the Head of Service and because the Head of Service authorises transactions within the FD system, he is aware of the Treasury Management operations and activities. <p>An action plan was agreed with the Service Head – Corporate Finance.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Housing Rents Systems Audit	June 2008	<p>11 recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Sample testing confirmed a system enrolment form that was not authorised by a Manager. Also there was one case where the authorisation given was for different access rights than those specified on the users list. • There was insufficient detail regarding the reason for writing off the debt. • At the time of the audit, the suspense account balance was £180,185.66. It was confirmed with the Rent Accounts Team Leader that there were items held in the error suspense accruing back to December 2001 which still need to be written off. • Audit testing with the Senior Finance Officer revealed that reconciliations between rent debits and rent credits are not undertaken. <p>An action plan was agreed with the Service Head - Housing.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment	Comments / Findings	Scale of Service	Assurance Level
NNDR Systems Audit	June 2008	<p>Four recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Currently where relief is awarded, all supporting documentation, which evidences that a review had been undertaken and the approval decision granting relief is not retained on the case file/scanned onto the IBS system for future reference. <p>An action plan was agreed with the Service Head - Revenues.</p>	<p>Four recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Currently where relief is awarded, all supporting documentation, which evidences that a review had been undertaken and the approval decision granting relief is not retained on the case file/scanned onto the IBS system for future reference. <p>An action plan was agreed with the Service Head - Revenues.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers Systems Audit	April 2008	<p>This audit examined systems and for the collection, banking, accounting and security of cash income collected by the Council's Chief Cashiers Office at 62 Roman Road.</p> <p>Our review showed that overall, there were adequate systems in place and the control environment was of an acceptable standard. Some minor issues regarding some procedural matters such as completion of end of day cash up reports, consistent stamping of petty cash vouchers and some revision to procedures to make them more current were raised.</p> <p>All findings and recommendations were agreed with the Service Head - Revenues.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation Systems Audit	March 2008	<p>The objective of bank reconciliation is to ensure that all income and expenditure in the bank account that relates to a given reconciliation period matches all income and expenditure in the general ledger. This is to ensure that all monies received and spent by the Council are accounted for in the main accounting system</p> <p>From our audit testing, we can provide assurance that the reconciliation of the main bank account is carried out each month and all balances on bank accounts are matched to the general ledger and subsidiary account balances. However, we have noted that at present only one officer has sufficient knowledge to carry out main bank account reconciliations and that there are no written procedures in this work activity. We also found that management and control over bank accounts operated by other Directorates on behalf of third parties needed to be improved. There was concern that some of these accounts were being operated without the knowledge of the Capital and Investments team who carry out the Treasury Management function. Moreover, some of these accounts had not been reconciled in accordance with the Financial Regulations CR13.3.</p> <p>All findings and recommendations were agreed with the Service Head – Corporate Finance.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Data Protection Act IT Audit	May 2008	<p>10 recommendations were raised as a result of this audit, however no priority 1 issues were raised. The main issues are summarised below:</p> <ul style="list-style-type: none"> • Improvements could be made in respect of formalising the current draft version of the Data Protection Policy and updating the Information Governance Manager's job description to specifically state that he is the nominated Data Protection Officer for the Council. • The information Governance Manager is not routinely consulted as part of any new systems development of procurement in order to identify data protection implications of the systems. • Notifications to the Information Commissioner were found to contain outdated information regarding the transfer of data. • Third party contracts had not been reviewed for data protection related issues since the loss of the archived data due to a fire at the third party warehouse, where the archived documents were being held. • Bags used for the collection of confidential waste for destruction were found to be unsecured. <p>An action plan was agreed with Service Head – ICT and the Information Governance Manager.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Extended Network F/Up Systems Audit	May 2008	<p>41 recommendations were made and agreed as part of the 2006/07 Final Internal Audit Report. IT was found that 14 were found to be implemented, 21 were partially implemented, and three recommendations were not implemented. 3 recommendations were found to be not implemented. The main issues are summarised below:</p> <p>An action plan was agreed with the Service Head - ICT.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Data Security IT Audit	April 2008	<p>Six recommendations were raised as a result of this audit, however no priority 1 issues were raised. The main issue is summarised below:</p> <p>There is no formal process for the classification of data according to sensitivity, criticality and value. Although the Information Governance Group is aware of what data is critical that is held this has not been formally documented.</p> <p>Although the Information Governance Group has been tasked with the oversight management of data, there is no documented Data Management Policy.</p> <p>There are no procedures in place to ensure ICT is notified whenever users no longer needing remote access to ensure timely revoking of access.</p> <p>An action plan was agreed with the Service Head - ICT.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Internet and Email Regularity Audit	June 2008	<p>Nine recommendations were raised as a result of this audit, however no priority 1 issues were raised. The main issues are summarised below:</p> <ul style="list-style-type: none"> • Prior to being allocated with Internet access Council staff are required to sign to confirm they have received the Acceptable use Policy when they are provided with system access. There is however no process in place to ensure that new starters are familiar with the Internet and E-mail Policy. New starters are also not provided with a copy of or a link to the policy document. • There is an E-mail disclaimer appended to all external out-going emails however this has not been recently reviewed to ensure adequacy. Furthermore the disclaimer does not state that the views expressed on the E-mail are not necessarily those of the Council. • Users obtain access to the system by logging onto the network and no additional passwords are required to access their mailbox. Although there are many strong network password controls, there is currently no password complexity enabled and there is no requirement for the password to be regularly changed. This has not been raised as a recommendation in this audit as it has also been raised in the network audit. 	Extensive ***	Substantial ***

Title	Date of Report	Comment	Scale of Service	Assurance Level
Internet and Email (cont) Regularity Audit	June 2008	<ul style="list-style-type: none"> • The Council has an agreement with an external provider to provide ongoing all hours maintenance cover for the Firewall. However, these arrangements have not been tested, nor has a Disaster Recovery Plan been developed for the Firewall. <p>An action plan was agreed with the Service Head - ICT.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Pensions Systems Audit	June 2008	<p>Six recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Detailed procedures for pension's administration were held on the pension's server available to all pension's officers, but were outdated. Recent changes in legislation required the manual to be updated to reflect the new rules. The Pensions Manager informed Audit that no specific completion date for updating the procedures was finalised. • Random testing of 20 Payroll /Pension files revealed that eight files could not be located and of the remaining files, details of a signed P1 or P3 form could not be found in two of the 12 files examined. As a result it was not possible to verify whether all new employees complete a P1 form to join the scheme or a P3 form to opt out of the scheme. • File security was found to be unsatisfactory. Although it was found that most pension files (frozen and new) are retained in locked cabinets outside the secure room, with access limited to pensions officers, current employee and retired employee files are retained in a filing room. No system is in place to record the movement of files or identity of officers using them. Audit was unable to locate many files selected for testing due to them being removed from the secure area and this impacted on the level of sample testing completed. <p>An action plan was agreed with the Head of Payroll Service.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Student Finances Systems Audit	April 2008	<p>The objective of this audit was to assure management that there were sound systems in place for receiving, assessing and submitting students finance applications to Student Finance Direct.</p> <p>Our review identified that systems for verifying eligibility to student finance and for assessing and calculating the financial support were adequate. In carrying out the assessment, household income was verified and correctly input to the computer application and with performance of the team processing the applications was at the level defined in the Service Level Agreement. The only weaknesses identified related to manual files not always being securely filed.</p> <p>All findings and recommendations were agreed with the Head of Pupil and Student Services.</p>	4100 applications **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Gas Repairs and Maintenance	March 2008	<p>This audit sought to provide assurance over the systems in place for identifying, requisitioning, ordering, inspecting, paying and monitoring gas repairs and maintenance works carried out in council owned dwellings.</p> <p>Our review found that overall, there were adequate systems in place to control and monitor gas servicing and repairs works. The system for scheduling servicing and for ordering repairs works were adequate. Works were specified and charged in accordance with the contract conditions. Gas safety inspections were being undertaken in accordance with the schedules to ensure that all gas installations were serviced, and landlord safety certificates were found in the files as required.</p> <p>However, we reported that there were no specific written procedures for specialist works like gas repairs. Procedures for post-inspecting these works required to be reviewed to ensure that criteria for post-inspecting specialist works are kept separate to those for inspecting general building repairs works. We noted some slippage in contractors' performance during September and October 2007 which needed to be looked into.</p> <p>All findings and recommendations were agreed with the Service Head – Housing Management.</p>	£2.7 M **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Direct Payments Systems Audit	Feb 2008	<p>The objective of this audit was to assure management that there were sound systems in place for managing direct payments to clients to allow them to manage provision of their own services as an alternative to services being provided by the Council.</p> <p>From our review, we have found that clear policies and procedures for Direct Payments were in place, that the scheme has been publicised adequately and that the system for assessing and paying to service users were generally adequate. However, we found the need to strengthen monitoring arrangements for the delivery of care plans from direct payments received by service users in accordance with the policy and procedures. It is understood that the strict financial monitoring procedures are currently being reviewed to bring them in line with CIPFA guidance.</p> <p>All findings and recommendations were agreed with the Joint Commissioning Manager.</p>	£2 M **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Bigland Green Primary School Regularity Audit	March 2008	<p>Two recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> Audit was not able to determine the value inside the safe at the time of testing due to a number of sealed envelopes with no amount verification kept within the safe. Where the value inside the safe is unknown at any time, there is a risk to the school that the contents may be above the school's insured contents limit. Audit acknowledges that immediate action was taken by the Head Teacher to address this control weakness. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***
Bonner Primary School Regularity Audit	Jan 2008	<p>Seven recommendations were raised as a result of this audit including one priority 1 issue. The main issue is summarised below:</p> <ul style="list-style-type: none"> Audit roles and responsibilities of the Head Teacher, Office Manager, and Budget Managers were outlined in the Scheme of Delegation, the roles and responsibilities of the Governing Body were not. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Bygrove Primary School Regularity Audit	April 2008	<p>10 recommendations were raised as a result of this audit including three priority 1 issues. The main issue is summarised below:</p> <ul style="list-style-type: none"> • Upper financial limits of authorisation for the Finance Committee are not documented within their terms of reference. • Whilst the School has documented a comprehensive School Development Plan, there was a lack evidence of the financial implications of the objectives within the plan. • Whilst there was evidence of the 2007/8 annual budget being presented to the Governing Body, there was a lack of evidence to show formal approval by the Governing Body. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Clara Grant Primary School Regularity Audit	Dec 2008	<p>Nine recommendations were raised as a result of this audit including three priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Financial Code of Practice document which outlines the delegation of responsibilities from the Governing body to the Head Teacher, Finance Committee and Finance Officer was dated Summer 2006 and is therefore due for review. The Governors have agreed to will review the Financial Code of Practice at the next meeting. • The school has in place a Register of Business Interests, and the Head Teacher was found to be present along with nine other current Governors. However, it was identified that five current Governors were not found to have entries on file. • Audit testing identified official purchase orders that were raised but not signed as authorised. • There was no evidence of an annual stock check being undertaken. Currently there are partial inventory records in place to cover ICT equipment but this does not include all attractive and portable assets including: digital cameras, televisions, computer monitors and audio-visual assets. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Cubitt Town Primary School Regularity Audit	May 2008	<p>14 recommendations were raised as a result of this audit including three priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The school's Financial Procedures Manual (which includes the Scheme of Delegation) is currently the subject of review and therefore requires approval from the full governing body. • The register of pecuniary interests showed entries for every member of the Governing Body and staff with financial responsibility, however it was found that not all staff are completing their entries in full. Committee minutes also showed that the declaration of pecuniary interests is not an automatic standing agenda item. • Transfers of money between staff while recorded, is not signed for by both parties involved in the transfer. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children's Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Hermitage Primary School Regularity Audit	May 2008	<p>11 recommendations were raised as a result of this audit including two priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The school does maintain a Register of Business Interests but entries are not present for all members of the Governing Body. • It was found that in case of some procurement transactions, no official order had been raised and some of the order forms were not signed by any officer. It was also found that official orders are not raised as commitments upon the RM Finance accounting system. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Marner Primary School Regularity Audit	Feb 2008	<p>14 recommendations were raised as a result of this audit including one priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Terms of Reference for the Sub Committees did not clearly define the financial limits (numerical figures). It was also found that the Finance committee meeting on 11th Sept 2007 was not quorate (in accordance with the Terms of Reference of the Finance Committee). • Entries in the Register of Business Interests were not present for some of the members of the Governing Body. • The school did not have a Disposals policy in place. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Mowlem Primary School Regularity Audit	March 2008	<p>10 recommendations were raised as a result of this audit including two priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The school has not maintained minutes of curriculum committee meetings on a regular basis. • The school does not have an approved policy for the disposal of assets. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Cherry Trees Primary School Regularity Audit	May 2008	<p>Eight recommendations were raised as a result of this audit including three priority 1 issues. The main issues are summarised below:</p> <ul style="list-style-type: none"> • Only one finance committee meeting minutes was able to be obtained and reviewed. This was not signed and dated by the Chair of the Committee as a true record of the issues discussed and recorded in the meeting minutes. • While the school maintains all meeting minutes of the Governing Body, there was a lack of documentary evidence that minutes have been signed off by the Chair of the Governing Body. • Whilst the school has developed a School Development Plan, there was a lack of documentary evidence in the Governing Body minutes of its approval. There was also a lack of evidence of the financial implications of the objectives within the plan. <p>An action plan was agreed with the Head Teacher at the school. The Service Head Resources – Children’s Services and the Head of Education were also notified.</p>	Moderate **	Substantial ***

