

Meeting of the

# AUDIT COMMITTEE

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Tuesday, 6 January 2009 at 7.30 p.m.

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## A G E N D A

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### VENUE

Meeting Room M71, Seventh Floor, Town Hall, Mulberry Place, 5  
Clove Crescent, London, E14 2BG

Members:	Deputies (if any):
<b>Chair: Councillor Joshua Peck (Lead Member Resources and Performance)</b>	
<b>Vice-Chair: Councillor Denise Jones</b>	
<b>Councillor Helal Abbas</b>	Councillor Rajib Ahmed, Designated Deputy Representing Labour Group
<b>Councillor Stephanie Eaton</b>	Councillor Shirley Houghton, Designated Deputy Representing Councillor Rupert Eckhardt
<b>Councillor Rupert Eckhardt</b>	Councillor Azizur Rahman Khan, (Designated Deputy representing Councillor Stephanie Eaton)
<b>Councillor Abjol Miah, (Leader of the Respect Group)</b>	Councillor Abdul Matin, (Designated Deputy representing Councillor Stephanie Eaton)
<b>Councillor Muhammad Abdullah Salique</b>	Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah)
	Councillor Tim O'Flaherty, (Designated Deputy representing Councillor Stephanie Eaton)
	Councillor Motin Uz-Zaman, Designated Deputy Representing Labour Group

**[Note: The quorum for this body is 3 Members].**

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: Zoe Folley Democratic Services, Tel: 020 7364 4877, E-mail: [Zoe.Folley@towerhamlets.gov.uk](mailto:Zoe.Folley@towerhamlets.gov.uk)

# LONDON BOROUGH OF TOWER HAMLETS

## AUDIT COMMITTEE

Tuesday, 6 January 2009

7.30 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

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.

### 3. UNRESTRICTED MINUTES

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 18<sup>th</sup> September 2008.

### 4. DEPUTATION AND PETITIONS

To receive any deputations or petitions.

### 5. ITEMS REQUESTED AT PREVIOUS MEETINGS

#### 5.1 Feedback Presentations - Nil/Limited Assurance

To receive presentations from services in relation to the Nil/Limited Level Assurances contained in the last Internal Annual Audit Report and the June to August Quarterly Assurance Report.

These presentations were requested at the last meeting in September. Items 5 and 7.1

#### 5.2 School's Internal Audit - Note to the Committee (Pages 7 - 10)

To consider the attached note to the Committee concerning the School's Internal Audit. This item was requested by the Chair of the Committee at its meeting on 30<sup>th</sup> June 2008.

## **6. UNRESTRICTED REPORTS FOR CONSIDERATION**

	<b>PAGE NUMBER</b>	<b>WARD(S) AFFECTED</b>
<b>6 .1 Quarterly Assurance Report - September to November 2008</b>	<b>11 - 40</b>	
To note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.		

	<b>PAGE NUMBER</b>	<b>WARD(S) AFFECTED</b>
<b>7. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION</b>		

<b>7 .1 Audit Progress Report</b>	<b>41 - 50</b>
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Audit Commission report attached.

<b>7 .2 Use of Resources - 2008/09 Assessment</b>	<b>51 - 66</b>
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To consider the attached Assessment.

<b>7 .3 Audit 2007/08 - Opinion Memorandum</b>	<b>67 - 84</b>
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To consider the report and attached Action Plan (Appendix 1).

## **8. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION**

<b>8 .1 Revised Audit Plan for 2008-09</b>	<b>85 - 114</b>
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To note the contents of the report and to endorse the changes to the 2008/09 Internal Audit Plan.

<b>8 .2 National Fraud Initiative And Anti Fraud Update</b>	<b>115 - 126</b>
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To note the contents of the report.

<b>8 .3 Annual Governance Statement For 2007/08 - Update</b>	<b>127 - 134</b>
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To consider the report and the actions in addressing the issues raised.

<b>8 .4 Risk Management Arrangements</b>	<b>135 - 142</b>
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Report on Risk Management Arrangements attached.

## **9. ANY URGENT UNRESTRICTED BUSINESS**

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# Agenda Item 2

## 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 7.30 P.M. ON THURSDAY 18<sup>TH</sup> SEPTEMBER 2008  
MEETING ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5  
CLOVE CRESCENT, LONDON, E14 2BG**

### Members Present:

Councillor Joshua Peck	Chair - (Lead Member, Resources and Performance)
Councillor Helal Abbas	
Councillor Denise Jones	Vice Chair

### Other Councillors Present:

None

### Officers Present:

Chris Naylor	– Corporate Director, Resources
Stephan Halsey	– Corporate Director Communities, Localities & Culture
Alan Finch	– Service Head Corporate Finance
Fiona Heyland	– Waste Services Group Manager
Minesh Jani	– Service Head Risk Management
Steve Lucas	– Audit Manager, Audit Commission
Steve Vinall	– Sector Manager, Deloitte
John Hayes	– District Auditor, Audit Commission
Daniel Hudson	– Democratic Services, Chief Executive's

## 1. APOLOGIES FOR ABSENCE

**RESOLVED** that apologies for absence be received on behalf of Councillors Eaton, Abdus Salique and Abjol Miah.

## 2. DECLARATIONS OF INTEREST

Councillor D. Jones declared an interest in Agenda item 7.1, Quarterly Internal Audit Assurance Report. The declaration was made on the basis that the report made reference to Tower Hamlets Homes and she was a member of the Tower Hamlets Homes Board.

**3. UNRESTRICTED MINUTES**

**RESOLVED** that the unrestricted minutes of the meeting held on 30<sup>th</sup> June 2008 be approved.

**4. DEPUTATIONS AND PETITIONS**

None were received.

**5. FEEDBACK PRESENTATIONS – NIL/LIMITED ASSURANCE**

Councillor Peck and Members of the Committee expressed concern at the non-attendance of any officers from Development and Renewal. It was **RESOLVED** that these concerns be expressed formally to the Chief Executive and that senior officers from Development and Renewal be instructed to attend the next meeting to reply upon the Limited Assurance (Extensive) given in relation to S.106 Planning Obligations.

**ACTION BY:**            **Democratic Services (DH)**  
                                 **Interim Corporate Director Development & Renewal**

The Committee then received a presentation from Stephen Halsey (Corporate Director Communities, Localities & Culture) and Fiona Heyland (Waste Services Group Manager) which detailed the actions that had been taken and were being prepared to tackle the points raised by the Limited Assurance (Extensive) given in relation to Waste Disposal Contract Monitoring. Members were informed that a revised Waste Strategy was being prepared and would be reported to Cabinet in the autumn 2008. More effective performance management arrangements were being introduced to support the relationship with the waste contractor and the overall waste process from collection to disposal was being reviewed.

Members thanked officers for the presentation.

**6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**

**6.1 Audit Progress Report**

Following a brief introduction during which the details of the Better Budget Management Toolkit was outlined it was **RESOLVED** that the report be noted.

**ACTION BY:**            **Steve Lucas (Audit Manager, Audit Commission)**



## 6.2 Annual Governance Report

The grounds for urgency for the submission of this report were detailed and accepted.

John Hayes (District Auditor, Audit Commission) comprehensively introduced the report and outlined the salient issues. He positively commented upon the actions and procedures undertaken by Tower Hamlets officers.

In relation to the comment made regarding 33-37 The Oval, Chris Naylor (Corporate Director Resources) started that a formal decision was still awaited from the Development Committee and following this more detailed assurance could be reported.

There followed a discussion in relation to the findings of the report and subsequent to this it was **RESOLVED** that the report be received and accepted.

## 7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

### 7.1 Quarterly Internal Audit Assurance Report

Minesh Jani (Service Head Risk Management) introduced the report and detailed the rationale for the Limited Assurance given to areas of Housing and Resources. He commented that in future Internal Audit finding relating to Housing would be reported to both this Committee and also the Board meetings of Tower Hamlets Homes.

This was welcomed by the Committee.

Councillor Peck recommended and it was **RESOLVED** that in future when Nil/Limited Assurances were reported then the service affected be required to attend the same meeting to outline the reasons why and actions in place to remedy this. In relation to Officers' Travel and Subsistence Allowances it was **RESOLVED** that Human Resources report back and explain the failure to expeditiously implement and action the majority of key recommendations.

Minesh Jani outlined the work being undertaken in relation to supporting Business Recovery and IT Continuity Planning. A verbal update would be provided at the next meeting.

Members expressed concern at the level of assurance given to the Control and Monitoring of CRB Checks. It was **RESOLVED** that an update be provided to the next meeting to ensure that actions had been taken to remedy this matter.

Therefore, it was **RESOLVED** that the report and the actions indicated above be approved.

**ACTION BY:**           **Minesh Jani (Service Head Risk Management)**  
**Joint Director of Human Resources**  
**Democratic Services**

**8. ANY URGENT UNRESTRICTED BUSINESS**

None was raised.

The meeting ended at 7.23p.m.

Chair,  
Audit Committee

## **Audit Committee 6<sup>th</sup> January 2009**

Note to Members of the Committee as to the financial and governance expertise given to the schools involved.

Schools' Internal Audit Reports:

- Standard agenda item on Children's Services DMT;
- Used by Children's Services Finance to feed into systems to determine schools requiring priority support;
- Audit assurance rating is used to target specific support to schools.

Many areas of concern are common to all schools and, coupled with specific intervention with schools the following areas have been highlighted:

### Governance

- Model Financial Code of Practice circulated and reiteration of the compulsory nature of the Scheme;
- Reminder issued to all schools re: expected standard of full governing body and committee meetings;
- Circulation of a 'Declaration of Pecuniary Interest' every September. In addition, many governing bodies have this declaration as an agenda item at each full meeting;
- minimum standards required from a clerking service;
- proposed review of outside clerking services and provide an approved list based on quality of training and standard.

### Personnel

- rolling programme of updating personnel procedures;
- termly meetings with Personnel providers;
- schools sickness management procedure reviewed and conducted training.

### Resource management / Budgetary control

- changes to Schools' Finance procedures include standardised formats for schools budgets and monitoring ;
- introduction of more robust monitoring of submissions;
- Update of Schools' Finance Manual;
- Standard documentation provided for Finance Scheme for schools, Model Scheme of Delegation, Model Best Value Statement and Model Whistleblowing policy.
- LBTH Benchmarking data for all schools in Tower Hamlets based on schools consistent financial reporting year end returns.
- Financial Management Standard in Schools (FMSiS) - The DCSf introduced the Standard to improve Financial Management in Schools. This is because effective financial management and benchmarking is

essential for schools in order that they can (a) exercise proper control and stewardship over the significant amounts of public money entrusted to them and (b) allocate and deploy resources effectively to meet school priorities for development and improvement

Of the 12 schools with limited assurance, 10 have passed their FMSiS and 2 are still to be assessed

Of the 9 schools with substantial assurance, all have passed FMSiS .

School Name	Internal Audit Assurance Opinion	Scale of Service	FMSiS
Beatrice Tate School	Limited	Moderate	Passed
Bigland Green Primary School	Substantial	Moderate	Passed
Blue Gate Fields Junior School	Limited	Moderate	Passed
Bonner Primary School	Substantial	Moderate	Passed
Bygrove Primary School	Substantial	Moderate	Passed
Canon Barnett Primary School	Limited	Moderate	Passed
Christchurch Church of England Primary School	Limited	Moderate	Passed
Chisenhale Primary School	Limited	Moderate	Passed
Clara Grant School	Substantial	Moderate	Passed
Cubitt Town Junior School	Substantial	Moderate	Passed
Globe Primary School	Limited	Moderate	Passed
Guardian Angles Roman Catholic Primary School	Limited	Moderate	Wave 2
Harbinger	Limited	Moderate	Passed
Hermitage Primary School	Substantial	Moderate	Passed
Marnier Primary School	Substantial	Moderate	Passed
Mowlem Primary School	Substantial	Moderate	Passed
Smithy Street Primary School	Limited	Moderate	Passed
Stebon Primary School	Limited	Moderate	Passed
St Anne's Roman Catholic School	Limited	Moderate	Passed
Stepney Green Coates Primary	Limited	Moderate	Wave 3
The Cherry Trees School	Substantial	Moderate	Passed

Note : Lawdale junior school have recently been assessed and passed the FMSIS assessment process.

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# Agenda Item 61

REPORT TO: <b>Audit Committee</b>	DATE <b>06 January 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>	<b>Quarterly Assurance Report</b>			
ORIGINATING OFFICER(S): <b>Service Head Risk Management</b>	<b>Ward(s) Affected: N/A</b>			

## 1. Summary

- 1.1. This report summarises the work of Internal Audit for the period September to November 2008.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. Recommendation

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

## 3. Background

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

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
<b>Substantial</b>	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
<b>Limited</b>	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
<b>Nil</b>	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or Scale of Service £1m- £5m.
<b>Low</b>	Low impact service area, Scale of Service below £1m.

## 4. Overall Audit Opinion

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

## 5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2008, 17 final reports have been issued. The findings of these audits are presented as follows:

- The chart below summarises the assurance rating assigned by the level of significance of each report.



- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

5.2. **Members are invited to consider the following:**

- The overall level of assurance provided (para 5.3-5.5).
- The findings of individual reports. CMT may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in appendix 1. For follow up audits, management comments have been added to accompany the summary of audit findings, outlining the current status of the recommendations raised and how the service plans to implement the recommendations. The management comments as such have not been verified by internal audit.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. See chart below :

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	0	4	5	0	0
	Moderate	0	2	3	0	0
	Low	0	2	1	0	0
<b>Total 100%</b>		<b>0</b>	<b>8 47%</b>	<b>9 53%</b>	<b>0</b>	<b>0</b>

5.4. From the table above it can be seen that of the nine finalised audits which focused on high risk or high value areas; four audits were assigned Substantial Assurance and the others Limited Assurance. A further five

audits were of moderate significance and of these, two were assigned Substantial Assurance. The remaining three audits were of low significance of which two were assigned Substantial Assurance.

- 5.5. Overall, 47% of audits resulted in an adequate assurance (substantial or full). The remaining 53% of audits have an inadequate assurance rating (limited or nil). Work in progress is shown in Appendix 3.

## 6. Performance Indicators

- 6.1. At the start of the year, two performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period April to October 2008.

Performance measure	Target	Actual
Percentage of Audit Plan completed in year to date	47%	46%
Percentage of Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	74%

- 6.2. The table above shows that the proportion of internal audit work completed to October 2008 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of recommendation implemented at the follow up stage has remained at around 74% over the last three quarters. At the CMT meeting on 16<sup>th</sup> December, the management team has tasked the Service Head, Risk Management to find ways of improving the percentage of recommendations implemented or being implemented by working with management as it was noted that this percentage has been below target for a number of months.

## 7. Comments of the Chief Financial Officer

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

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

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

## **9. One Tower Hamlets**

9.1 There are no specific one Tower Hamlets considerations.

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

## **10. Risk Management Implications**

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

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

11.1 There are no specific SAGE implications.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

*Minesh Jani, 0738*

Assurance level	Significance	Directorate	Audit title	
<b>LIMITED</b>	Extensive	Communities Localities Culture	Penalty Charge Notices - Follow up	
	Extensive	Resources	Procurement - Systems audit	
	Extensive	Resources	Bank Reconciliation - Follow up	
	Extensive	Resources	Creditors - Systems audit	
	Extensive	Resources	Payroll - Systems audit	
	Moderate	Communities Localities Culture	Highways Inspections - Follow up	
	Moderate	Tower Hamlets Homes	Unauthorised Occupants - Systems audit	
	Moderate	Children's Services	Lawdale Primary School - Regularity audit	
	Low	Communities Localities Culture	Street Works - Contract audit	
	<b>SUBSTANTIAL</b>	Extensive	Resources	Housing Benefit - Systems audit
		Extensive	Resources	Local Housing Allowance - System implementation
Extensive		Resources	Compensation Claims - Follow up	
Extensive		Children's Services	Grouped Schools PFI Contract Monitoring - Follow up	
Moderate		Resources	Acting- up and Honoraria Payments - Follow up	
Moderate		Children's Services	Home to School Transport for SEN pupils – Systems audit	
Low		Tower Hamlets Homes	Teesdale Estate Concrete Repairs - Contract audit	
Low		Communities Localities Culture	Street Lighting - Contact audit	

**Summary of Audits Undertaken**

**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Penalty Charge Notices Follow Up Audit	Nov. 2008	<p>This was a follow up audit on the administration of Penalty Charge Notices.</p> <p>Out of 13 recommendations made in the original report, we found that eight had been either progressed or fully implemented. The remaining five recommendations of which four were high priority recommendations had not been actioned.</p> <p>Our review found that procedures had not been fully updated to reflect current legislation and working practices, and systems to capture and monitor persistent offenders had not been established. A system of performance indicators to assess the efficiency and effectiveness of the service was still outstanding and accounting for debt was on cash basis. As a result, four further recommendations had been made in the report.</p> <p>All findings and recommendations were reported and agreed with the Service Head.</p>	Extensive ***	Limited **

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Penalty Charge Notices Follow Up Audit	Nov. 2008	<p><b>Management Comment:</b> -</p> <p>04.05 . The London Local Authorities &amp; Transport for London Act 2008 improves amongst other issues enforcement action against persistent offenders and recovery of all outstanding penalty charges. A pilot, organised by the London Councils is due to commence in January 2009 and it is anticipated that this power will be extended to non-pilot authorities on application after the trial period of 6 months. We will apply as soon as possible.</p> <p>Additionally we will be improving our current methods by generating reports of persistent offenders/evaders and taking appropriate removal action if the vehicle is parked in contravention of any regulations. Following the experience gained from the recent initiative with the Police/DVLA and Bailiffs on Persistent Evaders we intend to set up further exercises on a regular basis.</p> <p>We will also reactivate the refusal of renewal of Parking Permits for those with 3 or more PCNs at warrant stage.</p> <p>05.01 A Procedure Document has been prepared, reflecting current legislation/working practices and is to be distributed to all Parking Services staff dealing with Appeals and Write Offs.</p> <p>05.04 Performance Targets already apply for home workers and are to be introduced throughout the Appeals Team as a matter of urgency and officer performance will be monitored via existing controls and the PDR system.</p> <p>06.01 PCN debt is currently accounted for on an annual basis and is now managed by our accountant.</p>		