Background

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

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

The Code of Practice also states at Paragraph 10.4 that:

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

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

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

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2007/08

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2008.

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 2007/08, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2007/08 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

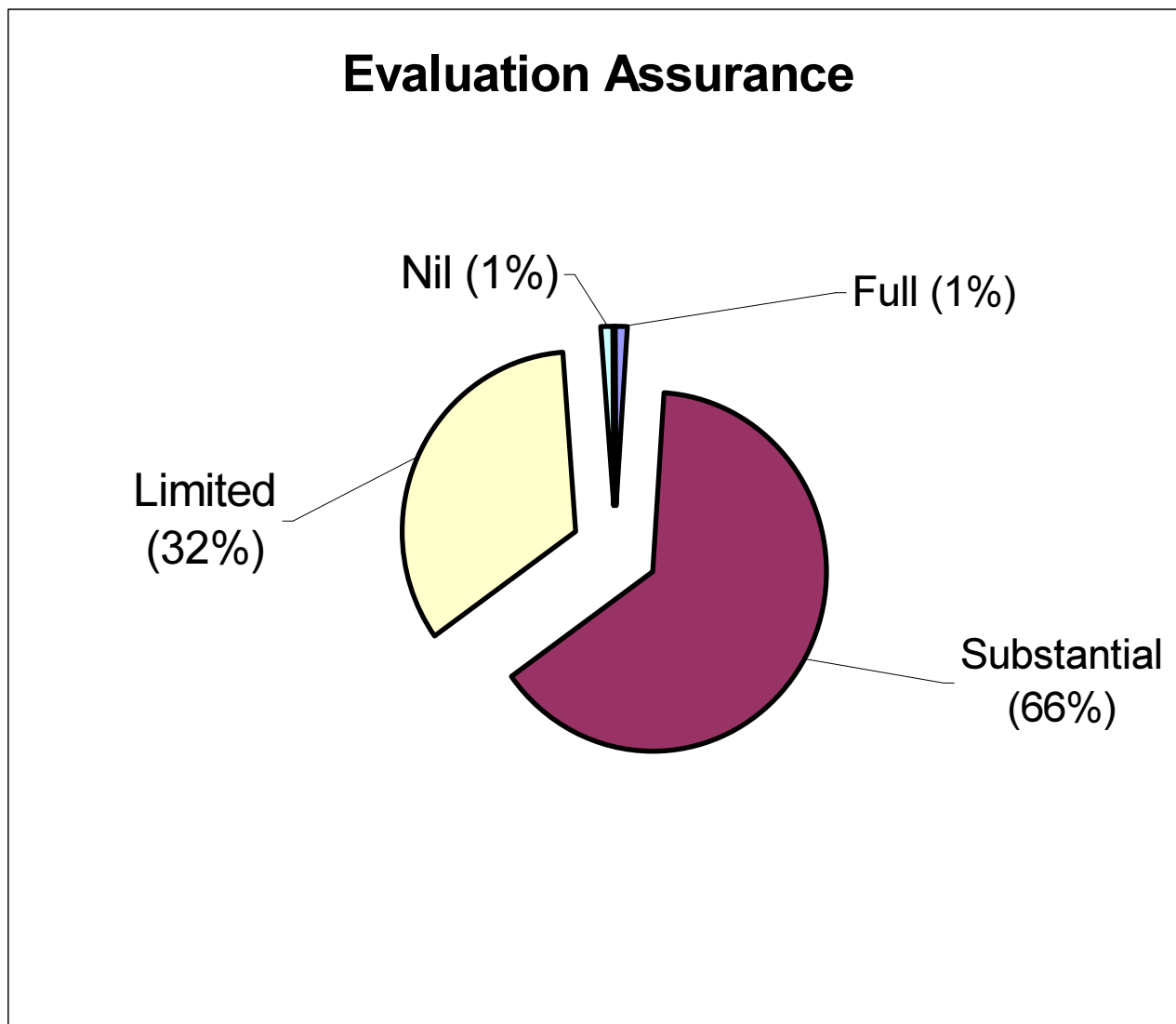
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 1](#).

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

99% of Internal Audit work for the year to 31 March 2008 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the Audit Panel and Audit Committee in 2007/08 are depicted in Graph 1 below. This shows that 67% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 33% of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a positive performance by the Council, particularly given that 79% of recommendations followed up had either been implemented within six months of the recommendations being raised.

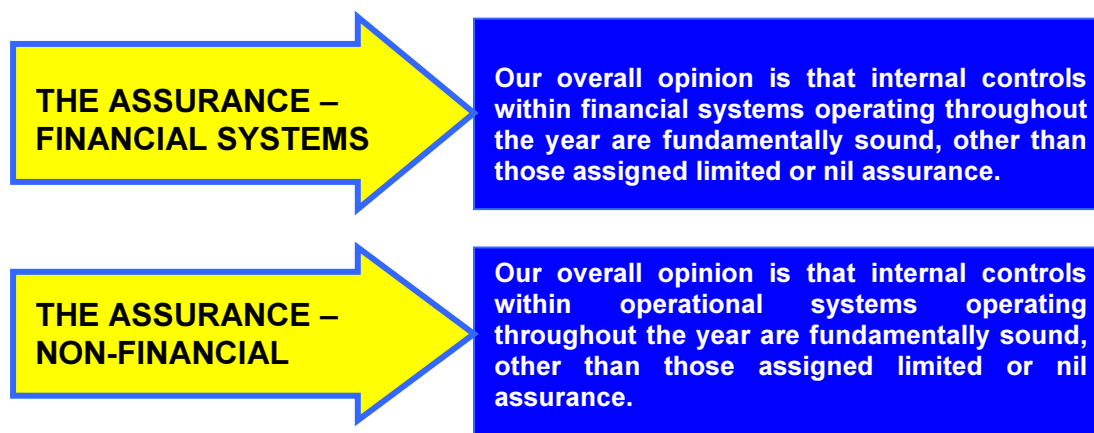
Graph 1



2007/08 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2007/08, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2008 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **page 6**. The assurance can be further broken down between financial and non-financial systems, as follows:



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

- In its Annual Audit and Inspection Letter 2007/08, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission's definition of the Council's achievement of a score of three means that the Council is performing well and was "improving strongly" as regards the direction of travel.
- The Audit Commission's CPA assessments on financial standing, systems of internal financial control, standards of financial conduct and the prevention and detection of fraud and corruption, and their opinion on the financial statements.
- BFI (Benefit Fraud Inspectorate) reviews

In October 2007, the Audit Commission in their Service Inspection of the Benefits service assessed Tower Hamlets as providing a fair service that has promising prospects for improvement. A report by the Benefits Fraud Inspectorate assessed the Service as Excellent

- Other review agencies

In the 2007 annual performance assessment of the service for Children and Young People, Ofsted rated the overall effectiveness of Children's services grade 4, and in its commentary, said "Tower Hamlets Council consistently delivers service well above minimum requirements and makes an outstanding contribution towards improving outcomes in all five areas for its children and young people."

The summary report for annual performance assessment of social care services for Adults Services for Tower Hamlets awarded the service 3 stars with “excellent” awards for 5 of the 7 delivering outcome judgements and capacity to improve.

Corporate Governance

In my opinion the Council’s corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The External Auditors scored judgements under the CPA process, *particularly in relation to governance, standards of conduct and Performance Management*

Elements of governance and standards of conduct were included in the CPA review of Use of Resources that the Audit Commission scored at 3 out of 4.

Risk Management

In my opinion, risk management within the Council continues to improve, with increased emphases on buy in from staff, Member and the Executive 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. In drawing together my opinion, I have relied upon the following:

- The CPA assessment of Use of Resources

Elements of Risk Management were included in the CPA review of Use of Resources that the Audit Commission scored at 3 out of 4. The Council was also scored at 3 out of 4 for Internal Control, the element that specifically relates to risk management.

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 – Service Head, Risk Management

June 2008

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 2007/08 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 2007/08. Key issues included:

- Control and monitoring of corporate Purchase Cards - we had concerns over the effectiveness of systems for issuing and cancellation of purchase cards; management approval of card expenditure, extent of merchant categories allowed to officers; accounting for VAT; and lack of management information to monitor card activities.
- Highways Inspections - the Council has a statutory duty to maintain its highways and footways to a satisfactory standard and regular inspection programme is an important element. We found that the highways asset data held was incomplete and not in a standardised format with no common referencing point across the different teams. The inspection regime was fragmented in its recording and provision of relevant information of the Highways network. The frequency levels were not adhered to consistently and there was no adequate evidence to show that each highway within the LAP areas was inspected.
- Staff Hospitality and Gifts - our review found that there were documented procedures in place for managing and controlling hospitalities. However, some of these procedures appear to conflict with the Employees' Code of Conduct with respect to management approval process. Our testing identified instances of non-compliance with the procedures which could expose the systems to unnecessary risks.
- Waste Disposal Contract Monitoring – the Council's waste strategy required to be reviewed to reflect the current objectives and priorities. Improvements were also required in the availability of performance monitoring information and a more stringent payment authorisation process.