**APPENDIX 2**

**Limited Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Procurement Systems Audit	Sept 2008	<p>The objective of this audit was to review the systems for procuring goods, services and works to ensure that sound control exist to ensure value for money. Our review identified the following issues:-</p> <ul style="list-style-type: none"> <li>• The Procurement Strategy and Policy was not up-to-date and required to be reviewed. There were no up-to-date documented procedures for the Procurement Process and the forward procurement plan had not been fully developed.</li> <li>• The Exor system was used to select contractors for tendering and firms were being accredited according to gold, silver and bronze categories. However, the scoring system was not developed fully and any assessment of the contractor's performance was not fed back into the system, increasing the risk of contractors being selected who might not have performed well previously.</li> <li>• Where requisitions were signed by officers with delegated authority, they were not provided with details of the quotations received by procurement. There were also examples of delegated authority being obtained to complete requisitions, suggesting that this was a normal practice.</li> <li>• The contracts database was in place. However it did not provide a monitoring role. A system was required to ensure that the contracts register was supported by an appropriate monitoring function.</li> </ul> <p>The findings and recommendations were agreed with the Service Head - Procurement and reported to the Director of Resources.</p>	Extensive ***	Limited **

**APPENDIX 2**

**Limited Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Bank Reconciliation	Nov 2008	This was a follow up audit on the systems and controls for Bank Account Reconciliation. The original audit report was issued in March 2008.	Extensive	Limited
Follow Up Audit		<p>The follow up review highlighted that five of the six recommendations made in the original review had not yet been implemented. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Detailed procedure notes for the reconciliation process had not been prepared.</li> <li>• A complete review of all the Council's subsidiary bank accounts and responsibility for bank account management had not yet taken place.</li> <li>• Outputs relating to the review of bank account reconciliation processes had not been incorporated into the team plan.</li> <li>• There was still no system to ensure that all bank accounts were reconciled by Directorate Finance Managers and reported to the Corporate Director of Resources.</li> <li>• Finally, the fidelity guarantee insurance cover had not been based on a clearly documented risk assessment system.</li> </ul> <p>All findings and recommendations were reported to the Head of Corporate Finance.</p>	***	**



APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation Follow Up Audit	Nov 2008	<p><b>Management Comment: -</b></p> <p>Work has already started to implement the agreed recommendations, and where appropriate, additional steps are being taken by local management to improve the efficiency of the bank management reconciliation system. We intend to update our procedures to take account of changes arising from the recommendations raised by Audit and from the review carried out by the local management team. All recommendations will be fully implemented by January 2009 at the latest, as agreed with Audit.</p>		

**APPENDIX 2**

**Limited Assurance**

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Creditors Systems Audit	Oct. 2008	<p>The objective of the Authority's Creditors system is to ensure that payments are made accurately, cost effectively and in a timely manner for services and goods received.</p> <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"> <li>• Officers in the payments section do not always verify authorising signatures when invoices are submitted for payment processing. Further, authorising signatures on invoices submitted for payment are not always legible it is therefore difficult to confirm which officer authorised the invoice.</li> <li>• For a sample of payment transactions tested it was found that the purchase order reference number was not recorded on the supporting documentation.</li> <li>• There is no existing procedure to identify and investigate duplicate supplier details on the Creditors system.</li> <li>• Passwords are not necessarily alpha-numeric and do not necessarily incorporate letters of upper and lower case.</li> </ul> <p>The findings and recommendations were agreed with the Service Head - Revenues and reported to the Director of Resources.</p>	Extensive ***	Limited **

**APPENDIX 2**

**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Systems Audit	Nov 2009	<p>This audit sought to provide assurance over the soundness and adequacy of the payroll system. The following findings were reported:-</p> <ul style="list-style-type: none"> <li>• Generally, the systems for controlling new starters and amendments to payroll were adequate. However, not all payroll records set up on the system, were sufficiently evidenced to show that checks were undertaken by appropriate officers, as some signatories could not be matched to the register of authorised signatories.</li> <li>• The Resource Link (RL) system did not automatically provide an audit field in which to track changes to payroll/HR data. To manage the associated risk, there was a requirement for the inputting officer and the verifying officer to annotate the source document. However, we were able to verify segregation of duties in 25% (5/20) of the sample tested. Systems exception reports for starters and leavers were produced by Payroll to enable HR officers to verify that payroll details etc had been correctly set up. However, the effectiveness of these checks could not be verified as the checks were not being adequately evidenced.</li> <li>• We identified some cases of late notification of leavers to Payroll which resulted in overpayments to the leaver. These overpayments had to be recovered via the debtors system.</li> <li>• Improvements were needed in checking and processing of expenses claims.</li> </ul> <p>All findings and recommendations were agreed with the Interim Assistant Director – HR and Payroll.</p>	Extensive ***	Limited **

**APPENDIX 2**

**Limited Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Highways Inspections Follow Up Audit	Oct. 2008	<p>This was a follow up audit of the systems and procedures surrounding the arrangements and monitoring of Highway inspections carried out as part of the 2007/08 Audit Plan. The Final Report on the subject was issued in January 2008.</p> <p>The Follow-Up review has found that out of 16 recommendations made in the original report, 3 high priority recommendations have still to be fully addressed and a further 3 recommendations were outstanding as the implementation date was March 2009. Although the control environment appeared to have improved, some of the key recommendations relating to the development of an Asset Management System which record and log highways inspection results on a systematic and standardised manner are still outstanding.</p> <p>All the findings and recommendations of the Follow up audit were reported to and agreed with the Service Head, Public Realm.</p>	Moderate  **	Limited  **

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Inspections Follow Up Audit	Oct. 2008	<p><b>Management Comment: -</b></p> <p>All outstanding recommendations are dependent upon the establishment of an Asset Management system. Public Realm has been working with ICT for the past year to implement this system but difficulties have been encountered with Phase 1 which have delayed the entire process and led to a review of software systems and externalisation of support. However, ICT are now reviewing the requirements for this system and we hope to progress rapidly to implementation of the next modules of the Asset Management System.</p>		

**APPENDIX 2**

**Limited Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
<p>Unauthorised Occupancy Systems Report</p>	<p>Sept. 2008</p>	<p>This audit sought to provide assurance on the soundness of systems in place for preventing, detecting and managing unauthorised occupancies of Council owned dwellings.</p> <p>Our review highlighted that there were procedures for dealing with cases of unauthorised occupants identified during tenancy audits. Tenancy audits were being undertaken in all the then Local Housing Offices other than Spitalfields LHO, where no evidence was available of recent tenancy audits. We also noted there was a need to have an overarching strategy to prevent and detect unauthorised occupancy, which could be managed better if there was joined-up working between various departments of the Council e.g. Housing Benefit and Housing. Initiatives such as more publicity of prosecutions of identified unauthorised occupants, photo identification procedure and better communication on progress of individual cases between legal officers and housing officers were also recommended. Although there was some management information including performance data that was produced and reported to senior management through the unauthorised occupancy working group, the performance measures could be made more meaningful with specific indicators and targets for unauthorised occupancies.</p> <p>All findings and recommendations were reported and agreed with the then Interim Chief Executive of THH.</p>	<p>Moderate **</p>	<p>Limited **</p>

**APPENDIX 2**

**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lawdale Primary School	Sept 2008	<p>The objective of the regularity audit was to provide assurance that systems for governance and financial management were sound. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• The school's Governing Body had not approved the School Development Plan.</li> <li>• The school's charging and remission policy had not been formally approved by the Governing Body.</li> <li>• The projected cash flow income and expenditure statements were not being prepared.</li> <li>• The control for collecting and banking of school income was weak. There was poor separation of duties, increasing the risk of error, omission and irregularities occurring.</li> <li>• The system for managing the school voluntary fund account was inadequate. This account had not been independently audited.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate **	Limited **

## APPENDIX 2

### Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Street Works Systems Audit	Sept. 2008	<p>The New Roads and Street Works Act 1991 gives Street Authorities like LBTH, the power to inspect, investigate and report on undertakers' (mainly utility companies) performance on works and re-instatements. The objective of this audit was to assure management that the systems for managing, controlling and monitoring Street Works were sound, and secure. Our review highlighted the following issues:-</p> <ul style="list-style-type: none"> <li>• All work schemes requiring re-instatements were notified to the Council by the utility companies, so that required sample inspections can be carried out by the street works team. Generally, the system for sample selection and inspection was adequate.</li> <li>• However, the street works team required clear policies and procedures to ensure that key risks and priorities were addressed by the team. The team also needed a clear direction to ensure that its objectives, priorities and work programmes were clearly defined and performance controlled and monitored on a regular basis.</li> <li>• There was not much evidence to show that the performance of different utility companies the team dealt with, was being monitored and reported. Moreover, the budget for income needed to be reviewed to make sure that it was related to the level and volume of activities undertaken by the team.</li> </ul> <p>The findings and recommendations were reported and agreed with the Service Head, Public Realm.</p>	<p>£150k Income 2007/08</p> <p style="text-align: center;">*</p>	<p>Limited</p> <p style="text-align: center;">**</p>



**APPENDIX 2**

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Benefits Systems Audit	Nov 2008	<p>This audit reviewed the systems and controls in place for the administration of Housing Benefits. The main issues are summarised below:</p> <ul style="list-style-type: none"> <li>• Total data migration occurred on introduction of the SX3 system in 2004. When data was loaded from the old system the normal front-end validation input was avoided. Testing revealed that the system will not stop users from entering a duplicate NI number, it will however display a warning message on the screen.</li> <li>• For 3 out of 10 officers sampled, access to the Benefits system did not match the officers' job role. In one further case Housing IT could not locate an access authorisation.</li> <li>• Of the recommendations raised as part of the May 2007 internal audit report, two have been implemented, one is partly implemented and six are not implemented. This is not deemed to be a sufficient level of implementation of agreed recommendations.</li> </ul> <p>The findings and recommendations were agreed with the Service Head – Central Housing Services, the Benefit Services Manager and reported to the Service Head – Customer Access.</p>	Extensive ***	Substantial ***

**APPENDIX 2**

**Substantial Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Local Housing Allowance Implementation Review	Sept 2008	<p>Local Housing Allowance is a reform to Housing Benefit. The new scheme introduced from 7<sup>th</sup> April 2008, brings in major changes to the way Housing Benefit is assessed. The benefit will now be based on Local Housing Allowance rates (LHA's), which are rents charged for accommodation which is based upon the area in which claimants live and the number of occupiers in their property.</p> <p>The objective of this audit was to provide assurance over the implementation of the new system.</p> <p>Our review found that overall; the implementation of the LHA scheme was managed and controlled adequately. There was a Project Plan in place which identified key tasks and milestones. Staff and other stakeholders were trained and IT application was tested before the system was introduced. The only area of the Project Plan that was not achieved on time related to publicity through leaflets, posters and the Council's website section on Housing Benefit.</p> <p>All findings and recommendations were reported and agreed with the Service Head – Customer Access.</p>	Extensive ***	Substantial ***

**APPENDIX 2**

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compensation Claims Follow Up Audit	Nov 2008	<p>The objective of this audit was to follow up the progress on 11 recommendations made at the conclusion of the audit on the management of Compensation Claims. The review highlighted the following:-</p> <ul style="list-style-type: none"> <li>• A Strategy document required to be implemented and the formula for calculating recharges had to be included in the Budget Practitioners Guides, following formal agreement. The agreed formula needed to be applied to all Directorates.</li> <li>• Periodic reports on claim projections and likely recharges to individual Directorates had to be prepared so that their budgetary position can be monitored. Local performance indicators still required to be agreed to monitor the efficiency and effectiveness of the service</li> </ul> <p>All findings and recommendations were reported and agreed with the Service Head, Risk Management.</p>	Extensive ***	Substantial ***

**APPENDIX 2**

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Grouped Schools PFI Follow Up Audit	Oct. 2008	<p>This audit followed up the progress made in implementing the 15 recommendations agreed at the original audit which reviewed the controls over the monitoring of the Facilities Management element of the PFI Contract. The following findings were reported:-</p> <ul style="list-style-type: none"> <li>• Some key recommendations were implemented. Following the helpdesk review and re-training, the contractor had revised systems and documentation to provide confidence to the client side on the accuracy of works completion dates. As part of the strengthened monitoring, the client's scrutiny of the contractor's monthly report to ensure correct logging of performance, availability, priority, service area and location identified a significant number of errors. A substantial financial settlement in the sum £206k had been agreed to recognise this and new procedures, training and management processes had been introduced by the Contractor.</li> <li>• Some recommendations which were assigned to LBTH officers initially, have now been assigned to the contractor due to the self monitoring aspect of the contract. Furthermore, there was a proposal to amend some clauses to include the requirement that the contractor must inform the LA whenever an extension of time is necessary and the valid reasoning behind it. This should improve the control, although we have noted that some of the action points will need to be continually monitored by the client side management.</li> </ul> <p>All findings and recommendations were reported to the Corporate Director and agreed with the Service Head – Resources.</p>	Extensive ***	Substantial ***

**APPENDIX 2**

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Acting and Honoraria Payments Follow Up Audit	Sept. 2008	<p>The objective of this audit was to follow up the progress made in implementing the eight recommendations made at the conclusion of the original audit. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Revised guidance on Acting and Honoraria payments was to be reported to the CMT at the time of the follow up audit for approval before Trade Unions were consulted on the procedure. This was subsequently reported in July 2008.</li> <li>• The system for checking and approving monthly returns needed to be standardised, as HR officers were still found to be certifying the monthly returns rather than the Directorate Service Heads.</li> <li>• Corporate HR had instigated a review of Acting and Honoraria Payments, however, we could not evidence that there had been quarterly reports produced for both DMT and CMT.</li> <li>• File control system had to be strengthened.</li> </ul> <p>All findings and recommendations were reported and agreed with the Joint Director of HR.</p>	Moderate  **	Substantial  ***

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Home to School Transport for Children with Special Educational Needs Systems Audit	Nov. 2008	<p>The aim of the audit was to provide assurance over the soundness and adequacy of the systems for managing Home to School transport for children with special educational needs. The Transport Services Unit (TSU) are responsible for the provision on behalf of Children's Services in accordance with statutory duty under the Education Act 1996 Section 159. The client side functions are undertaken by Children's Services who hold the budget for the service. The following findings were reported:-</p> <ul style="list-style-type: none"> <li>• The system for assessing transport needs and for requesting the journeys from TSU was adequate.</li> <li>• The contractors providing the transport service were selected following a competitive tendering process.</li> <li>• There was a clear Council policy for the provision of Home to School Transport for children with SEN, however, this policy required to be supported by written procedures within Children's Services.</li> <li>• There were some weaknesses in receiving and controlling quotes for additional journeys due to weak evidence of segregation of duties within TSU. Moreover, the system for scheduling journeys also needed to be reviewed by the TSU.</li> </ul> <p>The findings and recommendations were reported to and agreed with the Service Head, Public Realm and Service Head, Resources (CS).</p>	<p>£930k contract value</p> <p>**</p>	<p>Substantial</p> <p>***</p>

## APPENDIX 2

### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Teesdale Estate – Concrete Repairs and Associated Works</p> <p>Current Contract Audit</p>	<p>Sept. 2008</p>	<p>This audit examined systems for controlling and monitoring cost and works programme for the capital project which involved concrete repairs, replacement of asphalt to balconies, external redecoration and associated works to 3 residential blocks. The works were issued under the Framework Partnering Agreement and the following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Generally the controls for procuring works, managing the works programme, making interim payments and controlling variations were sound. There was a performance bond in place and works on site commenced after the H&amp;S Plan was approved.</li> <li>• However, the policy and procedures for allocating works to a partner contractor needed to be clarified. The basis on which the contractor calculated the contract estimate was not clear, as there were no draft measurements, work specification and QS reviews to support the calculations. The processes for calculating and reviewing contract estimates needed to be documented.</li> <li>• The cost reports were prepared by contractor's QS, rather than client QS. The responsibilities and accountabilities of client's QS in Framework Partnership Agreements, required to be specified clearly to demonstrate accountabilities. We also noted that the contract has yet to be bound by deed.</li> </ul> <p>All findings and recommendations were agreed with the Interim Head of Asset Management and final report was issued to the Interim Chief Executive of THH.</p>	<p>£673K</p> <p>**</p>	<p>Substantial</p> <p>***</p>

**APPENDIX 2**

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Street Lighting Systems Audit	Sept. 2008	<p>The objective of this audit was to provide assurance that the systems for managing, controlling and monitoring the street lighting works were sound and secure. Our review identified the following key issues:-</p> <ul style="list-style-type: none"> <li>• Generally the systems in place for managing and controlling street lighting works were adequate. There was an inventory of street lighting and furniture, which was updated. There was an inspection programme undertaken by the scouts on a cyclical basis, and the required works were reported to the lighting contractor on a daily basis. For works originating from scout reports, the contractor provided notification of works completion the following day and hence post-inspections were carried out the following day.</li> <li>• However, for jobs originating from customer complaints and from other agencies (e.g. police), notifications of completed works were not provided by the contractor the following day. Therefore, post-inspections could not be carried out until after the invoices were received. Hence there was no assurance that these works were carried out within the required time.</li> <li>• Our review also found that some local performance indicators required to be established to measure and assess the efficiency and effectiveness of the service.</li> </ul> <p>All findings and recommendations were reported and agreed with the Service Head, Public Realm.</p>	£550K *	Substantial ***



**Audit Plan 2008/09****Work in progress**

<b>Audit Activity</b>	<b>Audit status</b>
<b>Corporate Systems and Council-wide Reviews</b>	
Mapping of Material Systems	On-going
Project Management	Draft Report
Local Area Agreements	Draft Report issued
Procurement of Mobile Phones	Exit Meeting
BV Performance Indicators	Draft Report
Scheme of Delegation	Field work
<b>Assistant Chief Executive's</b>	
Communications Strategy	Exit Meeting
Members Code of Conduct – Follow up audit	Draft report
<b>Children's Services</b>	
Contract Services Income Collection and Monitoring	Audit Brief stage
Building Schools for the Future – Pre-contract audit	Draft Report
Marners school - Current contract audit	Field work
Student Finance FU	Draft report
<b>CLC</b>	
Boroughwide waste collection and cleansing contract - FU	Field work

<b>Audit Activity</b>	<b>Audit status</b>
Canary Wharf Idea Stores FU	Draft report
Blue Badges systems audit	Field work
Brady Arts Centre	Draft report
Fuel Purchase - Transport	Field work
The Car Pound – FU audit	Field work
<b>Development and Renewal</b>	
S 106 planning obligations – FU	Field work
Management of Commercial Property portfolio	Exit meeting
<b>Tower Hamlets Homes</b>	
Management of Voids	Draft report
Kerry House – Central Heating works, Current Contract Audit	Draft report
Gas repairs and maintenance – FU audit	Field work
RTB – FU audit	Field work
Grounds Maintenance – Contract Monitoring	Draft report
<b>Adult, Health and Wellbeing</b>	
Homeless Assessment – systems audit	Draft report
Commissioning of Elderly services	Draft report
Family Rent Deposit Scheme FU audit	Draft report
Sickness Management FU audit	Field work
Direct Payments - FU	Draft report
Supporting people – systems audit	Field work

<b>Audit Activity</b>	<b>Audit status</b>
<b>Resources</b>	
Council Tax	Field work
NNDR	Field work
Treasury management	Field work
Bank Reconciliation - FU	Draft report

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# Progress Report

**London Borough of Tower Hamlets**

Audit 2008/09

**Audit Committee 6 January 2009**

**(Written 15 December 2008)**

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## 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.

# Summary

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## Introduction

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 September 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.

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## 2007/08

We prepared and agreed the 2007/08 Audit and Inspection Plan with officers in April 2007 and presented it to the Audit Panel in July 2007. Since the last Audit Committee, in respect of the 2007/08 audit, we have:

- Signed an unqualified audit opinion on the financial statements;
- Signed an unqualified value for money conclusion; and
- Issued and finalised our opinion memorandum (separate item on the agenda).

There are three items to be completed in respect of the audit and inspection plan and these are:

- The audit certificate has not yet been issued due to questions raised by a local elector - we have responded to the questions raised by the local elector and have given them a timeframe to raise any further questions;
- Our review of procurement is in progress and an initial draft report on the first stage of the review has been issued; and
- Our Annual Audit and Inspection Letter will be produced in February summarising our findings for the year including the Direction of Travel results where the work is currently in progress.

In addition, the work on government grant claims is well progressed and we have completed ten of the eleven claims with three of them receiving qualified audit certificates.

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## 2008/09

Our work on the 2008/09 audit is progressing well and since the last Audit Committee we have;

- Issued unreserved opinions on the four Performance Indicators we audited;
- Completed our work on data quality which fed into our unqualified value for money conclusion;
- Agreed project specifications for our follow up work on moving towards Decent Homes standards and also our work on temporary accommodation arrangements;

- Completed our Use of Resources assessment and issued our report (separate item on the agenda);
- Started the detailed work on the Direction of Travel assessment; and
- Commenced our work on the key financial systems of the Council.

Appendix 1 shows details of all work planned in respect of 2008/09.

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### 2009/10

Over the next few weeks we will be starting to plan the 2009/2010 audit and inspection programme. This will include exploring our initial thoughts and ideas with officers. We would be interested if Members had any views on where it might be beneficial to the Council for audit to consider and this can be feedback to ourselves either directly or via officers.

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### Recent Audit Commission publications

#### **Clarifying joint financing arrangements A briefing paper for health bodies and local authorities**

This briefing aims to demystify pooled funds and Section 75 of the NHS Act 2006 and reviews the current range of joint financing arrangements between NHS bodies and local authorities across health and social care. It is the first in a series of publications relating to a national study which is due to be published in spring 2009

#### **Are we there yet? Improving governance and resource management in children's trusts (October 2008)**

This report examined the progress local councils and their partners are making in developing children's trusts. The report concludes that the 'children's trusts' created by the government after the death of Victoria Climbié have been confused and confusing. Five years after the green paper Every Child Matters and eight years after the child's death, 'there is little evidence of better outcomes for children and young people' resulting from the requirement that local areas in England set up arrangements to coordinate children's services. A third of directors of children's services say that their partner organisations are 'unclear' of the purpose of children's trusts, and the uncertainty is hampering their efforts to deliver better services. However the study did find that progress has been made in bringing professionals together, but sometimes by navigating around the 'centrally-directed approach'. Local agreements worked better than external direction.



## Summary

### **National school survey results 2008 - The School Survey, England (October 2008)**

The School Survey is a collaborative tool developed by the Audit Commission in partnership with Ofsted, Estyn, Wales Audit Office, councils, and headteacher and governor associations. The survey has been in operation as a national annual online exercise since summer 2002. The primary purpose of the school survey is to act as a source of evidence about schools' perceptions of the support provided by their council and the services provided locally for children and young people.

### **Back to Front Efficiency of back office functions in local government**

Councils in England have made significant steps to improve their internal efficiency. Between 2005 and 2008, following the 2004 Spending Review, £4.3 billion efficiency gains were diverted to improve services and manage the level of council tax back office activity - the behind-the-scenes work that supports services for the public - is an important source of efficiency gains. This report reviews how councils made back office efficiency gains and identifies lessons for the future.

### **Well Disposed: responding to the waste challenge (September 2008)**

This report looks at how English councils are responding to the challenge of finding new ways to dispose of the country's waste which has traditionally been buried in landfill sites. The study reviews progress against meeting targets and allowances, models the costs to councils under different scenarios, and evaluates the quality of strategic planning and local decision-making.

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## **Comprehensive Area Assessments (CAA)**

CAA looks at how well local services are working together to improve the quality of life for local people. It will make straightforward independent information available to people about their local services, helping them make informed choices and influence decisions.

For the first time, local public services will be held collectively to account for their impact on better outcomes. This means that CAA will look across councils, health bodies, police forces, fire and rescue services and others responsible for local public services, which are increasingly expected to work in partnership to tackle the challenges facing their communities.

The latest consultation ended in October 2008 and the final framework will be published in the New Year with the first results issued in Autumn 2009.

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## Use of resources

The assessment has been revised to meet the needs of CAA; it assesses use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places new emphasis on commissioning services for local people and achieving value for money.

Auditors will produce a judgement for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance; and
- managing resources - focusing on the effective management of natural resources, assets and people.

Guidance for auditors was issued in November 2008 and this has been made available to councils. Consultation on the scoring model has recently been closed and will be finalised in the New Year. The first assessments will be carried out during the summer of 2009.

# Appendix 1 Progress on 2008/09

**Table 1 Progress on 2008/09 outputs**

Product	Tower Hamlets lead	Audit Commission lead	Timing	Current position
<b>The Accounts</b>				
Work on financial systems	Alan Finch	Sharon Martin/ Malcolm Cox	December 2008 – July 2009	Planning undertaken and detailed work due to start in January
Financial statements; <ul style="list-style-type: none"> <li>● opinion;</li> <li>● ISA 260 report; and</li> <li>● opinion memorandum</li> </ul>	Chris Naylor/Alan Finch	Jon Hayes/Sharon Martin/Malcolm Cox	July - September 2009	
<b>Use of resources</b>				
Homelessness	Jackie Odunoye	Vipul Thacker/ Steve Lucas	December 2008 - March 2009	Set up meeting held 15 September 2008 - work delayed to fit in with other workstreams.
Housing arrangements	Jackie Odunoye	Vipul Thacker/ Steve Lucas	September 2008 – January 2009	On site visit and interviews held, additional documents being supplied by officers.
Governance arrangements in partnerships	To be confirmed	To be confirmed	To be confirmed	

<b>Use of resources (Contd)</b>					
Value for money conclusion	Martin Smith/ Chris Naylor	Jon Hayes/ Sharon Martin	August 2008 - September 2009		
Data quality arrangements Performance Indicators	Lucy Sutton	Steve Lucas/ Neil Whalley	June - November 2008	Work completed and key messages feedback on data quality - report to be issued early in January 2009. Performance indicators audited as required and unqualified opinion given on the four indicators tested in detail.	
Use of resource judgements	Chris Naylor/Alan Finch	Jon Hayes/ Steve Lucas/ Rama Krishnan/ Paul Jacklin	August - November 2008	Use of Resources scores and report issued.	
<b>Inspection and CPA</b>					
CPA/ Direction of Travel	Martin Smith/ Alan Steward	Adewale Kadiri/ Jon Hayes / Neil Foss	October 2008 - January 2009	Work currently in progress with draft 180 words and Direction of Travel score due in January 2009.	
<b>Overall</b>					
Annual Audit and Inspection Letter	Martin Smith/ Chris Naylor	Adewale Kadiri/ Jon Hayes / Steve Lucas	February - March 2009		
<b>Grant claims</b>					
Claims for year ended 31 March 2009	Alan Finch/Akrom Miah	Sharon Martin/Malcolm Cox	April - December 2009		

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## 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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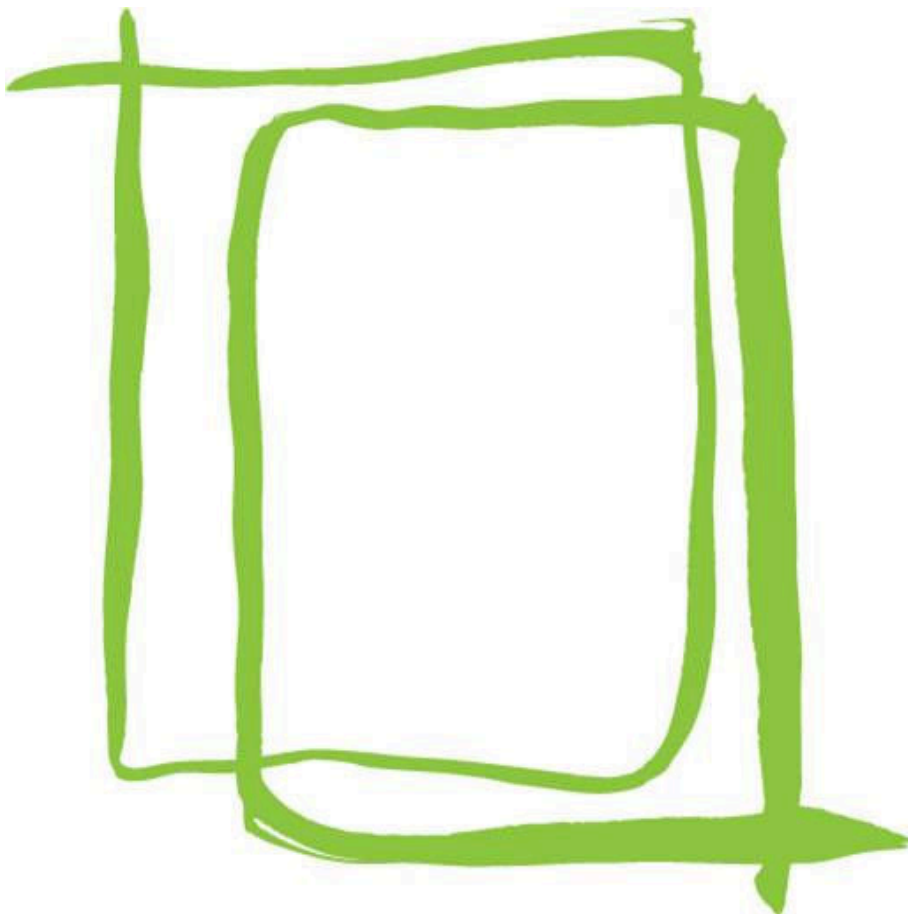
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# Use of Resources

London Borough of Tower Hamlets

Audit 2008-2009

November 2008



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- any third party.



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# Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the Council and is the last under the Comprehensive Performance Assessment (CPA) framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment (CAA). The Use of Resources assessment focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
  - reflect developments in professional guidance, legislative requirements and best practice; and
  - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

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**Table 1 Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.

- 5 The five theme scores for London Borough of Tower Hamlets are outlined overleaf. These scores are still subject to confirmation by our national quality control process. This seeks to ensure consistency across all suppliers and on a national basis. Consequently we are informing you that the scores reported here may change as a result of national quality control and should not be taken to be final. Following completion of national quality control, the Commission will notify you of your Council's overall score for use of resources and supporting the theme scores. This is scheduled for 8 December 2008.
- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

# Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

<b>Key lines of enquiry (KLOEs)</b>	<b>Score 2008</b>	<b>Score 2007</b>
<b>Financial reporting</b>	<b>2</b>	<b>2</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	2	1
1.2 The Council promotes external accountability.	3	3
<b>Financial management</b>	<b>3</b>	<b>3</b>
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	2	2
<b>Financial standing</b>	<b>3</b>	<b>4</b>
3.1 The Council manages its spending within the available resources.	3	4
<b>Internal control</b>	<b>3</b>	<b>3</b>
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	4	4
<b>Value for money</b>	<b>3</b>	<b>3</b>
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	3	3

# Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables.

## Financial reporting

<b>Theme score - 2</b>
<b>Key findings and conclusions</b>
<p><b>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers</b></p> <p>The Council submitted its draft annual accounts in accordance with the timetable and in line with legislation. The draft annual accounts were materially correct with the exception of the cashflow statement. As reported in the ISA+260 report, and subsequently to the Chair of the Audit Committee, the draft annual accounts also contained several non trivial errors which the Council adjusted. Following these adjustments, an unqualified audit opinion was given by the 30 September deadline.</p> <p>Working papers provided to support the accounts have been strengthened, although there is scope for further improvement especially around the final review process. The timeliness of the Council's responses to audit queries improved from previous years.</p> <p>The Audit Committee received an explanatory paper that explained the key terms in the draft accounts. The paper did not explain to Members many of the key accounting issues impacting on the Council's accounts e.g. the Housing Choice programme, links with reports/events during the year etc. The Audit Committee approved the draft accounts although there was little challenge or questions asked to demonstrate robust scrutiny.</p>
<p><b>KLOE 1.2 The Council promotes external accountability</b></p> <p>The Council promotes external accountability effectively. Agendas, reports and minutes for meetings of full Council, committees and scrutiny panels are made available to the public on the Council's internet on a timely basis.</p> <p>The Council published an Annual Report following consultation with a range of stakeholders. The Annual Report contains summary financial information that details the Council's sources of income, revenue expenditure, capital spend and the balance sheet, though some key technical terms eg capital charges could be better explained. The Annual Report does not include details of the Council's environmental footprint.</p>

## Theme summaries

Theme score - 2	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Improved quality assurance would help ensure that the annual accounts are prepared with fewer non trivial errors.</p> <p>The explanatory report on the draft accounts to Members could be strengthened to include more specific financial information and explanations of key issues impacting on the accounts.</p> <p>The level of Member challenge to the accounts prior to them being approved could be improved.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The summary financial information provided in the Annual Report should contain explanations on key technical terms.</p> <p>The Annual Report or similar document could include an analysis of the Council's environmental footprint.</p>

## Financial management

**Theme score - 3**

### Key findings and conclusions

#### **KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.**

The Council's financial strategy and budgets are soundly based and designed to deliver its strategic objectives. The Council reviews its medium-term financial strategy on an annual basis. The plan models income and expenditure and balances over 3 years and is linked to the Council's key strategic objectives and communicated to staff and stakeholders.

The Council has set balanced budgets over a 3 year period. This process has increased the amount of certainty of planning for this year and the next two years. This has reduced the need for 'knee jerk' discussions on savings to set a budget for the current year and enabled more long term strategic discussions to take place.

Budgets are linked to business, activity plans and risk assessments. Budget holders are involved in the budget setting process and the budget is approved by senior management and the Cabinet.

The Council regularly reviews financial management arrangements, and keeps the financial services function under review.

#### **KLOE 2.2 The Council manages performance against budgets.**

The Council's budgetary control arrangements are operating effectively. The budget allocates resources to major spending activities and programmes and separately identifies revenue and capital items.

The Council's budget monitoring is predictive, related to operational activity indicators and is risk based. The Executive is focused on key variances, and there is evidence that these are acted upon. Significant balance sheet items are not though included in budget reports to Cabinet.

Savings and efficiency gains are profiled over the year and are monitored by senior officers and members. Relevant non-financial and financial information, in addition to the budget, is used by senior officers. Where departmental overspends have occurred, action plans have been drawn up and they have been managed with no adverse impact on service delivery.

A training programme is used to provide training on financial issues for Members and relevant non-finance staff.

## Theme summaries

<b>Theme score - 3</b>	
<b>KLOE 2.3 The Council manages its asset base</b>	
<p>The Council has a designated corporate property function. There is an up to date corporate capital strategy in place which is linked to corporate objectives and the medium-term financial and asset management plans.</p> <p>A corporate fixed asset register is maintained and the Council has undertaken reconciliations to other systems to ensure it was up to date by the end of 2007/08. The Council makes investment and disposal decisions based on thorough option appraisal and whole life costing. Members have approved plans to address backlog maintenance. The Council is in the process of implementing an asset database which will include data on the efficiency, asset values and running costs of all the Council's buildings. Work begun on this in the last few months in 2007/08 and is ongoing.</p>	
<b>Improvement opportunities</b>	
KLOE 2.2 The Council manages performance against budgets.	Budget monitoring reports to Cabinet should include balance sheet items as well as revenue items.
KLOE 2.3 The Council manages its asset base.	Finalise the implementation of the asset database and ensure this incorporates all data on the efficiency, asset values and running costs of all of the Council's buildings.