- S.106 Planning Obligations - we reported that since the last Audit in 2001/02, there have been improvements in the management, control and administration of planning obligations. However, our review highlighted some key weaknesses. For example, the audit trail between pre-application negotiations and the final S.106 agreements was weak. Governance for the PCOP required strengthening to uphold transparency. Systems for ensuring the delivery and monitoring of non-financial obligations and for instigating and receiving financial obligations needed to be strengthened.
- Right to Buy - RTB applications were processed, but controls for ensuring that various legislative requirements for meeting the required timescales needed to be improved significantly. Failure to give appropriate notices to those applicants who had not accepted the RTB offers within a specified time exposed the Council to some unnecessary risks
- Unauthorised Occupancies - controls for preventing and detecting unauthorised occupancy of Council dwellings required significant improvements. Council's strategy in this area from anti-fraud and pro-active fraud perspectives needed to be clearly focused and publicised.
- Service Charges – significant post-implementation IT problems were encountered in the service charge module of SX3 application. Most of the problems relating to the raising of accounts to leaseholders and prompt arrears recovery were due to IT problems. The range of IT related issues currently being tackled through an Action Plan, however raises a concern over the reliability of testing carried out during the developmental stage.

Qualifications to the Opinion

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

Other Assurance Bodies

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

- a) Audit Commission
- b) Benefit Fraud Inspectorate
- c) Commission for Social Care Inspection

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 2007/08 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.

99% of audit fieldwork is complete for audits relating to the 2007/08 year programme. The Internal Audit plan was agreed at the start of the year and revised in November 2007. A copy of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

A table is provided at [Appendix 2](#) setting out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against the targets that were set in advance.

Internal audit was also subject to a peer review by the Head of Audit of London Borough of Havering and benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at [Appendix 3](#).

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 issued a final report in March 2008. The main conclusions of their review were: -

“We have assessed Internal Audit against the code and are pleased to report that Internal Audit is compliant with the code across the 11 areas.

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.

Our review of a sample of files concluded that they 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.

However, our review identified the following areas which could be strengthened further:

- Internal Audit terms of reference, audit strategy and annual report require updating to reflect the new requirements of the code;
- Staff job descriptions require reviewing and updating as necessary; and
- documentation and evidencing would be strengthened by implementing the new Audit Manual.”

Internal Audit Coverage - 2007/08

Internal Audit Reports 2007/08 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Control and Monitoring of Purchase Cards	Moderate	Nil
Corporate Governance – Staff Hospitality and Gifts	Moderate	Limited
Employee Self Service – Follow Up audit	Low	Substantial
Management of CRB checks – Follow up	Extensive	Substantial
Officers' Travel and Subsistence Claims – Follow up	Low	Limited
Children's Services		
End of Year School Accounts Reconciliation	Extensive	Substantial
Children and Adolescent Mental Health Service (CHAMS) Follow Up audit	Moderate	Substantial
Devolved Capital Grants to Schools	Moderate	Substantial
Student Finances	Moderate	Substantial
Harry Gosling School – Current Contract audit	Moderate	Substantial
Schools' Regularity Audit		
Osmani Primary	Moderate	Substantial
Stepney Green Primary	Moderate	Limited
Virginia Primary	Moderate	Substantial
William Davis	Moderate	Substantial
Hague	Moderate	Substantial
Alice Model	Moderate	Substantial
Bangabandhu	Moderate	Substantial
Beatrice Tate	Moderate	Limited
Bigland Green	Moderate	Substantial
Blue Gate Fields	Moderate	Limited
Bonner	Moderate	Substantial
Bygrove	Moderate	Substantial
Canon Barnet	Moderate	Limited
Chisenhale	Moderate	Limited
Christchurch	Moderate	Limited
Clara Grant	Moderate	Substantial
Cubbit Town	Moderate	Substantial
Guardian Angels	Moderate	Limited
Harbinger	Moderate	Limited
Hermitage	Moderate	Limited
Marner	Moderate	Substantial

Audit Description	Significance	Assurance
Mayflower	Moderate	Substantial
Mowlem	Moderate	Substantial
Globe	Moderate	Limited
Smithy Street	Moderate	Limited
St Anne	Moderate	Limited
Stebon	Moderate	Limited
Cherry Trees	Moderate	Substantial
Communities, Localities and Culture		
Waste Disposal Contract Monitoring – Systems audit	Extensive	Limited
Horticulture Contract Monitoring	Moderate	Substantial
Highways Inspections	Moderate	Limited
Control and Monitoring of Street Lighting	Moderate	Substantial
Park and Phone - Cashless Parking Income System – Follow up audit	Low	Substantial
New Street Works	Moderate	Limited
Neighbourhood Renewal Programmes - Follow Up audit	Moderate	Substantial
The Car Pound – Systems audit	Moderate	Substantial
Canary Wharf Idea Stores – Regularity audit	Moderate	Limited
Management of Markets – Follow Up audit	Moderate	Substantial
Development and Renewal		
S. 106 Planning Obligations	Extensive	Limited
Corporate Match Funding – Follow Up audit	Moderate	Substantial
Private Sector Improvement Grants – Follow up audit	Moderate	Substantial
Housing		
Gas Repairs, Maintenance and Services	Moderate	Substantial
Adaptations work to Council Owned Dwellings – Follow Up audit	Moderate	Substantial
Matilda House Refurbishment – Current Contract Audit	Moderate	Substantial
Teesdale Estate – Concrete Repairs and Associated Works – Current Contract audit	Moderate	Substantial
Right to Buy – Systems audit	Extensive	Limited
Unauthorised Occupancies – Systems audit	Extensive	Limited
Tenant Management Organisation – Systems audit	Moderate	Substantial
Service Charges – Systems audit	Extensive	Limited
Adult, Health and Welfare		
Respite Care – Follow Up audit	Moderate	Limited
Family Rent Deposit Scheme – Systems audit	Moderate	Substantial

Audit Description	Significance	Assurance
Direct Payments – Systems audit	Moderate	Substantial
Receiverships – Systems audit	Moderate	Substantial
Income Collection and Banking	Moderate	Substantial
Resources		
Compensation Claims – Systems audit	Moderate	Limited
Bank Reconciliation – Systems audit	Extensive	Substantial
Housing and Council Tax Benefit	Extensive	Substantial
General Ledger incl. Budgetary Control	Extensive	Substantial
Cashiers / Cash income	Extensive	Substantial
Council Tax	Extensive	Substantial
Sundry Debtors including Recovery and Write offs	Extensive	Substantial
Creditors	Extensive	Limited
Capital Accounting	Extensive	Substantial
Pensions	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll/Destiny	Extensive	TBC
Housing Rents	Extensive	Substantial
Investments / Loans to the Council / Prudential Borrowing	Extensive	Substantial
Medium Term Financial Strategy – Follow Up	Extensive	Substantial
Procurement	Extensive	Limited
Computer Audit		
Data Protection	Extensive	Substantial
CRM Application and Operating System		Substantial
Siebel Complaints System		Substantial
Document Imaging System		Substantial
Network – Extended Follow up		Substantial
Mobile Devices – Follow up		Substantial
SX3 Post Implementation – Follow up		Substantial
IT Security – Follow up		Substantial
IT Strategy – Follow up		Full
ICT Procurement – Follow up		Substantial
Internet Content Management – Follow up		Substantial
Data Centre and Data Back Up – Follow up		Substantial
Income and Expenditure Operating System		Limited
Business Continuity and Disaster Recovery		Limited
Internet and e-mail system		Substantial
Data Security		Substantial
JD Edwards Finance Application and Operating System		Limited

Internal Audit Performance - 2007/08

Performance Indicators

Two performance indicators were formulated to monitor the delivery of the internal audit service to the borough. The table below shows the actual and targets for each indicator for the year.

Area / Performance Measure	Measure Adopted / Frequency	Target	Actual 2007/08
Percentage of operational plan completed (to at least draft report stage) in the year	Measured against the group performance	100%	99%
Percentage of recommendations followed up that have been implemented or being implemented	Percentage of recommendations followed up that have been implemented or being implemented by 6 monthly follow-up date (Internal target).	95%	79%

Peer Review and Benchmarking Club Results

1. Background to Peer Review

- 1.1. The Accounts and Audit (Amendment) (England) Regulations 2006 states that:
 - (a) An authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
 - (b) The authority shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.
- 1.2. Circular 03/2006 provided by the Department for Communities and Local Government states that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 would be acceptable as the appropriate professional guidance to determine what is “proper practice”.
- 1.3. In order to ensure that a robust review of the internal audit service has been carried out, Financial Directors (or equivalent) agreed that in addition to the internal reviews, peer reviews would be undertaken to ensure that internal audit service has been externally assessed as well.
- 1.4. As a part of this reciprocal arrangement, the Audit Manager working for the London Borough of Havering undertook LBTH review, and the LBTH Audit Manager peer reviewed London Borough of Barking and Dagenham’s Internal Audit service.

2.1. Findings and Recommendations of the Review

The review identified no critical issues which required immediate management attention. The reviewer assigned a score of 370 out of a possible 382 which placed the service in the ‘Substantial Compliance’ category, meaning that LBTH Internal Audit achieved the CIPFA standard substantially. The report, however, identified the following issues:-

- LBTH did not have ‘terms of reference’ for Internal Audit in one single document.
- Clear protocols and dialogues needed to be established with other regulatory bodies for drawing assurances from reviews undertaken by them.
- Written policy and procedures required to be established for reporting serious issues and for accessing files and records.
- Job descriptions were out of date and needed to be reviewed to make them more current.

Benchmarking Club Results

1. Background

- 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. 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 10 London Boroughs.
- 1.4. The performance of the benchmarked group is divided into 5 categories as follows:-

Cost Analysis, which shows the analysis of actual audit costs for 2006/07. The main benchmarks against which actual cost performance should be assessed are cost per audit day, cost per £m turnover and chargeable days per auditor.

Audit Coverage, which shows an analysis of how chargeable audit days available to the Authority were used. The main benchmarks are audit days per £m of gross revenue turnover and how these audit days were applied on carrying out audit work on fundamental financial systems, areas strategic risks, areas of operational risks and corporate governance.

Staffing, analysing the 'people' elements of the service. The main benchmarks in this category are salary bandings, staff qualifications and experience.

Time Series, this analysis shows performance over a period of time compared with the tier average. For LBTH, the tier of Unitary Authorities is used for comparison purposes. The time series shown are for cost per £m gross turnover, cost per audit day, audit days per £m gross turnover, cost per auditor and chargeable days per auditor.

Quartiles, comparing LBTH Internal Audit's performance with the quartile figures for the tier of authority, giving an indication as to whether the service is in the upper or lower quartile.

The next section of this report gives an overview of the benchmarking outcomes.

2. Analysis of Benchmarking Results

2.1. Cost Analysis

The cost of Audit indicates the cost of 'inputs' to the audit function which includes in-house staffing costs, cost of bought-in services such as the partnership with Deloitte and overhead costs such as office accommodation and other running costs.