**Financial standing**

<b>Theme score - 3</b>	
<b>Key findings and conclusions</b>	
<p><b>KLOE 3.1 The Council manages its spending within the available</b></p> <p>The Council sets a balanced budget that takes account of cost pressures and service developments and has a good record of maintaining its overall spending within budget. The Council monitors and maintains its levels of reserves. At 31 March 2008 the General Fund reserves had moved slightly outside the range determined by the Council's agreed policy as a result of better than expected returns on cash investments due to higher interest rates. The position was reported to Members and changes have been made to the medium term financial plan in that there is no longer a need to set aside funding to increase the reserve.</p> <p>Monitoring information is available that evaluates the effectiveness of recovery actions and the associated costs and the Council is aware of the cost of not recovering debt promptly. The Council has set challenging targets for income collection, although in 2007/08 some of these, including Council Tax and sundry debtors, were not achieved. The Council has set up a Collection Forum which is chaired by an 'income champion' and has commissioned a feasibility study on debt management arrangements.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Strengthen processes to ensure that income collection targets are achieved.</p>



Internal control

**Theme score - 3**

**Key findings and conclusions**

**KLOE 4.1 The Council manages its significant business risks**

The Council manages significant risks effectively through a corporate risk management framework. The risk management process is reviewed annually and specifically considers risks in relation to significant partnerships.

All appropriate staff receive relevant risk management training. Members with responsibility for corporate risk management also receive risk management training and regular reports to ensure that corporate business risks are being actively managed. Members have received training materials on risk management where they haven't attended training courses.

Reports supporting strategic policy decisions contain a risk assessment but do not contain a sustainability impact appraisal.

**KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control**

The Council has put in place an assurance framework which is embedded in the Council's business processes and maps the Council's strategic objectives to risks, controls and assurances. The framework provides members with information to support the Annual Governance Statement.

Compliance with standing orders, standing financial instructions and the scheme of delegation is monitored by management and they are updated as appropriate along with procedure notes/manuals for the key financial systems.

The Council has implemented and tested its business continuity plans. However, they have not reviewed those of their partners or contractors.

The Council introduced a cross party Audit Committee in March 2008 which has strengthened its independence.

**KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business**

The Council can demonstrate that its members, officers and agents exhibit high standards of personal conduct and that a strong counter fraud culture exists across departments.

The risk of fraud and corruption is specifically considered in the Council's overall risk management process and the use of publicity in successful cases of proven fraud/corruption is considered to raise awareness among staff and the public.

The Council has a track record for effective action in response to whistleblowing disclosures and weaknesses revealed have been reviewed and internal control arrangements strengthened.

The Council can also demonstrate that effective action has been taken to maximise the potential available through the National Fraud Initiative.

<b>Theme score - 3</b>	
<p>The Council has continued to strengthen arrangements for preventing and detecting fraud relating to grant funding awarded to third parties. All projects approved for funding are subject to conditions clearly stated in the service level agreements. This includes agreed levels of primary funding to be in place, agreement of confirmation of outputs, and confirmation that agreements and outputs are not duplicated. In addition, all monitoring information must be submitted to the Council together with clear evidence of delivery and achievement of agreed outputs and milestones. Claim workshops are also obligatory for all organisations in receipt of awards.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Ensure all reports to support policy decisions and initiation documents for all major projects include a sustainability impact appraisal.</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>The Council should obtain assurance, on a risk basis, of the viability of its significant contractors' / partners business continuity plans.</p>

### Value for money

#### Theme score - 3

#### Key findings and conclusions

##### **KLOE 5.1 The Council currently achieves good value for money**

The Council continues to perform well and has continued to achieve high ranking performance across many services. For example, children's services which, in 2007, was rated three stars by OFSTED and in 2008 achieved an overall score of four in the JAR. Adult social care also maintained its rating from CSCI of three stars in 2007. The delivery of many high quality services is recognised by the local population and there is high and improving user satisfaction with the majority of Council services.

While performance is good, spending across many services remains comparatively high as the borough is one of the most deprived areas in the country with low income levels coupled with high unemployment. The Council is focused on delivering value for money and continues to explore ways of reducing costs. This is leading to efficiencies being achieved in certain areas such as aspects of children's services, where unit costs are reducing.

Spending patterns, including areas of comparatively higher spend are clearly in line with policy decisions and priorities. Investment is directed to under performing services and the capital programme is focused on delivering both national and local priorities. It is being used effectively to fund improvements to services such as CCTV, better street lighting and upgrading parks.

##### **KLOE 5.2 The Council manages and improves value for money**

The Council has good processes in place to review and challenge services and improve value for money. The budget setting process challenges service areas to benchmark their service using comparative cost information, identify efficiencies and demonstrate how value for money has been achieved.

A programme of VFM reviews of high cost services has been implemented and the resulting action plans are monitored by the Efficiency Board to ensure improved value for money. This has resulted in efficiencies and savings across many priority areas. Efficiency targets have been met and a programme of further efficiencies is being planned for the next three years.

Value for money is being improved through procurement and use of ICT. The Council is using an effective approach to procurement through the Tollgate process which is applied to all significant procurement activity. Effective procurement has led to savings being achieved in some service areas such as highways, energy provision and agency staff costs. There is growing use of consortia and collaborative activity to improve VFM and plans are developing to maximise the potential of partnership resources.

<b>Theme score - 3</b>	
<p>ICT is being used to secure service improvements as part of the accommodation strategy with new ICT desk top services to enable more flexible working. However while this is positive, the potential of ICT is not currently being fully utilised to secure value for money across all high costs services. Revisions to the ICT business case process means service areas will need to give a clear rationale for IT investment with identified intended outcomes. This provides a good basis for identifying how ICT can improve VFM.</p>	
<b>Improvement opportunities</b>	
KLOE 5.1 The Council currently achieves good value for money	The Council should continue to drive efficiencies and reduce costs.
KLOE 5.2 The Council manages and improves value for money.	<p>Continue to develop ways of linking cost and performance information together so that both Members and officers can identify whether value for money is improving.</p> <p>Maximise the potential of ICT to improve VFM particularly in high cost services.</p>

# Conclusion

- 8** The Council's performance demonstrates that overall it continues to perform well. There were improvements in many areas including the preparation of the accounts and working papers, sound financial planning being taken further forwards and on aspects of asset management, albeit with the score not changing. Thus the overall direction of travel was positive.
- 9** While this is the final year for the current Use of Resources process, the Council is encouraged to consider our improvement opportunities as we believe that, regardless of the way Use of Resources is measured, they can assist the Council in continuing to strengthen its overall arrangements.

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## Use of resources 2008/09

- 10** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as CAA.
- 11** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12** The assessment is structured into three themes:
  - managing finances: sound and strategic financial management;
  - governing the business: strategic commissioning and good governance; and
  - managing resources: effective management of natural resources, assets and people.
- 13** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year.
- 14** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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# Opinion

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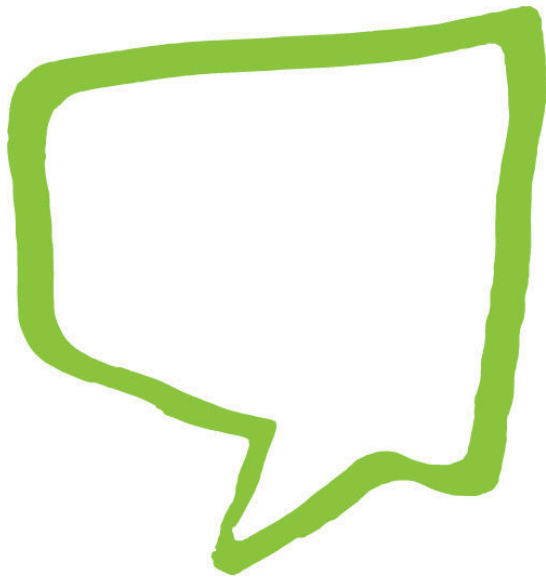
# Memorandum

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London Borough of Tower Hamlets

Audit 2007/08

December 2008



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## Status of our reports

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# Introduction

- 1 Under the Audit Commission's Code of Practice, as external auditors of the London Borough of Tower Hamlets ('the Council'), we are required to undertake an audit on the Council's financial statements and to give an opinion as to whether they present fairly:
  - the financial position of the Council as at 31 March 2008 and its income and expenditure account for the year ended; and
  - the financial transactions of its Pension Fund during the year ended 31 March 2008 and the amount and disposition of the Fund's assets and liabilities.
- 2 In order to support our financial statements work, we are required to comply with the International Standards on Auditing (ISAs). This includes the requirement to document and assess the reliability of the information produced by the Council's main financial systems. This involves carrying out annual walkthrough tests and cyclical testing of key controls.
- 3 In addition, The Government Resources and Accounts Act 2000 provided the framework for the preparation of Whole Government Accounts (WGA). Section 10 of this act requires the Council to provide information to support WGA by submitting a consolidation pack. As the Council's external auditors we are required to give an audit opinion which states whether the pack is consistent with the Council's financial statements.
- 4 This report sets out the main findings and conclusions from our work on the Council's financial systems, financial statements and on the WGA consolidation pack. The report focuses on the key matters that the Council should consider addressing as part of their closedown process in 2008/09.

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# Audit approach

- 5 To comply with the ISAs we are required to fully understand the Council's internal control environment and to assess the risks of financial misstatement. We have identified and documented the Council's material systems and this year tested the key controls on the general ledger, payroll, fixed assets, treasury management and council tax.
- 6 We have continued to work closely with Internal Audit and placed reliance on their work in a number of areas. Prior to placing reliance on their work, we reviewed their files and re-performed a test for a sample item.
- 7 The results of our systems work, together with risks identified from analytical reviews of the Council's draft financial statements, review of technical guidance and our cumulative knowledge of the Council were used to inform our financial statements testing strategy.
- 8 Specific risk based tests were devised to address the risks identified. We are also required to undertake certain mandatory tests which include:
  - agreement of figures in the financial statements to the Council's general ledger system;
  - checking compliance with the Statement Of Recommended Practice (SORP);
  - testing material journals;
  - testing cut off arrangements; and
  - substantive testing on bank account reconciliations.
- 9 Issues and potential misstatements identified as part of our financial statements testing were discussed with senior officers in corporate finance. Where the misstatements were deemed to be significant, the Council adjusted their financial statements.
- 10 To give an opinion on the WGA consolidation pack we are required to undertake the following work:
  - review the consolidation pack, to ensure it is free from error messages;
  - ensure that the consolidation pack is consistent with the Council's financial statements;
  - agree the net cost of services worksheet to supporting working papers; and
  - identify and test a sample of significant intra group transactions.

# Main conclusions

- 11 The Council's draft financial statements were approved by the Audit Committee on the 30 June 2008. Upon completion of our work we gave an unqualified audit opinion on the Council's financial statements and the Pension Fund statements on 30 September 2008. We also confirmed that the WGA consolidation pack was consistent with the Council's financial statements and this was sent to central government on 1 October 2008 in line with the timetable.
- 12 We are required under ISA260 to formally report key issues and concerns arising from our audit, prior to issuing the opinion, to those charged with governance, which for the Council is the Audit Committee. The Audit Committee considers the issues raised and action taken by officers and then confirms they are satisfied with the outcome. We reported the following issues to the Audit Committee on 18 September 2008:
- the cash flow statement contained eleven errors. Some of these were material and ranged from £25,000 to £27,457,000;
  - the financial statements included net internal debtors of £5.8 million that should have been removed from the balance sheet;
  - the incorrect accounting treatment of premiums totalling £3 million arising as a result of repayment of loans by Central Government following the transfer of Council dwellings under housing choice; and
  - the Council used the incorrect guidance to calculate the rental constraint allowance which resulted in housing subsidy receivable being overstated by £181,000.
- 13 The Council adjusted the draft financial statements to correct these errors.
- 14 At the Audit Committee on 18 September 2008 it was agreed that we would liaise with the Chair of the Audit Committee if anything arose from the issues outstanding that we needed to report to those charged with governance. Two of the outstanding issues resulted in the identification of further non trivial errors. The Council decided to adjust for the following errors which we reported to the Chair of the Audit Committee:
- the Council had calculated actual service charges for 2007/08 and identified a difference of £1,567,000 between estimates included in the accounts for income and amounts that will be invoiced; and
  - the Council reclassified £615,000 of expenditure in relation to the removal of asbestos from buildings, which was initially included as a fixed asset addition (capital expenditure), as HRA revenue expenditure.
- 15 We also identified a few non trivial errors during the audit and these were included within the appendix of our ISA260 report. The Council amended their financial statements and the WGA consolidation pack to correct these errors.

- 16 Overall we found that the quantity and quality of the Council's working papers available at the start of the audit had improved. It was evident that more working papers had been reviewed by finance managers than in previous years. However, the amount of presentational and disclosure errors that we identified in the initial review of the financial statements concerned us as it appeared that there was insufficient time for senior officers to complete a detailed quality review of the final draft statements at the end of the process.
- 17 We reported in previous years that there were significant delays in responding to audit queries and requests for further information. We are pleased to report that the response times to audit queries had improved from previous years.
- 18 There are a number of new challenges facing the Council in preparing their financial statements over the next few years, including the preparation of group accounts taking account of the Housing Arms Length Management Organisation and the introduction of International Financial Reporting Standards in 2010/11. Our recommendations attached in Appendix 1 should be implemented alongside any changes in processes required for these changes.

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# Detailed report

19 This section focuses on the key matters arising from the systems and financial statements audit. In addition to the issues mentioned in the report, a number of other minor issues that were identified throughout the audit have been fed back to officers in corporate finance to assist the closedown process in future years.

## Financial systems audit

- 20 Our walkthrough and key controls testing of the Council's material financial systems demonstrated that controls were generally working as designed. We have placed reliance on internal audit work and incorporated their findings into our risk assessments. Internal audit made specific recommendations in their reports and we have not repeated these here but endorse their recommendations. Our testing identified the following matters arising:
- the Council disposed of 34 Linford Drive in 2007/8. The asset had not previously been included on the Council's asset register; and
  - the Council had problems in migrating data from previous service charges systems and providing audit trails for service charges estimates.

Recommendation
R1 Complete the implementation of the Council's asset database ensuring that all data is cleansed and reconciles with records held within directorates.
R2 Review the basis of calculating service charge estimates.

## Quality of working papers and responses to audit queries

- 21 The Council provided working papers to support the financial statements by the submission deadline of 30 June 2008. The working papers provided to support the financial statements were more comprehensive than in previous years, and had been reviewed by finance managers. There was a noticeable improvement in the quality of the working papers provided to support capital balances.
- 22 Last year we reported that responses to several audit queries and requests for further information remained outstanding for a significant period of time. This year the Council were more proactive in following up queries, and the majority of queries were resolved within a realistic timeframe. Where the Council had difficulties providing information on a timely basis, auditors were given regular updates on the progress made to resolve the query.

### Quality assurance

- 23** The Council's closedown plan included arrangements to ensure the financial statements were subject to a quality assurance review by senior officers in corporate finance. However, due to slippage in the closedown programme, there appeared to be insufficient time for officers to undertake a detailed quality assurance process on the draft statements approved by the Audit Committee.
- 24** Our audit identified a significant amount of presentational and disclosure errors within the financial statements. These errors included incorrect cross referencing, casting errors, notes not agreeing to the figures on the primary statements and inconsistencies between the foreword and the main statements. In addition, there were a significant number of errors contained within the cash flow statement. We would expect a good quality assurance process to have identified these errors prior to the statements being approved.

#### Recommendation

**R3** The Council should ensure that sufficient time is built into the closedown process to undertake a detailed quality assurance review of the draft statements.

**R4** The Council need to strengthen monitoring arrangements to prevent any slippage in the closedown process from impacting on the quality assurance review.

### Other presentational issues

- 25** The financial statements presented for audit were largely compliant with the SORP. However, the financial statements did not include a note on Local Authority Agreements, and the leases note did not comply with the disclosure requirements of the SORP.
- 26** The related party transactions note did not disclose Tower Hamlets Primary Care Trust as a related party even though the Council has a pooled budget with this body and have a number of joint appointments between the bodies. In addition, one senior officer and one member had disclosed that they are members of organisations that receive funding from the Council. However, these were not included within the related party note.

#### Recommendation

**R5** The Council should review all the notes to the financial statements and ensure that they are compliant with the SORP.

**R6** Ensure that all senior officers and member's disclosures are considered when compiling the related party transaction note.

### Annual Governance Statement

- 27 This was the first year that the Council was required to include an Annual Governance Statement within their financial statements. We found that the Annual Governance Statement was consistent with the guidance and our knowledge of the Council. A comparison with other authorities highlighted the following areas that the Council should consider strengthening in future years:
- the section on identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users should clearly cover these areas;
  - the Council has disclosed the governance arrangements in its most significant partnership, but it should expand on the governance arrangements in other partnerships; and
  - in the significant governance issues section the Council should be more explicit on the actions and recommendations that are being implemented to address significant issues.

#### Recommendation

- R7 The Council should strengthen the Annual Governance Statement in the following areas:
- communicating the Council's vision;
  - expanding the governance arrangements in respect to partnerships to include all partnerships; and
  - actions and recommendations to address significant governance issues.

### Statement of Recognised Gains and Losses (STRGL)

- 28 A detailed review of the STRGL was undertaken in 2007/08. We identified the following significant entries that were incorrectly included within the STRGL. The Council subsequently amended their financial statements to remove these entries.
- Movements between insurance reserve and provision of £4,317,000 should have been coded to the income and expenditure account and not included on the STRGL.
  - The write off of government grants deferred of £14,834,000 should have been coded to the income and expenditure account.
  - Premiums of £10,850,000 were reclassified as interest payable in the income and expenditure account. Originally the Council had sought guidance from CIPFA, the Local Authority's Accounting Panel and other Local Authorities regarding the treatment of repayment of premiums of housing stock overhanging debt but had not received a response from these bodies and decided to net off the repayment from the impairment.

- 29 There is no impact on the overall general fund surplus as a result of these adjustments as all entries are reversed out through the statement of movement on the general fund balance.

#### Recommendation

- R8** The Council should review all gains and losses and ensure that they are correctly classified.

#### Income and Expenditure account

- 30 We are pleased to report that an analytical review was received at the start of the audit which compared outturn figures to last year and to budget, and that this was undertaken on a Best Value Accounting Code of Practice (BVACOP) basis. Explanations were received for significant variances. This was an improvement from previous years.
- 31 In previous years we have reported that our testing had identified income and expenditure coded to the incorrect year. The Council has strengthened arrangements in this area as our audit testing did not identify any problems in this area in 2007/08.

#### Accounting for fixed assets

- 32 The Council had reviewed, updated and reconciled their fixed asset register to records held within corporate directorates and to supporting legal documentation during the year. Capital entries within the financial statements were subject to a more rigorous review process than in previous years. As a result of these processes, there was an increase in the quality of the working papers supporting capital entries in the financial statements. Response times to queries from the capital section also improved from previous years.
- 33 The Council capitalised £615,000 relating to the removal of asbestos from Council Houses. After investigation, the Council found that, from their evidence, the expenditure did not meet the capitalisation criteria of either adding to the asset value or increasing the asset life. The Council amended the financial statements and classified the expenditure as repairs and maintenance expenditure. This reduced the HRA surplus by £615,000.

#### Recommendation

- R9** The Council should ensure that all expenditure that is capitalised meets the requirements of FRS 15.



### Housing Revenue Account (HRA)

- 34** Audit testing identified the following two errors to the HRA that were considered non-trivial.
- The Council's service charges income included within the HRA were based on 2006/07 estimates updated for inflation. At the time of preparing the financial statements the Council had updated information that should have been used as a basis for their estimate. When the Council calculated their 2007/08 final service charges there was a difference of £1,567,000 from their estimate.
  - The Council calculated their rental constraint allowance at £951,000 using the 2006/07 guidance rather than the revised guidance issued for 2007/08. This resulted in the Council overstating subsidy receivable by £181,000.
- 35** The Council amended their accounts for the above errors which reduced the HRA surplus by £1,748,000.
- 36** We identified a few disclosure issues that related to the treatment of overhanging debt resulting from housing choice programme and subsequent repayment of the Council's debt by Central Government. The Council agreed to adjust their disclosures in relation to these transactions. The main impact of the adjustments was a transfer of £3 million of premiums from the HRA to the general fund. However, the adjustment does not have any impact on Council tax payers or on housing rent levels, as the adjustment is reversed out through the statement of movement general fund and HRA balances.

#### Recommendation

**R10** The Council should base estimates for service charges income using the latest information available at the time of preparing their financial statements.

**R11** The Council strengthen its processes to identify and implement all changes in government legislation that impact on the financial statements.

### Debtors

- 37** Included within the debtors balance of £119 million there was a balance of £5.9 million that related to amounts owed to the Council by schools with only £105,000 showing within creditors for amounts the schools were showing as being owed. Therefore, net internal debtors relating to schools balances of £5.8 million were included within the Council's financial statements. The Council corrected their financial statements by reducing net debtors and schools balances by £5.8 million.
- 38** The Council incorrectly coded a new rent sundry tenants account to the debtors balance when it should have been coded to cash and bank. The Council adjusted their financial statements by increasing the cash balance and reducing debtors balance by £878,000.

**Recommendation**

**R12** Internal debtors and creditors should be removed from the financial statements.

**R13** The Council should ensure that new accounts are correctly coded on the balance sheet.

**Loans and borrowings**

- 39** The Council are required to disclose the fair value of their borrowings in a note to their financial statements. To obtain the fair value of loans the Council used the advice of Sector. For Public Works Loan Board Loans (PWLB), Sector estimated the fair value of loans on the basis of PWLB's terms for new loans.
- 40** The basis used by Sector is different to that envisaged by the relevant financial reporting standard, FRS26 which requires PWLB loans to be valued on the basis of redemption values as at 31 March 2008. The difference of £6.5 million does not impact on the Council's Income and Expenditure Account and Balance Sheet. The Council amended the note to their statements.

**Reserves**

- 41** The Council included £16 million of reserves that related to the HRA within the general fund earmarked reserves. The Council agreed to amend their financial statements and transfer these reserves to the HRA.

**Leases**

- 42** The Council disclosed their operating leases in respect of Mulberry Place and Anchorage House. However, the Council has smaller leases on equipment and information technology that should also have been disclosed. In the future, the identification of all leases is likely to have a higher profile as they will need revisiting as part of the implementation of International Financial Reporting Standards.

**Recommendation**

**R14** The annual payments of all operating leases should be disclosed in the financial statements.

**Whole Government Accounts**

- 43** The Whole Government Accounts consolidation pack was submitted on a timely basis which enabled us to achieve the deadline for submission of 1 October 2008. The pack presented for audit contained a few cells with validation errors. In addition, there were a number of presentational errors identified in the pack which we would have expected to have been identified through the review process. The consolidation pack was amended by the Council.

### Recommendation

**R15** The consolidation pack should be subject to a detailed review by a senior officer with validation errors identified and removed.

### Future accounting issues

- 44** The Council's Housing Arms Length Management Organisation (ALMO) commenced during 2008/09. As a result the Council will be required to complete group accounts for the first time in 2008/09. The Council will need to ensure that there are strong arrangements in place to incorporate the ALMO's transactions and working papers into their accounts closing process. There will also need to be strong arrangements in place to enable audit queries to be answered on a timely basis.
- 45** The first local authority International Financial Reporting Standards (IFRS) based accounts are due to be prepared for 2010/11. This is quite a challenging timetable as many of the 2009/10 figures will need to be restated on an IFRS basis, which may require preparatory work during 2008/09. Some of the main areas the Council will need to focus on are:
- PFI schemes;
  - leases;
  - fixed assets; and
  - annual leave accruals.

# The way forward

- 46 The key areas which require attention, together with our recommendations, are set out in the Action Plan at Appendix 1. Officers in corporate finance have been provided with a schedule which contains all the errors and uncertainties identified in the audit, and should refer to this when closing the accounts in 2008/09. We will assess the extent to which the Council has addressed these issues as part of the 2008/09 audit.

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Complete the implementation of the Council's asset database ensuring that all data is cleansed and reconciles with records held within directorates.	2	Jim Ricketts	Agreed	Reconciliation between assets on the Tech Forge system and existing asset register to be undertaken. Procedures for maintenance of register to be reviewed.	31 January 2009
7	R2 Review the basis of calculating service charge estimates.	3	Paul Leeson/Derek Young	Agreed	A review of service charges is being commissioned by the Council and should be completed before the year end. Additional scrutiny will be applied by the Finance Manager, Development and Renewal to these figures as part of year-end procedures.	31 March 2009
8	R3 The Council should ensure that sufficient time is built into the closedown process to undertake a detailed quality assurance review of the draft statements.	3	Alan Finch	Agreed	The closure of accounts timetable will build in adequate time for this process and will be managed to ensure that this is accomplished. Corporate Head of Finance will undertake quality review of the Draft Statements prior to submission.	31 January 2009
8	R4 The Council need to strengthen monitoring arrangements to prevent any slippage in the closedown process from impacting on the quality assurance review.	3	All FMs/ Gary Moss	Agreed	All officers responsible and accountable will ensure closure tasks are delivered on time. Tight central monitoring of the timetable will be undertaken and slippage to deadlines will only be allowed under very exceptional circumstances.	31 March 2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R5 The Council should review all the notes to the financial statements and ensure that they are compliant with the SORP.	2	Gary Moss/Feroza Begum	Agreed	SORP Checklist is now included as an additional task on the 2008/09 closure of accounts timetable	31 May 2009
8	R6 Ensure that all senior officers and member's disclosures are considered when compiling the related party transaction note.	2	Gary Moss/Final Accounts	Agreed	The process for collecting disclosures is under review. Final Accounts Closure Team will work with Democratic Services to ensure procedure is updated to include a three-way check, membership interest, form submissions and JDE.	30 April 2009
9	R7 The Council should strengthen the Annual Governance Statement in the following areas: <ul style="list-style-type: none"> <li>communicating the Council's vision;</li> <li>expanding the governance arrangements in respect to partnerships to include all partnerships; and</li> <li>actions and recommendations to address significant governance issues.</li> </ul>	1	Minesh Jani	Agreed	The good practise identified by other Authorities will be captured as part of the 2008/09 AGS.	31 May 2009
10	R8 The Council should review all gains and losses and ensure that they are correctly classified.	2	Gary Moss/Feroza Begum	Agreed	Final Accounts Closure Team to prepare guidance note and timetable in work as part of 2008/09 closure process.	31 January 2009
10	R9 The Council should ensure that all expenditure that is capitalised meets the requirements of FRS 15.	2	Jim Ricketts	Agreed	Types of expenditure will be categorised and analysed according to criteria for capital expenditure. Pro-forma to set up capital codes to be expanded to establish which criteria is satisfied to justify capitalisation. This work will be included in the closure of accounts timetable.	31 January 2009

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R10 The Council should base estimates for service charges income using the latest information available at the time of preparing their financial statements.	3	Paul Leeson/Derek Young	Agreed	An exercise to establish the draft actualisation of service charges for 2008/09 will be carried out during the closure of accounts and any material adjustments made to the accounts.	31 March 2009
11	R11 The Council strengthen its processes to identify and implement all changes in government legislation that impact on the financial statements.	3	Gary Moss/Feroza Begum	Agreed	Scheduled in 2008/09 timetable for an impact assessment to be carried out on the accounts.	31 January 2009
12	R12 Internal debtors and creditors should be removed from the financial statements.	3	Gary Moss/Feroza Begum	Agreed	Process has been agreed between Final Accounts Closure Team and Directorate Finance Manager. Included on 08/09 timetable as a separate task.	31 January 2009
12	R13 The Council should ensure that new accounts are correctly coded on the balance sheet.	2	Gary Moss/Final Accounts	Agreed	A full CAT code review is scheduled for December/January 2009.	31 January 2009
12	R14 The annual payments of all operating leases should be disclosed in the financial statements.	1	Gary Moss/IFRS Accountant	Agreed	IFRS Accountant, with support from services, to identify those requiring disclosure.	31 March 2009
13	R15 The consolidation pack should be subject to a detailed review by a senior officer with validation errors identified and removed.	3	Gary Moss/Feroza Begum	Agreed	Guidance note will be prepared for 2008/09 to ensure similar errors do not recur.	31 March 2009

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# The Audit Commission

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REPORT TO: <b>Audit Committee</b>	DATE <b>06 January 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>	<b>Revised Audit Plan for 2008-09</b>			
ORIGINATING OFFICER(S): <b>Service Head, Risk Management</b>	<b>Ward(s) Affected: N/A</b>			

## 1. Summary

This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority and the resources available to perform audit work.

## 2. Recommendations

- 2.1 The Audit Committee is asked to note the contents of this report and to endorse the changes to the 2008/09 internal audit plan.

## 3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2008. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology and the Audit Strategy are attached at Appendix 3. The audit plan also made provision for review of key financial systems, proactive fraud work and reactive fraud work.
- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:
  - Requests from officers to perform audits that were not originally planned;
  - Changes made to existing systems and the need to allow a period of bedding in;

- Make use of days provided in the original plan that had not been allocated to specific audits;
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

#### **4. Updated Internal Audit Plan for 2008/09**

4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Appendix 2 shows the updated internal audit plan following the changes and provides for provision of unallocated days which could be used for specific audits at the request of Directorates, thus retaining some flexibility in the plan. In summary, the updated internal audit plan still shows a total provision of 1,880 audit days to be delivered in the current financial year. The summary below shows how the plan has changed.

Number of days originally planned	1,880
Plus: Additional audits added to the plan (Please refer to Appendix 1)	125
Less: Allocation of days to specific audits (Please refer to Appendix 1)	125
Number of days per the amended plan	1,880

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

5.1 These are contained within the body of 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. One Tower Hamlets**

7.1 There are no specific one Tower Hamlets considerations.

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

## 8. Risk Management Implications

8.1 The re-profiling of audits is to ensure audit resources are devoted to high risk areas that require assurance for management.

## 9. Sustainable Action for a Greener Environment (SAGE)

9.1 There are no specific SAGE implications.

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Local Government Act, 1972 SECTION 100D (AS AMENDED)  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

*Minesh Jani, 0738*

## A Summary of Changes to the Internal Audit Plan – 2008/09

<b>Auditable Area</b>	<b>Directorate</b>	<b>No. of days</b>
<b><i>Audits Added / Amendments to the Original Plan</i></b>		
Blue Badges	CLC	15
Transport Recharges	CLC	15
Income control	AHW	15
Bow Bengali Forum financial audit	D&R	15
Management of Commercial Property Portfolio	D&R	20
The Oval	D&R	5
Community empowerment network – inquiry and Devanant Centre	D&R	5
Follow ups	THH	20
Horticulture contract monitoring	THH	15
<b>Sub Total</b>		<b>125</b>
Housing repairs	THH	20
Single Assessment	AHW	15
Reconciliation of payroll accounts	Res	10
Household Recycling	CLC	20
Use of Unallocated days	THH	20
Use of Unallocated days	Childrens Services	20
Use of Unallocated days	AHW	10
Use of Unallocated days	D&R	10
<b>Sub Total</b>		<b>125</b>

**LONDON BOROUGH OF TOWER HAMLETS  
REVISED INTERNAL AUDIT PLAN – 2008/09**

	Audit Days	Pages
Corporate Systems and Council-wide reviews	135	2
Assistant Chief Executive's	35	4
Childrens' Services	391	4
Communities, Localities & Culture	105	7
Tower hamlets Housing	135	8
Development & Renewal	75	9
Adult, Health and Wellbeing	65	12
Resources & core financial systems	305	13
Contract audit	50	15
Information Technology audits	144	15
VFM and Pro-active fraud	70	15
Follow up, management and reactive fraud provision	370	16
<b>Total Provision</b>	<b>1,880</b>	<b>-</b>

REVISED INTERNAL AUDIT PLAN – 2008/09

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Project Management	The authority has recently developed a standard methodology for effective programme and project management across the Council. The methodology was launched in January 2008. Our scope is to ensure the tools developed by the authority are applied by all parts of the Council. We will review a sample of strategic projects to monitor compliance with the standard methodology.	H	20	From Audit Needs Assessment in January 2008 and management requests	Efficient and effective services.
Management of Corporate Complaints	This audit will review the arrangements for managing and monitoring complaints administered by the Council's Corporate Complaints unit. The review will also assist in obtaining the necessary accreditation for the service.	M	15	From Audit Needs Assessment in January 2008 and management requests.	Efficient and effective services. Improved equality of opportunity.
Scheme of Delegation	This review will focus on the Council's arrangements for delegating appropriate levels of authority to various senior officers. It will seek to give assurances on the adequacy and effectiveness of the Scheme.	H	10	From Audit Needs Analysis in January 2008.	Efficient and effective services
Information management including best value and other Local Authority Performance Indicators	The purpose of this review is to work jointly with the external auditors to establish the robustness of the BVPIs and some local performance indicators.	H	50	Annual programme of work to ensure completeness, accuracy and validity of Council PIs.	Efficient and effective services

REVISED INTERNAL AUDIT PLAN – 2008/09

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Risk Management	The Council's risk management arrangements are an important part of its Assurance Framework. This audit will review and report upon the soundness of arrangements in place for identifying, assessing and managing key risks to the Council at Strategic, Directorate and also at Service level.	H	20	From Audit Needs Analysis in January 2008	Efficient and effective services

To be allocated subject to operational risk assessment

20

**REVISED INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
<b><u>Assistant Chief Executive's</u></b>					
Communication Strategy	This audit will review systems in place for managing the Council's external and internal communications with its customers, stakeholders and others.	<b>M</b>	15	Audit Needs analysis in January 2008	<b>Efficient and effective services.</b>
To be allocated subject to operational risk assessment			20		
<b><u>Children's Services</u></b>					
Building Schools for the Future – Programme and project management	The scope of this audit would be to review the arrangements for programme and project management and monitoring of the BSF initiative.	<b>H</b>	15	Risk register CO19 and Audit Needs analysis in January 2008.	<b>Efficient and effective services and increased educational attainment</b>
Child Protection	This audit will review the authority's child protection arrangements for managing, controlling and monitoring Looked after Children and Children with Disabilities.	<b>M</b>	15	Risk register CO4 and Audit Needs analysis in January 2008.	<b>Improved outcome for vulnerable children. Efficient and effective services and increased educational attainment</b>
Contract Services – income Collection and monitoring	This audit will examine systems for collecting, banking and accounting for income received in respect of Meals on Wheels service.	<b>H</b>	15	Management request	<b>Efficient and effective services and improved equality of opportunity.</b>