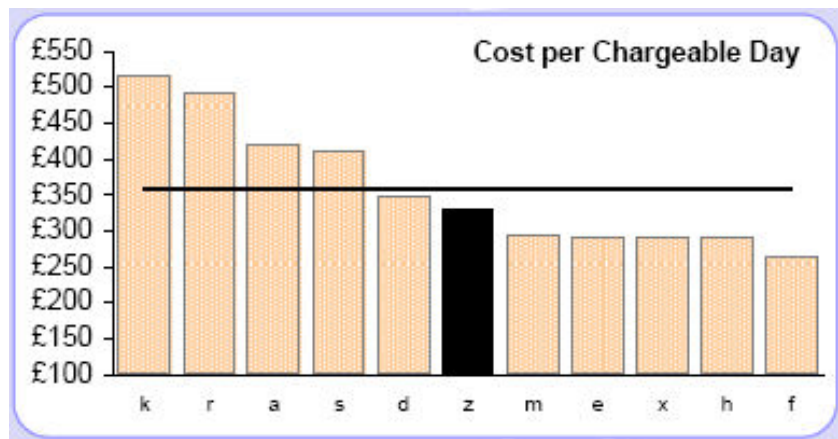
- i) Figure 1 shows that LBTH cost per £m of gross turnover was £971 (shaded bar), against the London group average of £819 and Unitary Authorities' average of £1,093 (see page 8). This indicates that LBTH expenditure was relatively higher in comparison with other London comparators, but lower in comparison with Unitary Authorities. However, as LBTH audit service produced higher number of chargeable days, the cost per day was well below the London group average.

Figure 1 – Audit Cost



- ii) Figure 2 below illustrates that the LBTH cost per audit day was £321 compared with the London group average of £376 per day. If partnership costs are included, the cost per day for LBTH was £330 compared with the group average of £359 per day.

Figure 2 – Cost per Audit Day



- iii) Figure 3 below shows that LBTH delivered 197 chargeable days per auditor, which was the second highest in the London group, well above the average of 178 days. This was due to very low levels of days lost in sickness and in other non-chargeable work such as internal management. The higher level of chargeable days, produced higher level of audit days per £m of gross turnover as shown in Figure 4, thus giving higher level of audit service for each £1m spent by the Council.

Figure 3 - Days per Auditor

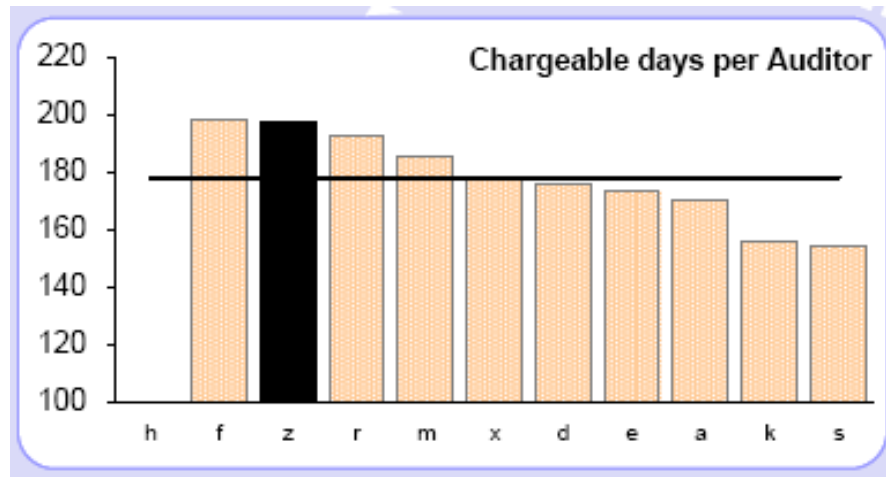
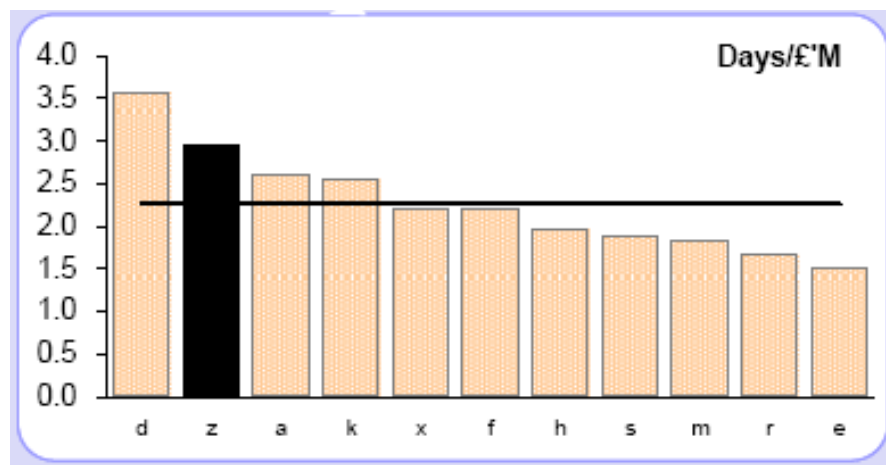


Figure 4 – Audit Days per £m of Turnover



2.2. Audit Coverage

In order to demonstrate how the chargeable audit days are utilised in carrying out various statutory planned audits during the year, Table 1 below compares the audit coverage provided by LBTH with other London comparators. Although the time spent on auditing fundamental financial systems was in line with the group average, audit time spent on IT audits, operational risks, corporate governance and fraud work was above the group average. This reflects the Council's priorities in these areas and will be kept under review in the future years.

Table 1 – Audit Coverage

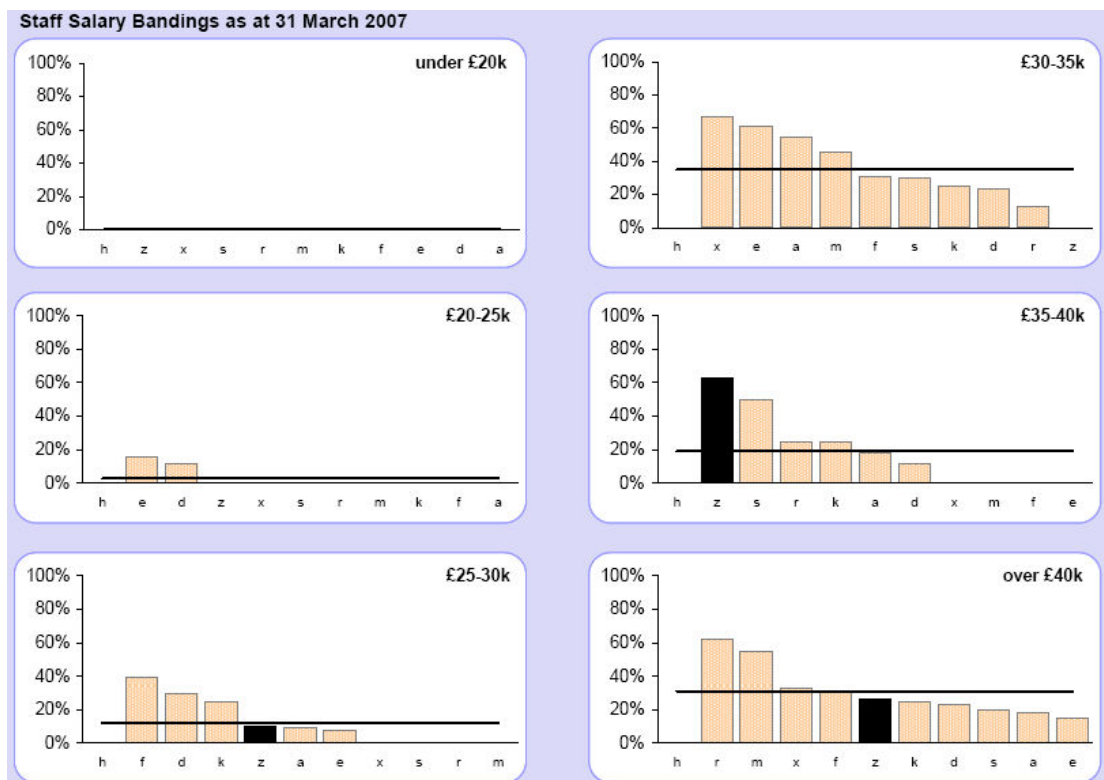
Gross Turnover £'m	931.0		
Audit days per £m	Days	days/£'m	Avg
Fundamental financial systems	420	0.45	0.46
Strategic Risks	127	0.14	0.17
Operational Risks	937	1.01	0.70
Corporate Governance	184	0.20	0.14
Audit of IT systems	200	0.21	0.16
Fraud etc	561	0.60	0.27
Consultancy, advice	0	0.00	0.06
Grant Certification	34	0.04	0.03
Other	60	0.06	0.19
Contingency*	50	1.9%	4.8%
	2,573	2.76	2.23

*Contingency is shown as a percentage of the total number of days

2.3. Staffing

The table below shows an analysis of salary bandings as at 31st March 2007. LBTH costs in the band £35-40k was the highest in the comparator group, whereas costs in the banding groups £25-30k and over £40k was lower than the average as shown below:-

Figure 5 – Salary Bandings



In terms of staff qualifications, LBTH audit staff have less formal qualifications than the average of the London group, but have the greatest length of experience.

2.4. Timeseries

The time series analysis in Table 2 below shows the trend in LBTH performance for the period 2001 through to 2007. Each year's performance is compared with the average of the Unitary Authorities. The analysis shows that although cost per auditor has remained higher than the average, the productive days per auditor are consistently higher and hence cost per £m of the Council's turnover, has consistently remained lower than average, demonstrating the value added element of the audit service.

Table 2 – Timeseries Data

Timeseries data	2001	2002	2003	2004	2005	2006	2007
Cost*	£606k	£657k	..	£659k	£728k	£643k	£662k
FTE Auditors	13.7	13.6	..	10.1	10.0	9.8	9.5
Cost per LA Auditor	£44,360	£48,344	na	£49,924	£55,152	£61,276	£64,566
Average	£38,220	£41,033	£41,033	£42,453	£46,258	£48,400	£50,317
Days per LA Auditor	190	174	..	183	185	199	197
Average	162	157	157	160	162	170	171
Cost per £m	£732	na	..	£897	£898	£928	£971
Average	£1,140	£1,089	£1,089	£1,100	£1,076	£1,122	£1,093
Cost per Day (net)	£233	£278	..	£284	£287	£320	£330
Average	£221	£254	£254	£258	£278	£282	£292
Mainline Audit Days	2,599	2,363	..	2,436	2,533	2,667	2,663
Turnover	£828m	£0m	..	£770m	£811m	£918m	£904m
Days per £m	3.1	na	..	3.2	3.1	2.9	2.9
Average	5.0	4.3	4.3	4.3	3.9	4.1	3.9

2.5. Quartile figures

Table 3 below shows that relative to all other unitary authorities, cost comparison on its own puts LBTH in the upper quartile. However, when these costs are put within the context of annual revenue expenditure, LBTH audit service falls within the lower quartile. Furthermore, comparing the productive days per auditor delivered by LBTH with the Unitary average, LBTH performance falls within the upper quartile.

Table 3 – Quartiles

Timeseries data							
	2001	2002	2003	2004	2005	2006	2007
Cost £000*	£606k	£657k	..	£659k	£726k	£643k	£662k
FTE Auditors	13.7	13.6	..	10.1	10.0	9.8	9.5
Cost per LA Auditor	£44,360	£48,344	na	£49,924	£55,152	£61,276	£64,566
Average	£37,075	£40,448	£40,448	£41,848	£45,500	£47,710	£40,805
Days per LA Auditor	190	174	..	183	185	199	197
Average	163	157	157	160	162	170	170
Cost per £m	£732	na	..	£897	£898	£928	£971
Average	£1,140	£1,007	£1,007	£1,100	£1,084	£1,130	£1,127
Cost per Day (net)	£233	£278	..	£284	£287	£320	£330
Average	£220	£252	£252	£250	£270	£270	£205
Mainline Audit Days	2,599	2,363	..	2,436	2,533	2,667	2,663
Turnover £m	£828m	£0m	..	£770m	£811m	£918m	£904m
Days per £m	3.1	na	..	3.2	3.1	2.9	2.9
Average	5.1	4.4	4.4	4.4	4.0	4.2	4.0

2. Conclusion

The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which quantitative performance comparisons and value for money judgements can be made. Cost analysis shows that for 2006/07, LBTH cost per chargeable day was below the London group average due to higher number of chargeable days delivered by LBTH Internal Audit. When LBTH cost performance is compared with average of Unitary Authorities, it is clear that LBTH audit cost per £M of turnover falls within the lower quartile and productive days per auditor delivered by LBTH falls within the upper quartile, which shows that Internal Audit service is doing 'more with less'.

Agenda Item 9b

Report To Audit Committee	Date 30th June 2008	Classification	Report No.	Agenda Item
Report From: Director of Resources Originating Officer(s) Head of Audit Services-Tony Qayum	Title: Annual Anti Fraud Report 2007/08 Wards Affected : N/A			

1. Summary

This report provides the Committee with the results of reactive and Anti Fraud work undertaken during 2007/08.

- 1.1 The report captures the work of the Corporate Anti Fraud Team , the Housing Benefit Investigations Team and the Parking Service.

2. Recommendation

- 2.1 The Committee is asked to note the contents of the report.

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

Brief description of "background papers"

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

Minesh Jani, 0207 364 0738

3. Introduction

- 3.1 This report provides the Committee with a summary of work on sensitive and reactive enquiries undertaken during 2007/08. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations and the Parking Service.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	2	<ul style="list-style-type: none"> • Head of Audit Services • NFI Co-ordinator and Corporate Fraud Manager
	1	<ul style="list-style-type: none"> • Fraud Assistant “bought in” resource
Central Benefits Fraud Team	1	<ul style="list-style-type: none"> • Fraud Manager
	2	<ul style="list-style-type: none"> • Team Leaders
	8	<ul style="list-style-type: none"> • Investigation Officers
	1	<ul style="list-style-type: none"> • Intelligence Officer
	1-2	<ul style="list-style-type: none"> • Admin Support
Parking Services	2	<ul style="list-style-type: none"> • Parking Fraud Investigation Officers

4. Key matters arising from the Audit Service Outturn for 2007-08

- 4.1 Audit Services has also worked closely with the Homeless Service on the development of its action plan to respond to the 2010 Homeless targets set by government and specifically to ensure that a robust procurement process for approved providers of service is established.
- 4.2 The Audit Service has also provided support to Directorates upon request and this has included a review of the SX3 system, cheque management arrangements with our bankers and assurance work on purchase cards and fuel management with the Housing Service, as well as Housing Benefit investigations highlighted by the National Fraud Initiative (NFI).
- 4.3 We have also developed closer working arrangements with the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of Blue Badge irregularity have involved members of staff.

- 4.4 The Anti Fraud Forum has continued to meet regularly and from this several positive outcomes have been achieved. This includes closer working with the PCT with current submissions for joint working being developed, better internal links between services on anti fraud including Housing Benefits, Parking and Trading Standards, and a clearer understanding of roles and responsibilities.
- 4.5 We have challenged and enhanced the Anti- fraud and Corruption Strategy to ensure it reflects current best practice. A separate report on this can be found elsewhere in the agenda.
- 4.6 We have organised and run several training sessions with Members on Risk Management and the Anti Fraud and Corruption Strategy as part of our proactive initiatives and more are planned for this financial year.
- 4.7 We have also presented the same in a series of workshops with third tier officers and their teams in a wide range of service areas which has sought to increase awareness and inform our Fraud Risk Register.

5. The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported. The Audit Commission manage this under their powers in the Audit Commission Act 1998.
- 5.2 The NFI is managed and co-ordinated by the Audit Service with joint working and protocols with all the key services including Central Benefits Investigations Team, Payroll, Pensions, Rents and Right-to-Buy services to examine, refine and investigate the data matches.
- 5.3 For the NFI exercise, there were also formal joint working arrangements in place between the Central Benefits Team and the local fraud team from the Department of Works and Pensions (DWP) to work on cases which affected both Housing and Council Tax benefits along with the DWP benefits.
- 5.4 The NFI output data was released by the Audit Commission at the end of January 2007, since then there have been at least two further supplementary data matching runs (the second Council tax to electoral role matches being released in April 2008), which has resulted in 67,602 cases to examine.

5.5 The following table shows the overall position as at 27th May 2008 (system shows current a live position):-

	Total	Total Run 2	Processed	In Progress	Frauds notified	Outcome £
Creditors	55,603	0	6,901	0	0	-
All other Systems	9,685	5,229	8,574	442	17	434,890
Multiple cases	2,314	0	0	0	0	-
<i>totals</i>	11,999	5,229	8,574	442	17	434,890

5.6 Although the table shows that only 6,901 cases relating to creditors had been processed, it should be noted that all creditors' reports have been reviewed and actioned. Of the 55,603 outputs 32,000 concerned duplications within the creditors address book. The system for managing the address book has been reviewed and improved by the Financial Systems Team to avoid further duplications and cleanse the existing system of duplicates. The other reports concerning creditors were also thoroughly examined but found to be of very low impact and quality. In view of this it was not considered an efficient use of resource to annotate each and every case on the NFI reports, and in these instances there is a facility within the NFI system to provide an overview of the work carried out and its results. This facility was used on the creditor's reports and therefore the number of cases actually processed is not reflected in the table.

5.7 All other reports on the other systems, with the exception of the supplementary runs (on Council Tax single person discount to electoral role) have been fully examined and only cases under investigation have not yet been cleared/processed.

5.8 The Audit service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.

5.9 The following is a summary of the key results of the LBTH outcome from the NFI work:-

- Over £434K of overpayment has been identified of this £334K related to council tax single person discounts;
- £386K is currently being recovered from 1,320 cases (the remaining Overpayment relates to housing benefit fraud being dealt with via prosecutions);
- 17 frauds have been identified (15 benefits related and 2 immigration/work permits);
- 4 cases pensions overpayments (these are being recovered); and
- 50 blue badges have been ceased/recovered from deceased pensioners.

5.10 In addition to the above there were ten members of staff who left the employment of the Authority due to the anti fraud activity undertaken in relation to: -

- Immigration / work permits issues;
- Blue badge fraud; and
- Housing benefit related matters.

5.11 As a result of the success of NFI initiatives the Audit Commission are running a rolling programme for NFI data matching along with schedule exercises. For information there is another schedule exercise to run for 2008/9, and the Audit Commission's Code of Data Matching Practice which advises Local Authority's of the requirements for the NFI was issued in April 2008.

6. Other Audit Activity

6.1 The following general activities have been undertaken, during 2007/08 by Audit Service:-

- On-going liaison and support to corporate and departmental personnel;
- Proactive joint working with other Local Authorities, the Police, the DWP and other government Agencies; and
- Training and Development via the Public Sector Partnership with the Metropolitan Police.

7. Fraud Response Plan including Whistle-Blowing

7.1 The Audit Panel received a report at the March 2007 meeting, proposing enhancements to the existing Anti- fraud and Corruption Strategy to include new legislation in the area of Fraud and in accordance with the recent Local Code of Corporate Governance. This report was endorsed on 21 March 2007.

7.2 Following endorsement by the Audit Panel the Anti- fraud and Corruption Strategy was submitted to and endorsed by the Standards Committee in April 2007.

7.3 The revised Anti- fraud and Corruption Strategy has been placed on the intranet and work has been undertaken to raise the profile on anti fraud in contract conditions as part of the Councils Ethical Governance framework.

7.4 An independent review of the Anti Fraud and Corruption strategy has been undertaken which has shown a very positive result. The report and the resultant findings can be found elsewhere on the agenda.

8. Housing Benefits Investigation Service

8.1 The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-

- Benefits Whistle-blowing hotline;
- Internal Referrals;
- External Referrals (Agencies and public);
- Joint working with Department of Work and Pensions (DWP);and
- Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

8.2 During 2007/08 the Service had the following successes:-

- 177 cases being dealt with;
- 29 convictions at court;
- 70 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- 78 Administrative Penalties; and
- Total Housing and Council Tax overpayments that represent 177 cases and equates to £550,158.78.

9. Parking Services

9.1 The Parking Service investigations have resulted in eight parking fraud cases. Of these:-

- 7 cases resulted in convictions with fines amounting to £2,750 and costs in the sum of £1,450 which were awarded to the Council;
- One case was withdrawn following the issue of a caution.

10. Comments of the Chief Financial Officer

10.1 The comments of the Director of Resources have been incorporated in the report.

11. Concurrent Report of the Assistant Chief Executive_(Legal Services)

11.1 There are no immediate legal implications arising from this report.

12. Equal Opportunity Considerations

12.1 There are no specific Equal Opportunities issues arising from this report.

13. Anti-Poverty Considerations

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

14. Risk Management Implications

14.1 The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. Matters arising from proactive fraud work and issued identified from reactive fraud reviews are reported to management to reduce the Council's exposure.

15. Sustainable Action for a Greener Environment (SAGE)

15.1 There are no specific SAGE implications.

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Agenda Item 9c

Report To Audit Committee	Date 30th June 2008	Classification	Report No.	Agenda Item
Report From: Corporate Director of Resources Originating Officer(s) Minesh Jani – Service Risk Management Head of Audit Services-Tony Qayum		Title: Annual Fraud Plan 2008/09 Wards Affected : N/A		

1. Summary

- 1.1 This report provides the Committee with a work plan for proactive and reactive anti fraud work in 2008/09.

2. Recommendation

- 2.1 The Committee is asked to note the contents of the report.

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

Brief description of "background papers"

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

Minesh Jani, 0207 364 0738

3. Introduction

- 3.1 This report provides the Committee with a summary of the planned work to be carried out by the Corporate Anti Fraud Team in 2008/09.
- 3.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. The minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 3.3 The profile of fraud within local authorities has also been reflected by the Audit Commission, in the Use of Resources Assessment. The requirements reflect the expectations around the framework local authorities have in place, in respect of the prevention and detection of fraud. As such it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption work.

4. Annual Corporate Anti Fraud Plan 2008/09

- 4.1 Traditionally, anti fraud work has been included within the Internal Audit Plan. For 2008-09 the anti fraud element has been separated from the Internal Audit Plan to reflect the increasing priority that the service is giving to the corporate anti fraud work, although it still remains an integral part of internal audit team.
- 4.2 The overall aims and objectives which are consistent with the Council's Anti Fraud and Corruption Strategy are to :
- Highlight and promote the Council's commitment to stop fraud and corruption;
 - Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
 - Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
 - Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct, and of fraud and corruption.
- 4.3 The key drivers used to compile the corporate anti fraud plan for 2008/09 which have been built on experience are: -

- Fraud Risk Register (maintained by internal audit although refreshed by input from other services);
- Management requests and priorities;
- Local knowledge;
- Joint working arrangements - external (Department of Works and Pensions, Primary Care Trust, Police Other Local Authorities);
- Joint Working arrangements with other Council sections (payroll, pensions, parking services, benefits services, housing services; and
- Issues identified from planned audit work.