**REVISED INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Home to School Transport	This audit will review the Council's arrangements for providing home to school transport to special education needs pupils.	<b>M</b>	20	Audit Needs analysis in January 2008	<b>Improved outcome for vulnerable children. Efficient and effective services.</b>
Schools' Regularity Audit	School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management.	<b>H</b>	190	From Audit Needs Assessment in January 2008.	<b>Increased educational attainment. Improved equality of opportunity. Efficient and effective services and increased educational attainment</b>
Financial Management Standards for Primary Schools	The DCFS's guidance requires bigger primary schools to demonstrate good financial management arrangements by 31/03/2008. The S151 officer will need to show that the standards set by the DCFS have been met, or an action plan is in place to meet the standards. We plan to visit the respective number of primary schools during the year and integrate the DCFS's financial management standards into our audit programme for schools.	<b>H</b>	96	DCFS regulation on financial management standards at schools in line with the DCFS toolkit.	<b>Efficient and effective services and increased educational attainment</b>
Children's Centres	In order to improve standards of early years provision to give every child the best possible start in life, a number of	<b>M</b>	20	Audit Needs analysis in January 2008 and	<b>Efficient and effective services.</b>

**REVISED INTERNAL AUDIT PLAN – 2008/09**

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
	<p>children's centres have been developed which are fully operational. This regularity audit will review the governance arrangements and systems for controlling and monitoring income, expenditure and assets to ensure that the finance and support systems enable the centres to meet their key service objectives.</p>			<p>management request</p>	<p><b>Increased educational attainment.</b></p> <p><b>Improved equality of opportunity.</b></p>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
<b><u>Communities. Localities and Culture</u></b>					
Blue Badges	Our scope for this audit will include Council's arrangements for issuing, assessing, controlling and monitoring Blue Badges.	<b>H</b>	15	Management Request	<b>Efficient and effective services</b>
Control and Monitoring of on-street Parking Income	This audit will review systems for collecting, controlling and monitoring parking income from on-street pay and display machines.	<b>H</b>	20	Audit Needs analysis in January 2008	<b>Efficient and effective services</b>
Brady Arts Centre	This regularity audit will examine systems and controls in place at the centre for controlling income and expenditure at the centre, and for ensuring that Council's assets and interests are safeguarded at all times.	<b>M</b>	10	Audit Needs analysis in January 2008	<b>Increased participation in cultural activities. Efficient and effective services</b>
Fuel Purchase and usage	This review will examine the arrangements for purchasing fuel and for monitoring the utilisation of fuel across the Council.	<b>M</b>	15	Audit Needs analysis in January 2008	<b>Efficient and effective services</b>
Crime Reduction – Project Management and grant usage	There are a number of LAA grant funded projects to achieve crime reduction and safety	<b>M</b>	20	Audit Needs analysis in	<b>A cleaner, greener, safer Tower Hamlet.</b>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Transport Recharges	objectives of the Council. This audit will select a sample of projects and will seek to provide assurance that projects are managed well and that grant monies are utilised effectively.  This review will provide assurance on the Transport Services Unit arrangements for recharging transport costs to client Directorates	<b>M</b>	15	Management Request  January 2008	<b>Efficient and effective services</b>
<b><u>Tower Hamlets Homes</u></b>					
Governance	This audit will examine the governance arrangements in place for running the ALMO. The scope of the audit will be determined jointly with management.	<b>H</b>	15	Audit Needs analysis in January 2008 and risk register H10	<b>Efficient and effective services</b>
Horticulture contract monitoring	This audit will examine systems for managing and controlling the horticulture contract	<b>H</b>	15	Audit Needs analysis in January 2008 and risk register CO2 and H10	<b>Decent homes in decent neighbourhoods.</b>
Major Works	The scope of this review will include systems for identifying, allocating, apportioning, billing and recovering leaseholder charges for major works undertaken.	<b>H</b>	15	Audit Needs analysis in January 2008 and risk H10	<b>Efficient and effective services.</b>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Management of Voids	This review will seek to provide assurance on the arrangements in place for managing void dwellings under the control of THH.	<b>M</b>	15	Audit Needs analysis in January 2008	<b>Decent homes in decent neighbourhoods</b> <b>Efficient and effective services.</b>
Service Charges	This review will examine systems for identifying, calculating, apportioning, billing and recovery of service charges to leaseholders. The council's compliance with legislative requirements will also be reviewed.	<b>H</b>	20	Audit Needs analysis in January 2008	<b>Decent homes in decent neighbourhoods</b> <b>Efficient and effective services.</b>
Contract Audits	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control.	<b>H</b>	30	Audit Needs analysis in January 2008 and risk register H10 and CO2	<b>Decent homes in decent neighbourhoods</b> <b>Efficient and effective services.</b>
Follow up audits	Follow up on the audits carried out in 2007/08 financial year	<b>H</b>	25	Follow up programme	
<b><u>Development and Renewal</u></b>					
Management and monitoring of grant funded organisations	The authority receives funding from a variety of external sources. Following consultation with management, we will select a sample of organisations and undertake visits to assess	<b>H</b>	20	Risk register CO17 Management of externally funded programmes	<b>Efficient and effective services.</b> <b>Securing and sustaining communities.</b> <b>Increased local</b>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities employment.</b>
Client Monitoring of ALMO	whether the funds are used in line with grant conditions.  This review will examine systems in place for monitoring the performance of the ALMO in meeting various deliverables agreed with the Council. The scope will also include payment and certification of management fee.	H	15	Audit Needs analysis in January 2008	<b>Efficient and effective services. Decent homes in decent neighbourhoods.</b>
Local Area Agreements	This audit will review the arrangements for compiling the grant claim for projects funded from LAA. Audit of this activity is mandatory.	H	20	Audit Needs analysis in January 2008	<b>Efficient and effective services.</b>
Management of Commercial Property portfolio	This audit will review systems and controls in place for managing the Council's commercial property portfolio	H	20	Audit Needs Analysis in July 2008	<b>Efficient and effective services.</b>
Community Empowerment network – Davenant Centre	This work was undertaken following our audit of Local Area Agreement	H	5	Audit Needs Analysis in July 2008	<b>Efficient and effective services.</b>
The Oval	This inquiry was undertaken following management request		5	Management request	<b>Efficient and effective services.</b>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Bow Bengali Forum – Financial audit	This audit was carried out following a whistleblow	H	15	Management request	<b>Efficient and effective services</b> <b>Securing and sustaining communities</b>

**INTERNAL AUDIT PLAN – 2008/09**

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Adults, Health and Wellbeing</u></b>					
Commissioning of Home Care services	This audit will review the management, control and monitoring of commissioning of home care services for the elderly.	<b>M</b>	20	From Audit Needs Assessment in January 2008	<b>Improved outcomes for vulnerable children and adults. More effective and efficient Council services.</b>
Homelessness Assessment	The objective of this audit will be to review the arrangements for assessing cases of homelessness to ensure that legislative requirements and council procedures are complied with.	<b>M</b>	15	From Audit Needs Assessment in January 2008 and risk register AS10	<b>Improved outcomes for vulnerable children and adults. More effective and efficient Council services.</b>
Supporting People	This audit will review the Council's systems for managing the Supporting People programme.	<b>H</b>	15	From Audit Needs Assessment in January 2008	<b>Improved outcomes for vulnerable children and adults. More effective and efficient Council services.</b>
Income collection and monitoring	This audit will review the Directorate's systems for collecting and banking income.	<b>M</b>	15	Management request	<b>More effective and efficient Council services.</b>



**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
<b><u>Resources</u></b>					
Housing and Council Tax Benefit		H	20		<b>Effective and efficient services</b>
General Ledger incl. Budgetary Control		H	25		<b>Effective and efficient services</b>
Cashiers / Cash income		H	15		<b>Effective and efficient services</b>
Council Tax		H	20		<b>Effective and efficient services</b>
Sundry Debtors including Recovery and Write offs	Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach.	H	20	Risk Register CO6 / Management request	<b>Effective and efficient services</b>
Creditors		H	25		<b>Effective and efficient services</b>
Capital Accounting		H	10		<b>Effective and efficient services</b>
Pensions		H	10		<b>Effective and efficient services</b>
N.D.R.		H	15		<b>Effective and efficient services</b>
Personnel/Payroll		H	25		<b>Effective and efficient services</b>
Housing Rents		H	15		<b>Effective and efficient services</b>
Investments		H	15		<b>Effective and efficient services</b>
/Loans/Prudential Borrowing		H	35	To identify key controls that facilitates good financial governance.	<b>Effective and efficient services</b>
Support the work of External Audit by Mapping Key Financial Systems	Following the requirement of the International Auditing Standards to map all material financial systems, we have agreed with External Audit to complete				

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
	this process over three years. This provision reflects our continued commitment to deliver this work.				
Grant Claim Pensions Return	Teachers This is an annual audit which examined the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	<b>H</b>	15	Audit Commission requirement	<b>Efficient and effective services</b>
Follow ups on Systems audits	Financial This work will assess the progress made in implementing the agreed recommendations following the audit of financial systems for 2007/08.	-	15	-	-
Housing Allowance implementation	- The objective of this audit will be to review the implementation of Housing Allowance scheme. Both the implementation plan and programme will be reviewed.	<b>M</b>	15	From Audit Needs Assessment in January 2008 and risk register AS10	<b>Improved outcomes for vulnerable children and adults. More effective and efficient Council services.</b>
Implementation of IFRS	This audit will review the arrangements made by the Council to prepare for the implementation of International Financial Reporting Standards which becomes mandatory for 2010/11.		10	From Audit Needs Assessment in January 2008	<b>Effective and efficient Council services</b>

**INTERNAL AUDIT PLAN – 2008/09**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Risk Assessment</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
<b><u>Contract Audit</u></b>					
Contract Audit Reviews	These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations.	<b>H</b>	50	From Audit Needs Assessment in January 2008	<b>Effective and efficient Council services</b>
<b><u>Information Technology Audits</u></b>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	-	144	Risk Registers CO5 and management request	<b>Effective and efficient Council services</b>
<b><u>Value for Money Audits</u></b>					
Procurement of Mobile Phones	This review will focus on the Council's arrangements for procuring and managing mobile phones, ensuring that the arrangements meet the criteria of economy, efficiency and effectiveness.	<b>M</b>	20	From Audit Needs Assessment in January 2008	<b>Effective and efficient Council services</b>
Proactive Fraud Work	A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised.	-	50	Part of the contract	<b>Effective and efficient Council services</b>

**INTERNAL AUDIT PLAN – 2008/09**

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Follow Ups</u>	Follow-up of reviews carried out in 07/08 to ensure implementation of audit recommendations.	-	110	<b>Effective and efficient Council services</b>	

**Governance-based Audit Assessment Methodology**

Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category	Measure
A Corporate Importance – Objectives/Priorities	Corporate materiality
B Corporate Sensitivity – Impact	Reputational materiality
C Inherent Risk	Inherent vulnerability
D Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

### Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

## Internal Audit Risk Assessment Matrices

**A CORPORATE IMPORTANCE** This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.

Score	Risk to Department, Corporate and/or Service Objectives	Operational Risk Exposure	Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	Minor inconvenience	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	Difficult to recover	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	Permanent loss of data	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	Unable to restore system	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	Organisation unable to function	Over 50% of total operating income or net assets

### Internal Audit Risk Assessment Matrices

<p><b>B Corporate Sensitivity</b> This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.</p>						
Score	Risk to Public Image	Risk of Adverse Publicity	Risk to Accountability	Risk of non-legal Compliance		
10	Negligible consequences			No regulatory requirements		
20	Some public embarrassment but no damage to reputation or standing in the community	Information would be of interest to local press		Minimal regulatory requirements and limited sensitivity to non-compliance		
30	Some public embarrassment leading to limited damage	Information would be of interest to local MPs		Modest legal and regulatory requirements		
40	Loss of credibility and public confidence in the service concerned	Incident of interest to National Press	Or Incident potentially leading to the dismissal or resignation of the responsible functional manager	Extensive legal and regulatory requirements with sanctions for non-compliance		
50	Highly damaging with immediate impact on public confidence	Incident of interest to the Audit Commission, government agencies	Or Incident potentially leading to the resignation or dismissal of a Chief Officer	Possible court enforcement order for non-compliance		



### Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability	Risk of Error due to System Complexity	Risk resulting from Pace of Change	Risk to Asset Security
5	Low vulnerability	Simple system with low risk of error	No changes planned	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or	Limited changes planned with reasonable timescale	
7	Medium vulnerability	Moderately complex system with medium risk of error	Moderate level of change over medium term	
8	Medium to high inherent risk	or	Significant level of change with restricted timescale	
10	Highly vulnerable	Complex system with high risk of error	Extensive changes planned with short timescale	Highly desirable assets exposed to high risk of fraud or loss

### Internal Audit Risk Assessment Matrices

**D Control Risk** This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council's Risk Manager could support evaluation.

Score	History of Risk Management Success	or	Management Risk and Control Environment	or	Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

## **Internal Audit Strategy**

### **Introduction**

#### ***What is Internal Audit?***

Internal Audit is a review function within an organisation. Essentially it exists to perform the following roles:

- review systems of risk management, internal control and governance to ensure that these are sound and effective.
- to provide an assurance opinion on the soundness of the organisation's risk management and internal control frameworks.
- to add value to the organisation's operational activities by recommending enhancements to systems and identifying potential efficiencies.

Perhaps the most succinct definition of Internal Audit is provided by the Institute of Internal Auditors – UK and Ireland (IIA-UK), as follows:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

The Authority's Internal Audit Charter defines the function of Internal Audit, with specific reference to its role within the Authority, in the following way:

*Internal Audit is an independent review function established as a service to Members, the Audit Committee and all levels of management. The Internal Audit Service is responsible for the independent assessment of the adequacy and effectiveness of the procedures and controls within systems operating within all of the Council's activities. It also has a responsibility to provide assurance to management that the Authority's risk management and corporate governance arrangements are satisfactory.*

#### ***Why do we need an Internal Audit Strategy?***

An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. The strategy is the plan for the effective delivery of the Internal Audit service.

This document sets out Internal Audit's strategic approach, which should facilitate:

- on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;
- audit of the Authority' risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;

- improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- effective co-operation with external auditors and other review bodies functioning in the Authority; and
- provision of assurance and consultancy services by Internal Audit.

### **The Role and Purpose of Internal Audit**

The role of Internal Audit is to understand the Authority's key risks, and to review and evaluate the adequacy and effectiveness of the systems of internal control, risk management and corporate governance that are in operation at the Council, to ensure that they are sufficient for the purposes of mitigating risk.

It is a statutory requirement for Local Authorities to have an internal audit function, under S151 of the Local Government Act 1972. The Act also stipulates that Internal Audit should have unrestricted access to all information and records retained by the Authority. This enables Internal Audit to comprehensively review, appraise and report on the authority's functions as outlined in the Audit Charter.

### **Strategic Aims**

Internal Audit exists to support the Council in the achievement of its corporate objectives. In particular:

- Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;
- Internal Audit will support the Authority in working to the values set out in its corporate plan by providing the Head of Risk Management, the Director of Resources and the Audit Committee with reports on the extent of compliance with the Authority's Code of Corporate Governance;
- Internal Audit will contribute to the delivery of the Authority's community aims through professional audit reviews and effective recommendations for improving systems that support the Council's organisational aims;
- Internal Audit will assist the Director of Resources in the discharge of his statutory responsibilities for ensuring the proper administration of the Authority's financial affairs and will contribute to the Authority's aim of maximising and making best use of its financial resources through:
  - Risk based reviews of financial systems;
  - Advice on the adequacy and effectiveness of controls in new and developing systems;
  - Promotion of best practice across the Authority;
  - Advice on the prevention and detection of fraud affecting the Authority and investigation of waste or abuse within the Council systems.

### **Internal Audit & Risk Management**

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

Dimension 4 from the CIPFA/SOLACE report on good governance highlights Risk Management as being an integral part of good governance. Internal Audit will therefore also examine the authority's risk management arrangements annually and in so doing, also fulfil the requirements of the CIPFA Code of Practice 2006 for Internal Audit in Local Government to report formally on the authority's arrangement for Risk Management.

### **Identifying Audit Coverage**

In order to identify the auditable systems and establish the areas of risk or specific importance within the authority, Internal Audit will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting key officers within the authority including Corporate Directors and Finance Managers, the Chief Executive and other key officers within the authority. Internal Audit will also discuss the requirements of the External Auditors and the requirements of the "managed audit" approach to ensure those areas upon which our external auditors would seek to place reliance on the internal audit work are included within the internal audit programme. Details of the "Governance" Based Strategic Planning are attached to this paper for information.

In compiling its work programme, Internal Audit will make use of information available within the authority to identify auditable systems, such as

- the authority's risk registers, to ensure risks are being managed properly;
- background information obtained from previous audits and our discussions to date with the authority;
- experience of issues raised at other public sector organisations after carefully considering key risks to the authority; and
- current and previous audit plans and strategic issues facing the authority.

For each auditable system, Internal Audit will classify the systems into one of three risk bands according to the system's significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority. Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also been included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

### **Delivering the Strategy**

The strategic internal audit plan will be compiled annually for each financial year and only comprise those systems due for review in that year. The strategic plan will therefore relate to one financial year and be subject to a formal six monthly review.

Internal audit will primarily perform risk based audits, all exceptions to this will require prior agreement from the Head of Risk Management. The risk based approach entails examining the objective of the auditable system, the risks relating to the delivery of those objectives and an assessment of the adequacy and effectiveness of the control framework to achieve the desired objectives.

### **Audit Reporting**

The reporting arrangements for Internal Audit are detailed in the Internal Audit Charter under "Reporting".

### **Quality**

All internal audit work will be subject to rigorous review and quality assurance procedures. This will entail:-

- planning the scope of the audit to ensure focus on areas of risks and concerns;
- supervision of audit work by the Audit Managers;
- a formal review and sign off of the audit report and audit file by the Audit Managers;
- further formal reviews of all reports and sign off for issue to auditee by the Partnership Manager;
- obtaining feedback and comments from the auditees and Directors;
- seeking feedback from the external auditors; and
- bench marking Internal Audit quality control procedures with other similar organisations.

# Agenda Item 82

REPORT TO: <b>Audit Committee</b>	DATE <b>06 January 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>	<b>National Fraud Initiative And Anti Fraud Update</b>			
ORIGINATING OFFICER(S): <i>Head of Audit Services</i>	<b>Ward(s) Affected: N/A</b>			

## 1. Summary

- 1.1 This report is an update of the National Fraud Initiative 2008/09 and provides an overview of anti fraud work undertaken during the past six months by Audit Services.

## 2. Recommendations

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

## 3. Introduction

- 3.1 In June 2008 the Audit Committee received a detailed plan of the proactive and reactive anti fraud work for 2008-9.
- 3.2 Key areas within the plan included :-
- National Fraud Initiatives 2006/7 and 2008/9;
  - Planned anti fraud work for the Housing ALMO and Client including contingency for reactive support;
  - Anti Fraud and Risk Awareness training to Members and employees;
  - Overall Governance;
  - Joint working with other agencies;
  - BVPI review-support (internal); and
  - Planned proactive audits and reactive anti fraud work contingency for whistle-blowing and internal and external referrals.
- 3.3 This report provides information and an update on the National Fraud initiative 2008-09 and also gives an outline and update on the planned proactive and reactive anti fraud work for 2008-9 as at end October 2008.

#### **4. National Fraud Initiative 2008-09**

- 4.1 The National Fraud Initiative 2008-09 was launched by the Audit Commission in July 2008 with the publication of their latest Code of Data Matching Practice. The coverage of this year's NFI has been extended to include new mandatory data sets including :-
- Residential Care Homes;
  - Market Traders;
  - Blue Badges;
  - Concessionary Travel Passes;
  - Personal Alcohol Licences; and
  - Resident Parking Permits.
- 4.2 One of the key features of the new Code of Data Matching Practice is the way in which each authority handles personal data and the way in which data subjects are notified of how their data is to be used during the exercise.
- 4.3 In complying with this, the Information Commissioner recommended that each authority take a three layered approach to Fair Processing notifications. Attached at Appendix 1 is an example of the first layer as notified to employees. This was used as a template and communicated by email to all employees.
- 4.4 Attached as Appendix 2 is a link from the first layer in Appendix 1 to the Council's internet site which is a more detailed narrative on the Council's participation in the 2008-09 NFI and complies with layer two.
- 4.5 The third layer of the process was achieved by providing data subjects with the Audit Commission's web site link to the NFI.
- 4.6 Further examples of the first layer are included in Appendix 3 as press releases in East End Life and the East London Advertiser.
- 4.7 The deadlines for making the returns to the Audit Commission was 30 September 2008 for the Fair Processing Consultation Return, 6 October 2008 for the start of the secure upload of the data to the Audit Commission site and we anticipate the resultant output to be available to authorities to start investigation from 28 January 2009.

#### **5. Anti Fraud and Risk Awareness Training**

- 5.1 Audit Services have undertaken two training initiatives during 2008-09, with further training exercises planned for the second half of the financial year.



- 5.2 The first was a training presentation to the Legal Services Team Leaders that focused on Risk and Governance and was intended to assist the Legal Service to build on their development of professional standards and internal procedures.
- 5.3 The other training was part of the officer induction process and raised the issue around risk management and fraud awareness for new members of staff.
- 5.4 This work follows a series of sessions undertaken with all directorates of the council in the previous financial year with coverage ranging from Chief Officer to the fourth tier of management.
- 5.5 Separate exercises were undertaken with all members concluding with the final session at the end of the last financial year.
- 5.6 We have developed an e- learning package with Legal Services, Organisational Development and an outside Solicitor's firm to cover a number governance issues including Anti Money Laundering and Anti Fraud and Corruption arrangements, Governance Standards and Risk Management and this will include the Code of Conduct for Employees.
- 5.7 It is anticipated that this will be launched later in this financial year and will enable the organisation to monitor understanding as the module's need to be 'passed' before the training can be completed and will enable gaps in knowledge to be managed by further training and support.

## **6. Other Key Activities Undertaken during the year to date**

- 6.1 There have been three substantial inquiries which have involved close working between the relevant Directorate, Legal Services and Audit Services. Each one arose from a whistle blow. An extensive review of a range of processes has been undertaken and recommendations for improvement made to improve the risk environment. Of each area reviewed.
- 6.2 Audit Services has also worked closely with the Police on another matter which is currently ongoing and likely to result in a prosecution for fraud perpetrated against the authority.
- 6.3 The Audit Service has also provided support to Directorates upon request. This included a review of the Purchase Card systems expenditure, support to the Children's Services Directorate on several risk management issues and a review of base data contained within the Comensura contract.

6.4 We have also continued to develop closer working arrangements with the Parking Service and Legal Services with regard to Blue Badge irregularity and worked corporately where instances of Blue Badge irregularity has involved members of staff.

6.5 We have challenged and enhanced the Anti- fraud and Corruption Strategy to ensure it reflects current best practice. Attached at Appendix 4 is a summary of the activities of the service for the first six months of this financial year.

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

7.1 These are contained within the body of this report.

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

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

## **9. One Tower Hamlets**

9.1 There are no specific one Tower Hamlets considerations.

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

## **10. Risk Management Implications**

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

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

11.1 There are no specific SAGE implications.

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### **Local Government Act, 1972 SECTION 100D (AS AMENDED) List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

*Tony Qayum 0207 364 4773*

**Lino Messore**

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**From:** Sandra Alexander  
**Sent:** 18 September 2008 09:13  
**Subject:** National Fraud Initiative

**SENT ON BEHALF OF CHRIS NAYLOR, CORPORATE DIRECTOR, RESOURCES  
(S151 OFFICER)**

**Note to Members and all employees**

**THIS IS FOR INFORMATION ONLY – YOU ARE NOT REQUIRED TO TAKE ANY  
ACTION**

Tower Hamlets is participating in the forthcoming National Fraud Initiative. The Initiative which is managed by the Audit Commission under their powers within Part 2 of the 1998 Audit Commission Act, is a data matching exercise which cross checks key Council data to detect and prevent fraud or loss of public funds.

This means that for 2008/9, we will provide the Audit Commission with data relating to our financial systems including payroll information. For more details, see web-link [www.towerhamlets.gov.uk/nfi](http://www.towerhamlets.gov.uk/nfi) or contact our NFI Co-ordinator Lino Messore on Ext 4774.

You may also be aware that Tower Hamlets in its role in protecting public funds has developed an anti fraud strategy, which includes a whistle blowing procedure and hotline: 0800 528 0294. Further details are available online at : [www.towerhamlets.gov.uk/anti-fraud-strategy](http://www.towerhamlets.gov.uk/anti-fraud-strategy)

Sandra Alexander,  
P.A. to Chris Naylor,  
Corporate Director, Resources,

APPENDIX 2

- [C](#)
- [Glossary](#)
- [Home](#)
- [Council](#)

[Home](#) > <[Your council](#)> <[Key documents](#)> <[National fraud initiative](#)>

Town Hall, Mulberry  
5 Clove  
London

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## National fraud initiative 2008/09

**Search the**

Search

**Key documents**

- [Introduction](#)
- [Annual report and best value](#)
- [Anti-fraud & corruption strategy](#)
- [Comprehensive performance assessment](#)
- [Cultural strategy](#)
- [Disability Equality Scheme](#)
- [Diversity & equalities action plan](#)
- [Equality impact assessment](#)
- [Gateway strategy](#)
- [Gender equality scheme](#)
- [ICT strategy](#)
- [Local area agreement](#)
- [National fraud initiative 2008/2009](#)
- [Procurement strategy](#)
- [Race equality scheme](#)
- [Research governance framework \(RGF\)](#)
- [Strategic plan](#)
- [Third sector commissioning strategy](#)
- [Youth participation strategy](#)

This authority is required by law to protect the public funds it administers. It may share information provided to it with other bodies responsible for auditing or administering public funds, in order to prevent and detect fraud.

The Audit Commission appoints the auditor to audit the accounts of this authority. It is also responsible for carrying out data matching exercises.

Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows fraudulent claims and payments to be identified. Where a match is found it indicates that there is an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.

The Audit Commission currently requires us to participate in a data matching exercise to assist in the prevention and detection of fraud. The Audit Commission requires this authority to provide information it holds for this purpose. We are required to provide particular sets of data to the Audit Commission for matching for each exercise, and these are set out in the Audit Commission's guidance, which can be found at [www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi).

The use of data by the Audit Commission in a data matching exercise is carried out with statutory authority under its powers in Part 2A of the Audit Commission Act 1998. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

Jump to:

Data matching by the Audit Commission is subject to a Code of Practice. This may be found at [www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi). For further information on the Audit Commission's legal powers and the reasons why it matches particular information, see

[View A - Z of sections](#)

**Related information**

The following link information relevant section

- [Related services](#)
- [Related for](#)
- [Related ma](#)
- [Site index](#)

[www.auditcommission.gov.uk/nfi/fptext.asp](http://www.auditcommission.gov.uk/nfi/fptext.asp)

For further information on data matching at this authority contact our NFI Key Contact - Lino Messori on 0207 364 4774.

### **Useful links**

[Anti-fraud & corruption strategy](#)

[^ top](#)

Email: [webteam@towerhamlets.gov.uk](mailto:webteam@towerhamlets.gov.uk) | [This site is speech enabled](#)

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**News**

**Tackling fraud robustly**

"The National Fraud Initiative helps us tackle fraud. We have a robust approach to identifying and tackling fraud and will do everything we can to ensure value for money for local people."

LEAD COUNCILLOR FOR RESOURCES JOSHUA PECK

**Royal appointment**

Bow fine food company Forman & Field catered for the Queen at this year's Ascot Polo tournament.

WWW.FORMANANDFIELD.COM

**Sample some fine local food**

**FINE foods company Forman & Field will host a free open day at its new Bow premises, on October 4, to celebrate the start of British Food fortnight.**

The East End company, which recently relocated to Stour Road, Fish Island, supplies food to many of the world's leading restaurants and hotels.

In 2007 it was a regional finalist in UKTV Food's Local Food Hero competition and in 2008 catered for the Queen at the Ascot Polo tournament.

Forman's new purpose-built home, which it moved to after a three-year compulsory purchase negotiation to make way for London 2012, is the closest private building to the future



**An employee hangs up fish for smoking at Forman & Field's new premises in Bow**

Olympic stadium. Fish-shaped, it features a smokehouse and production kitchen, two restaurants and a large events venue. Open day highlights include

demonstrations and talks with gourmet chefs as well as free tastings of food and drink. Owner Lance Forman said: "My family have been smoking

salmon for four generations. We are proud of what we do and we want people to come along and share our passion. "I am relishing the chance to

show off our amazing new food destination. We are part of London's food heritage and have a real story to tell." The open day starts at noon.

**News in brief**

**Help with your loss**  
A BEREAVEMENT group for people over the age of 50 has been launched at Sonali Gardens, a centre for older people. The group, co-ordinated by City & East London Bereavement Service, will meet from 6.30-8pm on September 24, at 79 Tarling Street, Stepney. For further information, call Allyson at LinkAge Plus on 7265 9292 or visit Sonali Gardens.

**Rights for workers**

WORKERS in building services, retail, health, social care, transport and sports, including cleaners, security canteen workers and receptionists, can find out about employment rights. The Vulnerable Workers Project, delivered by the Trade Union Congress (TUC) holds advice sessions at Bow Business Centre, 153-159 Bow Road every Tuesday from 5-7pm. For details call 7377 0773.

**Gourmet helps to**

**Calling all owners and managers of businesses based in Tower Hamlets**

an employee hangs up fish for smoking at Forman & Field's new premises in Bow

Forman's new purpose-built home, which it moved to after a three-year compulsory purchase negotiation to make way for London 2012, is the closest private building to the future Olympic stadium. Fish-shaped, it features a smokehouse and production kitchen, two restaurants and a large events venue. Open day highlights include demonstrations and talks with gourmet chefs as well as free tastings of food and drink. Owner Lance Forman said: "My family have been smoking

about employment rights. The Vulnerable Workers Project, delivered by the Trade Union Congress (TUC) holds advice sessions at Bow Business Centre, 153-159 Bow Road every Tuesday from 5-7pm. For details call 7377 0773.

# Council helps to catch fraudsters

BY KELLY RICKARD

**TOWER Hamlets Council will again be taking part in the National Fraud Initiative which cross-checks information held by the public sector to identify where people might be committing fraud.**

The council will be providing the Audit Commission with information concerning its employees and councillors along with tenancy and Right to Buy sales details, housing benefits, parking permits, blue badges and Freedom Passes to support

the initiative. Lead councillor for resources Joshua Peck explained: "The council has a duty to spend council tax payers' money carefully and do our best not to lose money to fraud. "The NFI lets us compare the information we hold about residents - who's claiming benefits for example - with government departments. This enables us to tackle fraud locally and ultimately keep costs and council tax low."

He added: "We're committed to providing the best possible services to local people. Part of that is making sure these services for example - with government departments. This enables us to tackle fraud locally and ultimately keep costs and council tax low."

For more information on the commission's legal powers and why it matches particular information, visit [www.auditcommission.gov.uk/nfi/fpext.asp](http://www.auditcommission.gov.uk/nfi/fpext.asp)

## Are you missing out on pension credits

OLDER people who are struggling with the spiralling cost of living could be missing out on financial benefits, according to Help the Aged.

The charity estimates 207,000 pensioners in London (20 per

cent) are living in poverty and struggling to afford essentials items, yet tens of thousands are failing to claim benefits to which they are entitled.

The charity is encouraging older people to find out if they are eligible for pension credit - those who claim before the beginning of October could receive 12 months backdated payments. For more information, visit [www.helptheaged.org.uk](http://www.helptheaged.org.uk) or call 7239 1845.

## Calling all owners and managers of businesses based in Tower Hamlets

You are invited to take part in Project ARGUS a unique event to see how well you and your staff are prepared for an emergency



- This is an opportunity to:
- Decide what your business should do in an emergency situation
  - Experience a well-run security exercise
  - Increase your knowledge of terrorist issues.
  - Compare notes with other local businesses.

The event is for owners/managers of small and medium size businesses and is FREE to attend.

When: **Wednesday 22nd October 2008** | Time: **10am to 1pm**  
at a venue within a short walk of Spitalfields/Brick Lane area

No prior preparation/knowledge is required. Places for the workshop are limited and will be offered on a strictly first

come-first served basis.

Book your place now by emailing [ht-ctdesk@met.police.uk](mailto:ht-ctdesk@met.police.uk) with your full contact details and writing 'ARGUS event' in the subject box or call the Borough's Met Police on 020 7275 4543.





**Health hazard:**  
Tracy Waller

When separated her property from the site was condemned by fire-fighters who cordoned it off with safety tape.

Now Mrs Waller, who has lived in her Alpha Grove home for nine years, is considering moving out for her own health.

"This is the closest house to any building site on the Isle of Dogs," she said. "It's a pure nightmare. I can't even wash my clothes in the

and my 84-year-old mother lives very close so I don't want to move."

Both Mrs Waller and her children, 13 and 23 respectively, have suffered medical problems in recent months due to allergies.

Mrs Waller has contacted her local councillor, David Snowden, and housing association Toybee since last weekend.

through to the garden from the living room.

Contractor Ballymore is working on a 20-storey mixed-used building within walking distance of Crossharbour and South Quay DLR stations.

It says the wall crack is related to a tree which was uprooted recently, while checks have been carried out to monitor pollution and noise levels are not excessive.

## Network Bangla marks first year

EAST LONDON-based group Network Bangla has celebrated its one-year anniversary after a hectic year of fund-raising and community projects.

The group, formed by Sulhana Begum, Abdul Hasnat, Koyes Ahmed and Fatema Khatoon, aims to bring people together to share ideas, resources and learn from one another.

It is also committed to community projects such as Bangla language classes and charity work.

Over the past year the group has raised money for the Bangladesh Flood appeal and Cyclone Sidr victims, and is continuing its successful mentoring scheme with Tower Hamlets College.

## JOINING FIGHT AGAINST FRAUD

TOWER Hamlets Council will again be taking part in the National Fraud Initiative, which cross-checks information held by the public sector to identify where people might be committing fraud.

The council will be providing the Audit Commission with information concerning its employees and councillors along with tenancy and Right to Buy sales details, housing benefits, parking permits, blue badges and freedom passes to support the initiative. The whistle-blowing hotline is 0800 528 0294.

EAST LONDON ADVERTISER

www.eastlondonadvertiser.com

**FOR CHARITY**

A CHARITY ball in Tower Evinina Hospital. Brides has cried more than fun and games for charity.

**NEW TRIAL PRICE**

**£2**

730ml



Surf small & mighty with essential oils  
cornmeal, barley & sargol

**WINNER OF BRITAIN'S LOWEST PRICED SUPERMARKET AWARD 11 YEARS RUNNING.**

Subject to availability. Some products only available in selected stores. Selected products available online. Online prices may vary from those in-store. Surf small & mighty cereal bars and toppings 730ml (£2.74 per litre). Offer ends 24th October 2008. £2.99 after this date. Source: The Grocer 33 Pricing Survey 2007/2008 www.thegrocer.co.uk

there's no place like ASDA



APPENDIX 4

<u>No of referrals</u>	<u>Subject</u>	<u>Area</u>	<u>No of Days</u>
34	Whistle Blows including work carried forward from 2007/8	Reactive	43
19	Police enquiries	Other agencies	10
4	DWP enquiries	Other agencies	5
5	External enquires from other Local Authorities or agencies	Other agencies	3
N/A	Best Value Performance Indicators Review and Support to Directorates	BVPI review	20
N/A	Continued work of previous NFI 2006/7	NFI	10
N/A	Preparation, collation and data checking for the Current NFI 2008/9	NFI	25
15	Internal reactive referral work - under 3 days	Reactive	20
12	Internal reactive referral work of 3 -10 days	Reactive	51
			<u>187</u>
N/A	Training	Training and Governance	8
N/A	Management and 1-2-1	Governance	3
N/A	Committees	Governance	8
			<u>19</u>
N/A	Work for THH	THH	58
			<u>264</u>

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REPORT TO: <b>Audit Committee</b>	DATE <b>06 January 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>		<b>Annual Governance Statement For the 2007/08 - Update</b>		
ORIGINATING OFFICER(S): <b>Service Head Risk Management</b>		<b>Ward(s) Affected: N/A</b>		

## 1. Summary

- 1.1 This report updates the Audit Committee of the progress made in dealing with the significant issues identified within the annual governance statement.

## 2. Recommendation

- 2.1 The Audit Committee is asked to note the action in dealing with the issues raised on the annual governance contents of the report.

## 3. Background

- 3.1 The Accounts and Audit Regulations 2003 and its subsequent amendment by regulation 4(2) in 2006 require the Council to conduct an review, at least annually of the effectiveness of its governance arrangements and to publish an Annual Governance Statement (AGS) with the annual financial statements. The Statement of Recommended Practice 2007 required that the AGS be approved by the committee approving the accounts, which at Tower Hamlets is the Audit Committee.
- 3.2 The statement for the year ending 30 June 2008 was presented at the CMT on 17 June 2008 and subsequently to the Audit Committee on 30 June 2008. The statement was finally signed by the Chief Executive and the Leader following completion of the external audit of the annual financial statement.
- 3.3 The table appended to this report outlines the governance issue raised on the AGS, the agreed action, progress to date and the deadline for dealing with the issue.

#### 4. Progress Update on Significant Issues from the Annual Governance Statement 2007/08

Governance Issue	Agreed Action	Progress to Date / Action Taken	Deadline for completion
Embed the operations of the property services management unit.	Embed the operations of the property services management unit.	Procedures in place for management of commercial properties. Further development work needed for procedures on community buildings.	Sep 09
Further develop arrangements to optimise asset management across public services.	To improve the effective and efficient utilisation of our property portfolio (Strategic Plan).	Investment in ICT systems has enabled base dates to be centralised as a starting point for a systematic, long term review of assets. Discussions on principles of shared use taking place with key public sector partners.	Asset strategy ongoing
Enhance arrangements for maintaining records of Council assets.	To ensure the effective and efficient use of Council accommodation resources (Resources). Assist in the continued development of asset management planning (Development and Renewal).	New Asset Management and Capital Strategy board are developing strategic approach.	Mar 09
		New ICT system purchased and initial data transferred as part of Phase 1. This work has ensured a complete record of property assets is now in place. Phase 2, which is around maintenance of records, is due for completion by May 2009.	May 09

<b>Governance Issue</b>	<b>Agreed Action</b>	<b>Progress to Date / Action Taken</b>	<b>Deadline for completion</b>
Improve the Council's recycling arrangements.	Develop and implement the Recycling Improvement Plan (Communities Localities and Culture). Monitor and improve household waste recycled and composted (Communities Localities and Culture).	All of the services that were included within the recycling improvement plan have now been implemented. The communications program started in September and has proved to be successful in raising awareness of the new services in increasing participation.  Monitoring information is being submitted to the Performance Review Group on a monthly basis. Officers are currently estimating an end of year performance that will meet the target of 19%.	Completed rollout of services  Monitoring will continue monthly until Mar 09
Ensure processes for managing sickness are effective.	Monitor and control number of working days/ shifts lost to sickness absence per employees (Strategic Plan). To improve levels of attendance and health and wellbeing of employees (Resources).	PRG receiving quarterly monitoring reports. Service Heads with the highest absence levels have been asked to attend to explain action they are taking. An audit has also been undertaken to confirm managers are applying procedures correctly.  Quarterly monitoring reports and recommendations for improvement submitted to CMT.	On-going  On-going

Governance Issue	Agreed Action	Progress to Date / Action Taken	Deadline for completion
		<p>Restructure of Occupational Health to be completed by end of 2008.</p> <p>A workplace wellbeing manager is being recruited jointly with the PCT to lead on new initiatives, including being a MIND model mental health employer.</p>	<p>Dec 08</p> <p>Jan 09</p>
<p>Refresh the Council's procurement function to secure additional capacity.</p>	<p>To support the delivery of excellent public services through improved procurement (Resources).</p>	<p>Capacity is being addressed by adopting a category management approach. This entails a restructure of procurement which is underway. Appointments have been made to all but two vacant posts and the new arrangements will be fully effective by April 2009.</p>	<p>Apr 09</p>
<p>Enhance the benefits derived from the implementation of the SX3 system.</p>	<p>Action plan for improvements to be agreed with Northgate system supplier.</p>	<p>Detailed joint action plan (with supplier) and project team in place. Data cleansing underway, supplier due to deliver software by 06.01.2009. User testing planned to ensure improvements to the integrity of the system. Further enhancements to the system to be considered following this activity.</p>	<p>Apr 09</p>

Governance Issue	Agreed Action	Progress to Date / Action Taken	Deadline for completion
<p>To further enhance the authority's Business Continuity Plans.</p>	<p>To review, update &amp; maintain key documents (Critical Services Contingencies Action Plan &amp; Business Continuity Operational Procedure) half yearly in April 2008 &amp; October 2008; and attend the Corporate Business Continuity Planning Group half yearly in September 2008 and March 2009 (All directorates).</p>	<p>Test the robustness of the business continuity arrangements – operation Sandcastle with another test planned.</p> <p>Build on existing arrangements to ensure resilience for flu pandemic.</p> <p>Work is also underway to strengthen the authority's response to emergencies.</p>	<p>Feb 09</p> <p>Mar 09</p> <p>Mar 09</p>
<p>Maintain the ongoing drive to deliver the decent homes standard by identifying and securing funding.</p>	<p>Develop and start to implement, with key partners, major estate renewal programmes and monitor percentage of decent council homes (Strategic Plan)</p> <p>Monitor the progress of RSLs in delivering the consultation promises and their progress in achieving Decent Homes (Development and Renewal).</p>	<p>The percentage of council homes made decent is monitored on a rolling basis and reported annually. Tower Hamlets Homes has been established and a bid for decent homes funding has been made to the CLG, the outcome of this bid will determine how much additional funding is required and therefore in part the Council's approach to further estate renewal bids in partnership with RSLs and other partners. Currently, Ocean Estate and Robin Hood Gardens are both part of major regeneration schemes. The</p>	<p>Spring 2009</p>

Governance Issue	Agreed Action	Progress to Date / Action Taken	Deadline for completion
		<p>procurement process for Ocean aims to achieve sufficient funding to secure decent homes across all units, whilst under the Blackwell Reach scheme, the current proposal is to demolish RHG. In both cases there are outline fallback positions.</p> <p>Annual monitoring of RSL progress against the timescales for achieving decent homes under the stock transfer agreements is underway.</p>	Feb 09



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

5.1 These are contained within the body of 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. One Tower Hamlets**

7.1 There are no specific one Tower Hamlets considerations.

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

## **8. Risk Management Implications**

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

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

9.1 There are no specific SAGE implications.

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### **Local Government Act, 1972 SECTION 100D (AS AMENDED) List of "Background Papers" used in the preparation of this report**

**Brief description of "background papers"**

**Contact :**

*Annual Financial Statements for 2007-08 containing the  
Annual Governance Statement.*

*Minesh Jani, 0738*

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REPORT TO:  <b>Audit Committee</b>	DATE  <b>06 January 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF:  <b>Corporate Director, Resources</b>		<b>Risk Management Arrangements</b>		
ORIGINATING OFFICER(S):  <b>Service Head Risk Management</b>				
		<b>Ward(s) Affected: N/A</b>		

## 1. Summary

1.1 This report gives an update on the Council's risk management arrangements. The purpose of the report is to provide the Audit Committee with an overview of how the authority's processes facilitate the identification and management of significant business risks.

## 2. Recommendation

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

## 3. Background

3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is "..... the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it".

3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, "Delivering Good Governance in Local Government", which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control. The Use of Resources assessments have also focused on risk management as an integral part of sound systems of internal control.

3.3 At its inception, risk management came into being from failures in the private sector where seemingly sound organisations failed spectacularly. The focus was initially on the financial viability of such organisations and how financial risk was being managed. Increasingly however, the proactive approach to dealing with issues afforded by the risk management technique is acknowledged. Risk management is thus applied not just the financial consideration, but equally if not more so to non financial considerations including the management of all resources, reputational management, promoting innovation, supporting decision making and developing effective performance management.

#### **4. Corporate Risk Register**

4.1 The review of risk at an operational and strategic level continues on a quarterly basis at directorate and corporate levels. A timetable is in place to aid all directorates capture key risks and assess their significance. The methodology adopted by the authority to assess and prioritise key risks is used to focus attention on those risks that require attending to. Significant risks are examined at directorate level and any risk that remains significant after existing control are taken into account (residual risk) are reported to the Corporate Management Team (CMT) so that they can be considered further. This process allows all risks to be captured, including project and programme risks, contract, financial, reputational risks etc.

#### **5. Risk Champions Meeting**

5.1 Each directorate has nominated a key individual to be the risk champion for their directorate. Their role includes to:-

- Update directorate risks every quarter;
- Facilitate the embedding of risk management within the directorate;
- Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
- Disseminate good risk management practices within their directorate;
- Provide advice and assistance as required;
- Maintain the directorate risk register; and
- Bring significant risks to the attention of the CMT.

5.2 The risk champions continue to meet every quarter and this forum provides a channel by which significant operational, project, contract or partnership risk can be included in the corporate risk process.

5.3 The CMT received an update on current risks on 16 October 2008. The main changes to risks and new and emerging risks identified in the report are summarised below.

**CLC8 - Loss of funding to support successful initiatives.** This risk was initially identified in June 2008 and given a “Red” status. The level of exposure has reduced over the three months as arrangements are being made to source other funding and review the likely spend.

**RES 36 - Economic uncertainty and banking conditions lead to loss of income or investment capital.** This risk recognises the impact the credit crunch is having on a variety of financial institutions and the consequence of dealing with financial markets. A number of public sector organisations have experienced difficulties recently and although Tower Hamlets was not affected, there is residual risk in this area.

**RES 37 - Next government spending review is not favourable for the Council.** The risk is that the formula grant distribution review for 2009/10 is lower than the grant floor announced as part of the Local Government Finance Settlement announced in November 2007. There is also a risk that Council tax increases are capped below current financial projections.

**CO20 - Failure to meet government recycling target.** This risk is around recycling targets. There has been recent improvement in the proportion of waste being recycled and management is more confident in meeting the overall target, based on recent recycling data. The exposure has thus been reduced slightly from “12” to “8”, although the RAG status remains “Red”.

**RES34 - Failure to fulfil employer responsibility around H&S.** Three directorates (D&R, Resources and Chief Executives) do not have robust arrangements for making sure the authority’s Health and Safety arrangements are fully fulfilled. This risk appreciates the need to ensure corrective action is taken promptly.

**RES35 - Failure of major contractor.** In the current financial climate, there is a risk that a significant contractor with whom the Council has a relationship is unable to deliver the contract requirements or that future contractual arrangements are more expensive. Although this risk is not regarded as very high, a score “6” indicates an amber status, which means the authority needs to be on its guard against this risk, as far as this is practical.

- 5.4 For all significant risks, action plans are in place to reduce the Council’s overall exposure from the risks.

## **6. Embedding Risk Management**

6.1 Over the last year, a number activities have been initiated to further embed risk management, including:

- Half day training courses for risk management as part of the corporate Learning and Development programme;
- Introduction to risk management for new starters;
- The role of the Audit Committee in dealing with risk management;
- Training session for members to introduce risk management and anti fraud as part of good governance;
- An introduction to risk management for LAB;
- Risk management workshops for services to develop their risk management practices;
- On going assistance and advice to senior officers across the authority;
- A review and update of the risk management guidance used by staff and managers;
- Development of an e-learning tool capturing risk management, money laundering, and anti fraud;
- A simplification of the corporate and strategic risks and the accompanying procedures;
- A review of a number of electronic solutions to assist in the management and reporting of risks with a view to procuring a practical software; and
- Discussions around the development of a risk management framework with the Interim Director of Tower Hamlets Partnerships for Tower Hamlets Partnerships.

## **7. Use of Resources**

7.1 Under the Use of Resources assessment, the Audit Commission assessed risk management as an element of Internal Control. For 2007/08, their assessment scored risk management 3 out of 4, which means that this area is performing well. To try and improve on this score under the Comprehensive Area Agreement, a number of actions are proposed, as detailed below.

## **8. Next step**

8.1 The following key actions are in hand to further enhance the risk management process by:

- Procuring an automated tool to facilitate the effective collection and reporting of risks. This will include training officers across the authority and our strategic partners as appropriate;
- Capturing sustainability impact appraisals to support strategic policy decisions;
- Developing an effective e-learning tool further, which will facilitate a more flexible learning and provide a robust arrangement for training, particularly new starters;
- Continuing to provide training and support to the Council and its key partners, including third sector organisations where appropriate;
- Setting up a partnership risk champions group to discuss partnership risks; and
- Enhancing key performance indicators for monitoring the effectiveness of the risk management process.

8.2 The training provision is on-going but it is expected that the activities identified above will have been set up by March 2009.

## **9. National Risk Register**

9.1 The National Risk Register was published by the Cabinet Office in November 2008 and is intended to capture the range of emergencies that might have a major impact on all, or significant parts of the UK. The register provides an assessment that the UK and its citizens could face over the next five years and is categories into three parts; accidents, natural events (collectively known as hazards) and malicious attacks (threats).

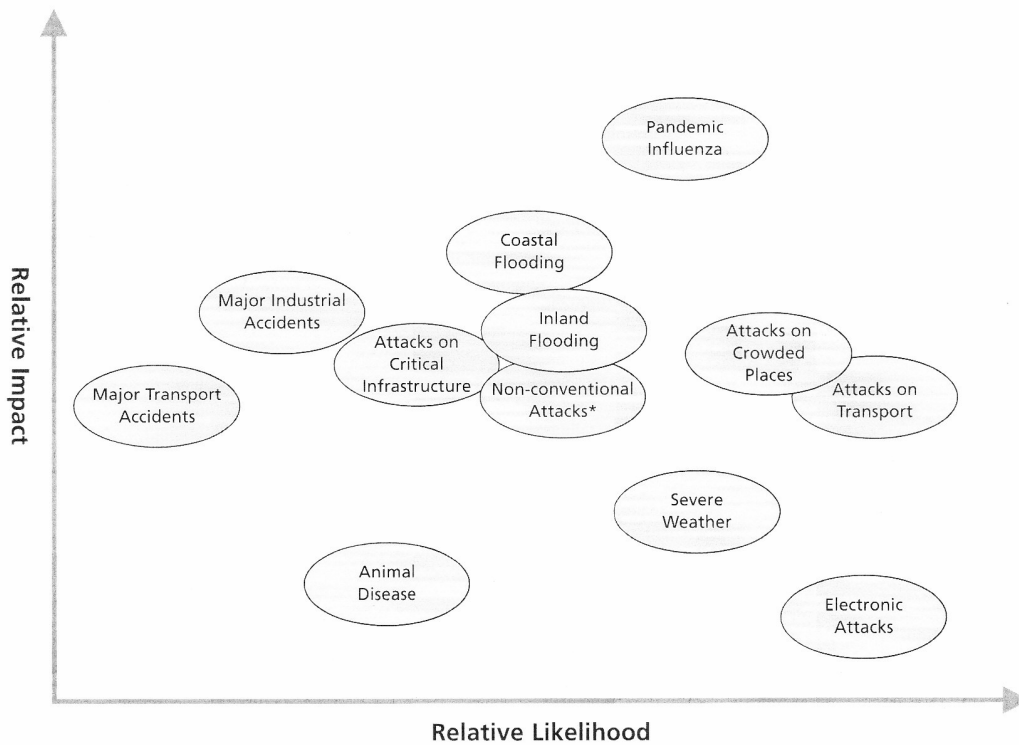
9.2 Much of the information in the risk registers is unsurprising but emergency planners have found them useful because:

- They bring together a great deal of information about potential risks that is relevant and consistent;
- The different risks can be compared broadly on a like for like basis; and
- They help in making decisions about which risk to plan for and what their consequences are likely to be.

9.3 The government does not expect individuals or communities to tackle any of the risks described on the register on their own. In all cases, the Government is working to reduce the risks to the UK from civil emergencies, ranging from flu pandemic and serious funding, to international terrorism. It also expects to provide an effective response where emergencies cannot be prevented from happening. The national risk register is for those however, who want to improve their own preparedness.

9.4 The table below is a pictorial illustration of the high consequence risks facing the UK. Some of these are relevant to Tower Hamlets; the risk champions plan to review them at their next meeting.

Figure 1: An illustration of the high consequence risks facing the United Kingdom



\* The use of some chemical, biological, radiological and nuclear (CBRN) materials has the potential to have very serious and widespread consequences. An example would be the use of a nuclear device. There is no historical precedent for this type of terrorist attack which is excluded from the non-conventional grouping on the diagram.



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

10.1 These are contained within the body of this report.

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

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

## **12. One Tower Hamlets**

12.1 There are no specific one Tower Hamlets considerations.

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

## **13. Risk Management Implications**

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

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

14.1 There are no specific SAGE implications.

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### **Local Government Act, 1972 SECTION 100D (AS AMENDED) List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

*Minesh Jani, 0738*

*Delivering good governance – CIPFA  
National Risk Register – Cabinet Office*

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