4.4 Our plan is attached as Appendix A. The focus of the plan is :-

- Planned worked for the impending Housing ALMO (Tower Hamlets Homes) focusing on commissioned work concerning Tenant Management Organisations, rent collection process, Tenancy Audits and rents restructuring;
- Continue to support the Authority on providing assurance on data quality on reviews best value performance indicators before publication, and audit along with “in year” support and training;
- Continue management of the National Fraud Initiative process for the Authority, ensure we meet our requirements under the Audit Commissions Code of Data Matching Practice, and that the exercise is appropriately resourced and finalised in time;
- Work jointly internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to provide anti fraud training and awareness to members and officers; and
- Publicise all our successes.

4.5 The plan has made provision for the existing resource plus a buy in of approximately 100 additional days, which represents 50% of that purchased in pervious years.

4.6 The following chart shows the available Corporate Anti Fraud Team resources for 2008/09 and resource required to complete the corresponding anti fraud work.

Reactive resources	Days
Head of Audit	190
NFI co-ordinator and Fraud Manager	200
Agency/bought in April 08	22
Additional bought in requirement	100
<i>total</i>	<i>512</i>

4. Comments of the Chief Financial Officer

5.1 The comments of the Corporate Director of Resources have been incorporated into the report.

6. Concurrent Report of the Assistant Chief Executive (Legal Services)

6.1 There are no immediate legal implications arising from this report.

7. Equal Opportunity Considerations

7.1 There are no specific Equal Opportunities issues arising from this report.

8. Anti-Poverty Considerations

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

9. Risk Management Implications

9.1 The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. Matters arising from proactive fraud work and issued identified from reactive fraud reviews are reported to management to reduce the Council's exposure.

10. Sustainable Action for a Greener Environment (SAGE)

10.1 There are no specific SAGE implications.

APPENDIX A

<u>Subject</u>	No of days	Broad scope	Risk	Source of Risk Area	Link with Corporate priorities
<u>Tower Hamlets Homes</u> Management Support and Advice	5		H	-	Efficient and effective services.
Audit work on SX3, Right to Buy and Utility Charges.	15	The work in these areas has been largely completed following initial requests by management. There is likely to be follow up work following management consideration.	H	Governance arrangements and Ethics	Efficient and effective services.
Anti Fraud Arrangements/ Joint Working and other unplanned contingency provision	30	This work includes the Fraud Forums, Training with the service on Anti Fraud and Corruption Strategy, Money Laundering etc. There is also a provision for in year unplanned investigations and support to management.	H	Governance arrangements and Ethics	Efficient and effective services.
<u>Housing Client</u>	<u>50</u>				
Housing client Contingency	45	Includes SX3 IT security review, NFI work for ALMO I	H	Governance Arrangements	Efficient and effective services.
RTB continuation	10	On-going in RTB sales	H	On-going	Efficient and effective services.
	<u>55</u>				

<u>Subject</u>	No of days	Broad scope	Risk	Source of Risk Area	Link with Corporate priorities
<u>Work in progress jobs B/F from 07/08</u>	<u>65</u>	Working in progress at end of 07/08 to be finalised in 08/09	H	On-going 07/08 plan	Efficient and effective services.
<u>Proactive Training and development</u>					
Anti fraud liaison groups development	5	Co-ordination of Teams working on anti fraud, sharing good practices and joint working arrangements	M	Governance Arrangements	Efficient and effective services.
Anti fraud training and development for members and services	10	Raise anti fraud aware to members and officers and embed fraud risk	H	Governance Arrangements	Efficient and effective services.
	<u>15</u>				
<u>Overall Governance</u>					
Reporting provision	10	Reporting anti fraud work and results to Audit Committee, Standards Committee and CMT	H	Governance Arrangements	Efficient and effective services.
Declaration of interests	1	Management of Internal Audit declaration of Interests	H	Accounts and Audit Regulations 2006	Efficient and effective services.
Review of Complaints	2	Reviews of complaints process	H	Governance Arrangements	Efficient and effective services.

<u>Subject</u>	No of days	Broad scope	Risk	Source of Risk Area	Link with Corporate priorities
FOI	5	Respond to FOI's	H	Reactive	Efficient and effective services.
Money laundering	10	Train, promote, monitor and report on money laundering issues.	M	Governance Arrangements	Efficient and effective services.
	32				
<u>Joint working with other agencies</u>					
DWP joint working and referrals and EQ1 employee related proactive	15	Joint working with DWP and Payroll Services on employee related issues.	H	Governance Arrangements	Efficient and effective services.
Police referrals	10	Support police on enquiries, particularly for recoveries relating to proceeds from crime.	H	Governance Arrangements	Efficient and effective services.
Joint working with PCT	10	Development of joint working exercises with Local PCT	H	Governance Arrangements	Efficient and effective services.
Joint working and referrals from other LA's	10	Continued joint working on referrals from other local authorities	M	Governance Arrangements	Efficient and effective services.
	55				

<u>Subject</u>	No of days	Broad scope	Risk	Source of Risk Area	Link with Corporate priorities
<u>BVPI management</u>					
BVPI 07/08 review	35	Examine BVPI returns for accuracy and compliance with definitions before publication and external audit	H	Corporate priority	Efficient and effective services.
BVPI workshops and 08-09 support	5	It year support to Services and assist with data quality testing	M	Corporate priority	Efficient and effective services.
	<u>40</u>				
<u>National Fraud Initiatives</u>					
NFI 06/07 finalisation	40	Review reports from 06/07 finalise close down in accordance with Audit Commission guidelines	H	Governance Arrangements	Efficient and effective services.
NFI 08/09 preparation, consultation, data collection and quality testing	20	Undertake consultations with all data subjects in line with 2008 Code of the data matching practice and manage the data collection process and data quality testing in line with timescales	H	Governance Arrangements	Efficient and effective services.
NFI 08-09 managing output/ training etc	25	Manage out put results, train all parties and partners enrolled on the 08/09 exercise		Governance Arrangements	Efficient and effective services.
	<u>85</u>				

<u>Subject</u>	No of days	Broad scope	Risk	Source of Risk Area	Link with Corporate priorities
<u>Planned other proactive work</u>					
Payroll proactive	20	CAATS review of payroll to test misuse by payroll users	H	Governance Arrangements	Efficient and effective services.
Purchase cards	15	Joint working with procurement management to improve the control environment on the verification of usage	H	Risk Register and audit reports	Efficient and effective services.
Parking Permits and Blue Badges	15	Review of the fraud arrangements for prevention and detection of abuse of permits and badges include data matching	H	Risk Register and NFI results	Efficient and effective services.
	<u>50</u>				
<u>Contingencies</u>					
Reactive contingency	50			Governance Arrangements	Efficient and effective services.
W/B during the year	30	Receive, log and investigates whistle blows, from the hotline and other referrals	H	Governance Arrangements	Efficient and effective services.
	<u>80</u>				
<u>total</u>	<u>512</u>				

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Report To Audit Committee	Date 30th June 2008	Classification	Report No.	Agenda Item
Report From: Corporate Director of Resources Originating Officer(s) Minesh Jani – Service Head, Risk Management Head of Audit Services-Tony Qayum		Title: Anti Fraud and Corruption Strategy Wards Affected : N/A		

1. Summary

This report provides the Committee with an update on the results of an independent review of the Council's Anti Fraud and Corruption Strategy.

- 1.1 The report also provides a corporate perspective on the effectiveness of the strategy and highlights existing areas of good practice with some areas for further enhancement to ensure that we continue to meet best practice.
- 1.2 A further report on the implementation of the recommendations of the report will be presented to the Committee in due course.

2. Recommendation

- 2.1 The Committee is asked to note the contents of the report.

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

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection
Minesh Jani, 0207 364 0738

3. Introduction

- 3.1 At a meeting on 17th April 2007 the then Audit Panel approved a revised Anti Fraud and Corruption Strategy. As part of our ongoing efforts to ensure the strategy remains relevant and meets best practice it has been subject to an independent review.
- 3.2 The review was undertaken by a former Head of Legal Services and evaluated the existing strategy against the following six key control objectives.

Control Objective 1:

Effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place.

Control Objectives 2 and 3

Officers are aware of the provisions of the Strategy, its purpose and their responsibility to report suspected fraudulent/corrupt activity. Officers and staff working for contracting organisations have confidence in the whistle blowing arrangements contained in the Strategy.

Control Objective 4

Proactive work is undertaken across departments to ensure that officers understand their role and responsibility in preventing and detecting fraud and corruption.

Control Objective 5

Successful cases of proven fraud/corruption are publicised to raise awareness.

Control Objective 6

Relevant officers and Committees are made aware of investigations which may effect their operations.

- 3.3 A review of evidence was undertaken against each of these tests and in addition, a survey of officers, members and partners including contractors and voluntary and third sector organisations was made to evaluate Objectives 2 and 3.

4. Key findings

- 4.1 The review found that against each of the tests undertaken, the Anti Fraud and Corruption Strategy had good outcomes and compared favourably against those authorities used to benchmark against us.
- 4.2 From each of the tests undertaken there are some suggestions to enhance the strategy further and these have been summarised under the relevant key control objective included within appendix A.

5 Comments of the Chief Financial Officer

- 5.1 The comments of the Corporate Director of Resources have been incorporated into this report.

6. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 6.1 There are no immediate legal implications arising from this report.

7. Equal Opportunity Considerations

- 7.1 There are no specific Equal Opportunities issues arising from this report.

8. Anti-Poverty Considerations

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

10. Risk Management Implications

- 10.1 The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. Matters arising from proactive fraud work and issued identified from reactive fraud reviews are reported to management to reduce the Council's exposure.

10. Sustainable Action for a Greener Environment (SAGE)

- 11.1 There are no specific SAGE implications.

Control Objective 1

Effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place.

Recommendations

- *Include in the Strategy, a reference to the availability of independent advice from Public Concern at Work.*
- *Amend the strategy to clarify the potential categories of complainant, the process for investigation that will be adopted for each type of complaint and where appropriate any applicable timescales.*
- *Amend the Strategy to specifically include contractors and the voluntary/third sector which are currently included in a general category of 'partner organisations'.*
- *Update the Strategy to make specific reference to the annual governance statement.*
- *Clarify the wording of the whistle blowing policy in relation to the confidentiality of complaints.*
- *Remove from the whistle blowing policy reference to the auditing of the registration and investigation of complaints by an external registered body.*
- *Develop a policy to cover non benefit related fraud prosecutions.*

Control Objectives 2 and 3

Officers are aware of the provisions of the Strategy, its purpose and their responsibility to report suspected fraudulent/corrupt activity. Officers and staff working for contracting organisations have confidence in the whistle blowing arrangements contained in the Strategy.

Recommendation

- *The strategy needs to be better communicated to consultants and agency staff.*

Control Objective 4

Proactive work is undertaken across departments to ensure that officers understand their role and responsibility in preventing and detecting fraud and corruption.

Recommendations

- *Include the Strategy as an item for CEDS and subsequently using the information cascade through management teams to reach staff across all directorates.*
- *Include the Strategy in the corporate induction arrangements for new employees and new Councillors.*
- *Include the Strategy in the employee Corporate Learning and Development Programme and the Member Learning and Development Programme.*

Control Objective 5

Successful cases of proven fraud/corruption are publicised to raise awareness.

Recommendations

- *Establish regular coverage of successful fraud prosecutions in Pulling Together and the Council's newspaper, for example by way of a monthly column.*
- *Use the Members' Bulletin, Head teachers' Bulletin and Managers' Briefing to publicise specific cases as appropriate to the subject area.*

Control Objective 6

Relevant officers and Committees are made aware of investigations which may effect their operations.

Recommendations

- *The new Audit Committee to retain a role similar to that of the Audit Panel in that the Committee's terms of reference include responsibility:*
- *To enable the Council to demonstrate a response to its fiduciary responsibilities for preventing fraud and corruption.*
- *To consider reports of audit together with specific investigations.*

Agenda Item 9e

Report To Audit Committee	Date 30th June 2008	Classification	Report No.	Agenda Item
Report From: Corporate Director of Resources Originating Officer(s) Service Head – Risk Management and Audit - Minesh Jani	Title: Progress on Follow-up Audits Wards Affected : N/A			

1. Summary

The Audit Panel at its meeting on 18th July 2007 requested an update on the progress made by Internal Audit in its programme of Follow-up Audits.

- 1.1 This report summarises the follow-up audit procedures in relation to a sample of follow up audits undertaken during 2007/08 and recommends escalation procedures to improve on the implementation of recommendations.

2. Recommendation

- 2.1 The Committee is asked to note the contents of this report and endorse the escalation procedures set out at paragraph 7.

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

Brief description of "background papers"

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

Minesh Jani, 0207 364 0738

3. Introduction

As part of the Resources Directorate Performance Monitoring process, the Internal Audit service has been given two performance indicators:-

- Outcome of Audit Plan completed in year to date.
- Percentage of Audit Recommendations implemented by Auditees by six monthly follow up audit stage.

3.1 The actual performance at the end of March 2008 in respect of the second indicator was 79% against the target of 95%.

4. Follow Up Audit Procedures

4.1 The CIPFA Code of Practice for Internal Audit (2006) defines the standards for undertaking internal audit function, including follow up arrangements. The Code requires the Head of Audit to determine the need for and the form of follow up audit action. This is in the form of six-monthly follow up review to be undertaken on each audit completed by Internal Audit. The responsibility for ensuring that agreed recommendations are implemented is that of management. The role of Internal Audit is to provide independent assurance by re-visiting the audits and undertaking appropriate audit tests to confirm that agreed recommendations have been implemented by management. In order to focus audit resources on critical risks, only high and medium priority recommendations are followed up.

4.2 In cases where agreed actions have not been effectively implemented by the agreed date, a Follow up Audit Report is submitted to the appropriate Service Head highlighting recommendations which have not been progressed or implemented. This report also emphasises the risks of not taking the agreed action.

5. Analysis of Follow Up Audits

An analysis was undertaken of a sample of 10 follow up audits carried out during 2007/08 financial year where recommendations had not been fully implemented. This showed that generally, there were a number of factors for this, which could be addressed by having a clear escalation procedure in place.

6. Escalation Procedure

6.1. In cases where agreed recommendations have not been implemented, a report is made to the appropriate Service Head, Corporate Director and the S151 officer. This report highlights the recommendations which have not been implemented and should ensure that the risks of not taking the agreed action have been understood and accepted. To ensure all recommendations are implemented in a timely manner, it is proposed that in addition to the existing arrangements, Audit will now submit a report quarterly to the CMT and the Audit Committee as part of its normal reporting cycle highlighting those recommendations that have not been implemented which can expose the authority to some level of residual risks.

7. Comments of the Chief Financial Officer

7.1 The comments of the Corporate Director of Resources have been incorporated into this report.

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

8.1 There are no immediate legal implications arising from this report.

9. Equal Opportunity Considerations

9.1. There are no specific Equal Opportunities issues arising from this report.

10. Anti-Poverty Considerations

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

11. Risk Management Implications

11.1 The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. By escalating agreed actions to key officers of the authority, it is envisaged that the authority's risks will be better managed thereby reducing the Council's overall exposure.

12. Sustainable Action for a Greener Environment (SAGE)

12.1 There are no specific SAGE implications.

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Agenda Item 9f

Report To Audit Committee	Date 30th June 2008	Classification	Report No.	Agenda Item
Report From: Director of Resources Originating Officer(s) Service Head – Risk Management and Audit - Minesh Jani	Title: Annual Governance Statement for the 2007/08 Accounts Wards Affected : N/A			

1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

2. Recommendation

- 2.1 The Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2. Agree the Annual Governance Statement for the financial year 2007/08 at Appendix 3.

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

Brief description of "background papers"

Working Files – AGS 07/08 – 3 files

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

Minesh Jani, 0207 364 0738

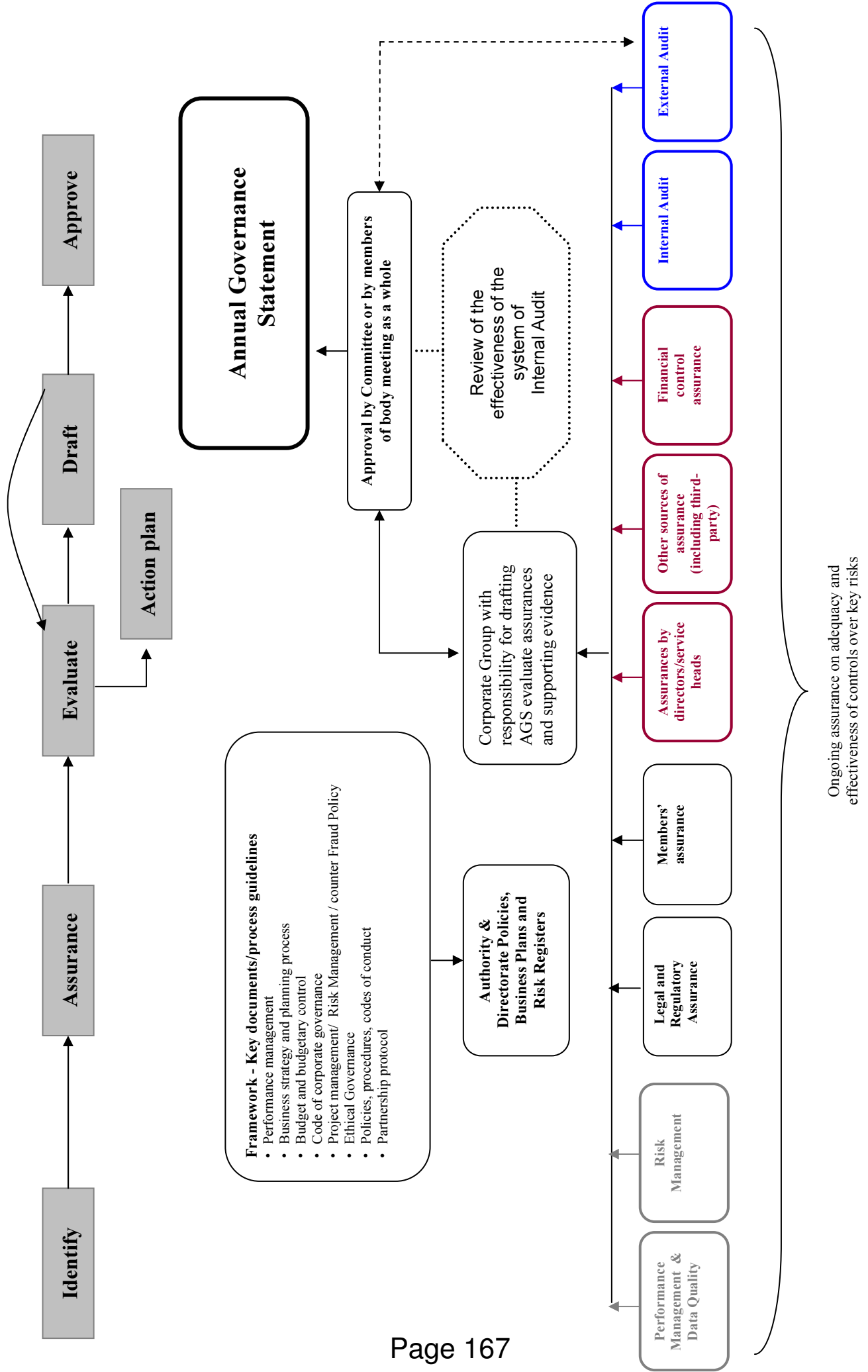
3. Background

- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2008 requires that the AGS be approved by the committee approving the accounts, which at Tower Hamlets is now the Audit Committee. Previously, this responsibility rested with the Pension & Accounts Committee.
- 3.2 The statement will be signed by the Chief Executive and the Leader. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Leader. CMT considered and approved the AGS at its meeting of 17th June 2008.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30th June 2008).

4. Reviewing the internal control environment

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
- Identify & review the internal control environment;
 - Obtain assurances on the effectiveness of those controls;
 - Evaluate those assurances and identify gaps in controls;
 - Plan actions to rectify those gaps; and
 - Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2006/07 statement.

Assurance Framework and the production of the Annual Governance Framework



5. Internal Control environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
 - ◆ The processes for identifying the risks to the achievement of those objectives; and
 - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2007/08.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was approved in March. The Constitution has been subject to a review in 2007/08 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested in July and November 2007. The Corporate Procurement Strategy was approved by Cabinet in November 2006.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

6. Sources of Assurance

- 6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

7. Annual Governance Statement

- 7.1 The draft Annual Governance Statement is attached at Appendix 3 and follows a similar structure to the Statement on Internal Control produced last year, but with increased scope to tailor the statement to Tower Hamlets environment.
- 7.2 The issues raised in 2006/07 are set out in the table below.

Issues in 2006/07 statement	Status
Review the arrangements for the Council's Audit Panel.	Completed, Audit Committee now established.
Further embed risk management by enhancing consistency across the organisation and providing training.	On-going, arrangements in place for training and providing workshops.
Test the updated and revised Business Continuity Plan.	Partly completed, the plan was tested but needs to ensure contingency arrangements are in place for key risks.
Maintain oversight of the creation of the Arms Length Management Organisation for Housing.	Partly completed, but the focus is now on delivering decent homes.
Implement the Financial Management Standard in primary schools and ensure all secondary schools meet the standard by March 2008.	Completed.
Improve the corporate coordination of asset disposal.	On-going, to be completed in 08/09.
Complete the implementation of the change programme of directorates.	Substantially completed.
Enhance arrangements for valuing Council's assets.	In progress, to be completed in 08/09.
Appoint staff in key posts.	Completed.
Continue initiatives to improve value for money.	On-going, with improvements in our arrangements for assessing VfM.
Revise the processes for submitting major housing grant claims.	Arrangements updated by providing training and setting out the processes.

Issues in 2006/07 statement	Status
Enhance arrangements over quality of working papers supporting the financial statements.	On-going, considerable changes made to focus on accurate preparation of accounts.

7.3 The penultimate section of the 2007/08 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows.

7.4 The Committee is invited to consider whether these represent the most significant issues affecting the Council.

- ◆ Embed the operations of the property services management unit;
- ◆ Further develop arrangements to optimise asset management across public services;
- ◆ Enhance arrangements for maintaining records of Council assets;
- ◆ Improve the Council's recycling arrangements;
- ◆ Ensure processes for managing sickness are effective;
- ◆ Refresh the Council's procurement function to secure additional capacity;
- ◆ Enhance the benefits derived from the implementation of the SX3 system;
- ◆ To further enhance the authority's Business Continuity Plans; and
- ◆ Maintain the ongoing drive to deliver decent homes standard by identifying and securing funding.

8. Comments of the Chief Financial Officer

8.1 These are contained within the body of this report.

8.2. Committee's approval of the Annual Governance Statement is a statutory prerequisite to approving the draft Statement of Accounts to be considered later on this agenda. The Annual Governance Statement forms a part of the draft Statement of Accounts.

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

9.1 The statutory requirements are referred to in the report and there are no other immediate legal implications arising.

10. Equal Opportunity Considerations

10.1 There are no specific Equal Opportunities issues arising from this report.

11. Anti-Poverty Considerations

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

12. Risk Management Implications

12.1 The implications arising from failure to control and management of risks could result in vulnerability to the systems of control that may be exploited. Matters arising from the annual governance statement are reported to management to reduce the Council's exposure.

13. Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications.

Internal Control Checklist (summary)

Step	Description	Assurance
Objective 1: Establishing principal statutory obligations and organisational objectives		
Step 1: Identification of principal statutory obligations	Constitution	Yes
	Committee terms of reference	Yes
	Scheme of delegation	Yes
	System to identify and disseminate changes in legislation	Yes
	Evidence of dissemination	Yes
Step 2: Establishment of corporate objectives	Community & strategic plans	Yes
	Consultation on plans	Yes
	Service planning framework	Yes
	communication strategy	Yes
Step 3: Corporate Governance arrangements	Local code of corporate governance	Yes
	Audit Commission Corporate Governance review	Yes
	CIPFA/Solace checklist action plan	Yes
	Committee charged with corporate governance	Yes
	Governance training for members	Yes
Step 4: Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	BVRs and benchmarking	Yes
	Inspection reports	Yes
Step 1:		
Risk Management strategy	Risk Management strategy	Yes
	Evidence of dissemination & review	Yes
Step 2: Risk Management systems & structures	Member forum	Yes
	Senior Mgmt Team reporting	Yes
	Member and officer lead	Yes
	Defined process for reviewing and reporting risk	Yes
	Corporate and departmental risk registers	Yes
	Insurance and self-insurance review	Yes
	RM training	Yes

Step 3:		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
	Objective 3 Identify key controls to manage principal risks	
Step 1:		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes

Summary of reports received in or pertaining to 2007/08

Reports	Reporting period	Report date
Annual Audit and Inspection plan	2007/08 accounts	March 2008
Opinion on Financial Statements	2007/08	September 2007
Approach to Value for Money	2007/08	November 2007
Use of Resources	2007/08	January 2008
Housing Benefit Service Inspection	2007/08	October 2007
Review of Housing Arrangement	2007/08	January 2008
Value for Money Conclusion	2007/08	September 2007
Data Quality	2007/08	Feb 2007
Final Accounts Memorandum	2007/08	Jan 2008
Review of Internal Audit	2007/08	Feb 2008
Grant Claim Report	2007/08	Feb 2008 (draft)
Annual Governance Report	2007/08	September 2007
Other		
DWP – Comprehensive Performance Assessment	2007/08	August 2007
CSCI Annual Performance Assessment of Social Care Service for Adult Services	2007/08	October 2007
Annual Performance assessment of services for Children and Young people	2007/08	November 2007

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Annual Governance Statement

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. Previously, this statement has been called the statement on internal control. This year the remit of the statement has been widened to address the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on citizens' behalf. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

Scope of Responsibility

Tower Hamlets 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, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council and the Chief Executive.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 achievement of Tower Hamlets' 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.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been place at Tower Hamlets for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

The Governance Framework***Vision and Priorities***

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and

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good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower hamlets Partnership) is refreshing the borough's Community Plan through to 2020. This will see four new Community Plan themes to make Tower Hamlets:

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership.

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were also discussed through the Tower Hamlets Partnership structures including at Community Plan Action Groups (CPAGs) and the Partnership Management Group (PMG). The Council's Corporate Management Team (CMT) and the Cabinet and other members have also had discussion about the Vision and Priorities for the new Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2008/09 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council will both lead and contribute to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's Strategic Plan fall within the Council's Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

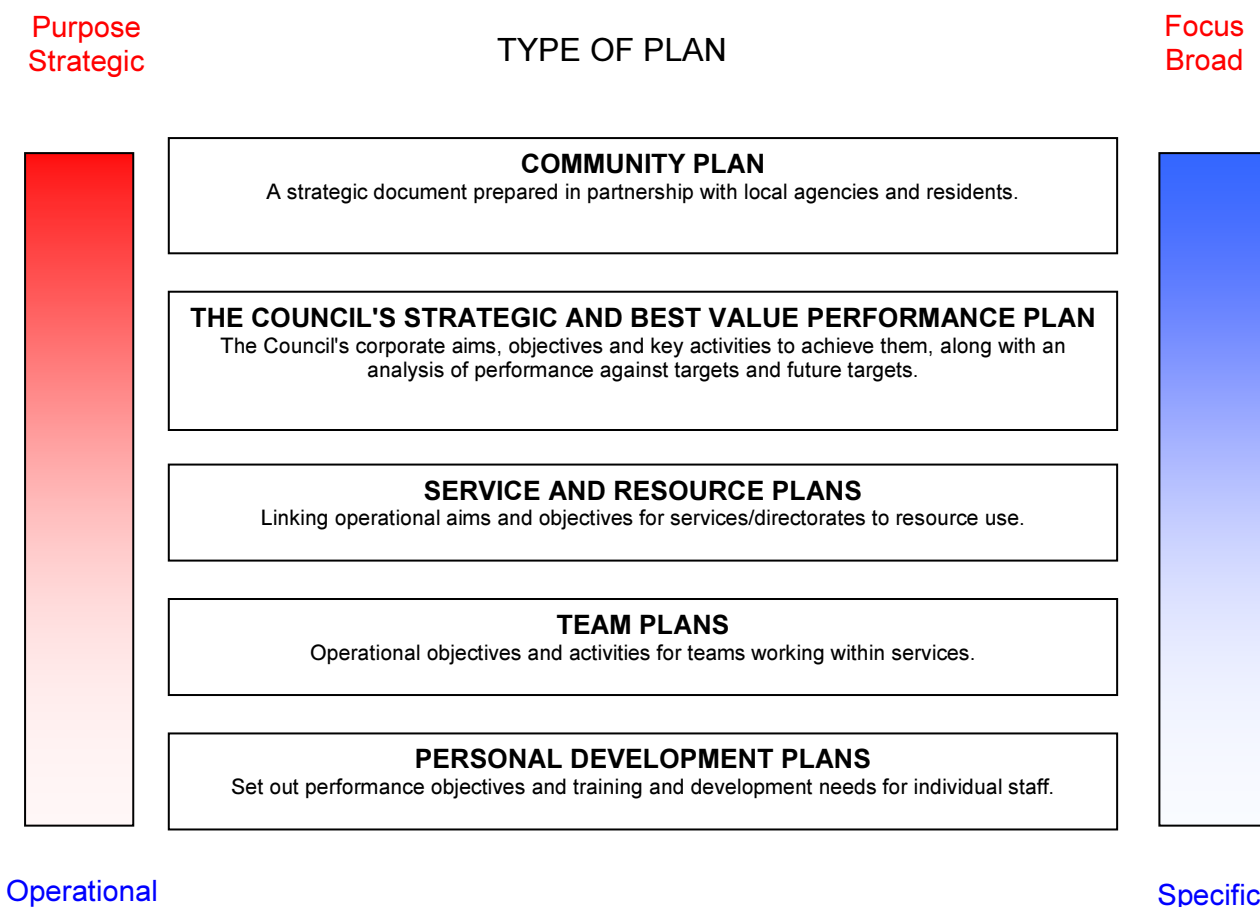
The Strategic Plan is refreshed each year through Overview and Scrutiny, Cabinet and Full Council. The Community Plan will be refreshed every three years.

Quality of Service

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

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The overall planning framework is illustrated in the following diagram.



Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a

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system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2007/08 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and online training is available to ensure every staff member understands their responsibilities. During the year the government issued a revised code of conduct for members which have been adopted by Tower Hamlets.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships. The Standards Committee was advised of the change and the revisions that were made to the code.

Compliance with Policies, Procedures, Laws and Regulations

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Instructions, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee reviews audit findings and the effectiveness of the internal audit function. The core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission.

Risk Management

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

Financial Management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Director of Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2007/08 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

The Efficient and Effective Use of Resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2007/08, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency.

Development and Training

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they can deliver excellent public service. These include a Leadership programme, specific training relating Recruitment and Selection, Risk Management, and computer based training.

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

Whistle Blow and the Complaints Procedure

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The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly newspaper, the award winning East End life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future. This year the Council has also carried out extensive work to refresh its Community Strategy. To ensure all residents had an opportunity to input into the strategy, the Council identified the hard to reach elements of the community and made arrangements to facilitate participation of these groups.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Action Groups for each of the key themes in the community plan and the Partnership Management Group, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings.

The Council also has important partnership arrangements with the local primary care trusts and has uniquely, appointed a Joint Director of Human Resources to work across both sets of organisations. It is intended that with this appointments and increasingly joined up working, the range of services offered by authority and the primary care trust are delivered seamlessly to the public.

There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

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 was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

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- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'three star' and improving strongly in its Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services have shown significant improvement whilst both Children's and Adults Social Care Services have been awarded 3 stars (out of 3) with excellent prospects for improvement. Children's Services received a score of 4/4 in its Annual Performance Assessment.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2007/08 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

The Corporate Governance Group

The Corporate Governance Group is a body comprising of key officers across the authority and chaired by the Assistant Chief Executive. The group meets regularly to review and assess the governance arrangements in place and as necessary, raise recommendations. Its findings are reported to the Standard or the Audit Committee depending upon the nature of the issue.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the cabinet and raises proposals for the Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they consider performance information. They also have a key role in reviewing and challenging the Cabinet's budget framework prior to consideration at full Council.

Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2007/08, the overall the control environment is adjudged to be satisfactory.

External Audit

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and

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- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements. With regards the overall Use of Resources, the Council attained a score of 3, with notable practice in financial standing. The score of 3 means the authority is performing well and consistently above the minimum requirement.

Significant Issues

The review of the effectiveness of the governance arrangements in 2007/08 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points.

- Embed the operations of the property services management unit;
- Further develop arrangements to optimise asset management across public services;
- Enhance arrangements for maintaining records of Council assets;
- Improve the Council's recycling arrangements;
- Ensure processes for managing sickness are effective;
- Refresh the Council's procurement function to secure additional capacity;
- Enhance the benefits derived from the implementation of the SX3 system;
- To further enhance the authority's Business Continuity Plans; and
- Maintain the ongoing drive to deliver decent homes standard by identifying and securing funding.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....
Chief Executive

Date:

.....
Leader

Date: