

Meeting of the

AUDIT COMMITTEE

Tuesday, 31 March 2009 at 7.30 p.m.

A G E N D A

VENUE

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

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

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 4204, E-mail: zoe.folley@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 31 March 2009

7.30 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

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

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 6th January 2009.

4. REPORTS FOR CONSIDERATION

5.1 Schools Internal Audit

Service Head, Resources, Children Services, to report.

5.2 Quarterly Internal Audit Assurance Report December 2008 - February 2009	11 - 30	
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To note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.

6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

6.1 External Audit - 2008/09 - Progress Report.	31 - 38	
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Audit Commission report attached.

6 .2	Annual Audit And Inspection Letter	
	To follow.	
6 .3	Council's Accounts: Supplementary Opinion Plan	39 - 42
	Report attached.	
6 .4	Pension Fund: Supplementary Opinion Plan	43 - 54
	Report attached.	
7 .1	UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION	
7 .2	Annual Internal Audit Plan 2008 - 09	55 - 104
	That the Audit Committee endorse the Annual Internal Audit Plan for 2009/10.	
8.	Annual Anti Fraud Plan 2009/10	105 - 116
	To note the contents of the report.	
8 .1	Audit Committee Training Plan	117 - 120
	To note the contents of the report.	

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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 7.45 P.M. ON TUESDAY, 6 JANUARY 2009

**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 Rupert Eckhardt

Other Councillors Present:

Officers Present:

Chris Naylor – (Corporate Director, Resources)
Alan Finch – (Service Head Corporate Finance, Resources)
Chris Stephenson – Interim Joint Assistant of Human Resources
Aman Dalvi – (Corporate Director, Development and Renewal
Bryan Jones – (Service Head, Environmental Control, Communities, Localities and Culture)
Mike Clarkson – General Manager, Deloitte
Minesh Jani – (Service Head Risk Management, Resources)
Paul Evans – (Interim Corporate Director, Development & Renewal)
Paul McDermott – (Service Head Revenue Services, Resources)
Steve Vinnall – Sector Manager, Deloitte
Tony Qayum – (Head of Audit Services)
Steve Lucas – (Audit Manager, Audit Commission)
R Parsons – Service Head Procurement, Resources
Sharon Martin – Audit Commission
Kelly Rickard – Communications Officer, Chief Executive
Zoe Folley – (Committee Officer, Democratic Services, Chief Executive's)

9. APOLOGIES FOR ABSENCE

RESOLVED that apologies for absence be received on behalf of Councillors Stephanie Eaton and Denise Jones.

10. DECLARATIONS OF INTEREST

- Please see minute 15.1 (Revised Audit Plan)
11. **UNRESTRICTED MINUTES**

RESOLVED that the unrestricted minutes of the meeting held on 18th September 2008 be approved.

12. **DEPUTATION AND PETITIONS**

None were received.

13. **ITEMS REQUESTED AT PREVIOUS MEETINGS**

The Committee received a presentation from C Stephenson (Interim Joint Assistant Director – Human Resources) which detailed the actions that had been taken to tackle the recommendations made in the last Annual Audit Plan regarding the issue of Officers' Travel and Subsistence Allowances.

It was noted that the outstanding recommendations related to the development of a clear policy on all staff travel arrangements. In relation to this, it was reported that a draft document had been prepared and was about to go out to consultation. An aspect of which covered changes to the licensing policy for vehicle inspections. The consultation would run from February to March 2009.

The document had been considered by relevant officers in Environmental Services to ensure it complied with the Authority's emerging Green Travel Plan.

It was expected that the outstanding work would be completed by the end of February/March 2009 following the outcome of the consultation.

Mr Stephenson also reported on the level of assurance attributed to the monitoring of CRB Checks.

It was reported that the outstanding action concerned developing a clear CRB policy in respect of the retention periods for disclosure information. It was noted that a report reviewing the merits of the current policy in respect of retention periods would be submitted to a future meeting of CMT. C Stephenson **Agreed** to check which CMT meeting the report would be submitted to.

ACTION BY: Interim Joint Assistant Director – Human Resources (C Stephenson)

A Member asked about the verification policies in place at other Authorities in relation to CRB checks and whether the third sector were involved in the inspections. A Member also asked about the frequency of rechecks.

The Committee also received a brief presentation from Paul Evans, (Interim Corporate Director, Development and Renewal) outlining the action that had

been taken to address the nil/limited assurances given in the last Audit Report to the Section 106 Planning Obligations.

During this, Mr Evans reported the following points:

- Apologised for D&R's non attendance at the last meeting of the Committee in September 2008;
- Briefly outlined the application process and decision making process for S. 106 Agreements, which was part of the planning system. Referred to the types of schemes they may be used for and potential sources of funding;
- Reported on the pre application process and stated that pre application guidance was available to Members and Officers;
- Referred to the role of the S. 106 Officer and also the Financial Control Officer based in D&R who administered the financial aspects of the agreements;
- Commented that all of the outstanding recommendations regarding S. 106 Agreements, detailed in the last Audit Report had now been implemented save the recommendation requiring an new invoicing process for requiring funding;
- Envisaged that this process would enable better monitoring of trigger dates, however there were difficulties with the model envisaged in the report;
- Therefore, consideration was being given to developing a alternative system for monitoring payments/progress with S. 106 contributions, but this would not be an automatic system.
- Considered that this process would require a strengthening of the data collection process and strong project management skills.
- Confirmed that reports detailing broad details of agreements were submitted to Cabinet on a quarterly basis.

In view of the above discussion, Mr Evans **Agreed** to prepare a paper on S. 106 Planning Obligations for submission to the Committee.

The report would detail the number submitted to the Authority over the last 5 years; application categories; the sums generated/expected to be generated by both past, and current S.106 financial obligations covering the last five years.

**ACTION BY: Interim Corporate Director, Development and Renewal
(P. Evans)**

13.1 School's Internal Audit - Note to the Committee

The Committee noted the paper.

In considered the paper, Councillor Peck asked for an update at the next meeting on the training arrangements to ensure key staff were fully aware of the relevant procedures.

13.2 Quarterly Assurance Report - September to November 2008

Minesh Jani (Service Head Risk Management) introduced the report highlighting the key points. He reported that overall, based on work performed in the year to date, he was able to give a substantial level of assurance over the systems and controls in place within the Authority.

In considering the report:

- The Committee queried why some of the recommendations had yet to be implemented? Concern was expressed at this as some related to follow up Audits;
- Reported that some of this issues stemmed from changes in personnel where key officers had moved services;
- Considered that steps be taken to ensure the services subject to Audit were made fully aware of the recommendations, especially prior to follow up checks, to facilitate preparations.

The Committee also noted that the percentage of recommendations implemented at the follow up stage had remained at around 74% over the last three quarters. The Committee stressed the need for improvements in this area. It was therefore **Agreed that the Committee would receive an update** for improving this percentage .

Action by: Service Head Risk Management (M. Jani)

In relation the Appendices, the Committee considered updates from services as set out below:

Bryan Jones, (Service Head, Environmental Control, Communities, Localities and Culture) reported on the Penalty Charge Notice (PCN) Audit. He reported that there were currently 6 ongoing parking reviews all nearing completion. The one outstanding action related to the problem of persistent offenders/evaders. However there was a national campaign aimed at tackling this problem which should improve local performance.

He also anticipated that the new ICT system highlighted in the report would facilitate joint working across parking services and allow for a more coordinated approach.

It was also considered whether the issue of PCN performance should be referred to the Performance Review Group who may wish to undertake a further review of performance. The issue was also considered on a regularly basis by the Directorate's Management Board where it was a standard item on the agenda.

Mr Jones also reported the current position for the Highways Inspections Audit which was the subject of a supplemental report. He advised that the outstanding recommendations concerned the development of an Asset

Management System which had yet to be implemented. The Committee stressed the need for improved management oversight of highway projects.

Alan Finch (Service Head Corporate Finance, Resources) commented on the Follow up Audit on the systems and controls for Bank Account Reconciliation (page 20 of the Appendix). He reported that five of the recommendations had yet to be implemented. The Committee expressed disappointment at this, but were reassured that all of the recommendations should be fully implemented by January 2009 at the latest.

The Committee asked about the number of Bank accounts held by the Authority. Mr Finch **Agreed** to obtain this information and report back to the Committee with the details.

ACTION: Service Head Corporate Finance, Resources (A. Finch)

In considering the Procurement Systems Audit (pg 19 of the Appendix), it was noted that the new strategy and policy had been completed and was now to be submitted to the Competitions Board. In terms of contract selection, it was noted that a new tollgate approach was now being used. The introduction of E-tendering would also improve performance.

Chris Naylor (Corporate Director, Resources) referred to the Limited assurance ratings assigned to the Resources directorate. He drew attention to the review of the Procurement Process and the new Requisition to Pay system referring to how they would improve service delivery.

Having considered the presentations, it was **RESOLVED:** That the contents of the report and the assurance opinion assigned to systems reviewed during this period be noted.

ACTION BY: Minesh Jani (Service Head Risk Management)

14. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

14.1 Audit Progress Report

Steve Lucas (Audit Manager, Audit Commission) presented the progress report.

In noting the questions raised by a local resident (page 43 of the report), it was clarified that the contents related to the East London Advertiser and the process surrounding internal recharges. Detailed responses had been given to both queries. The Chair requested to see a copy of the response.

Mr Lucas welcomed ideas for inclusion in the 2009/2010 audit and inspection programme. He advised Members that any ideas could be feed back to the Audit Commission or officers.

RESOLVED That the report be received and noted.

ACTION BY: **Audit Manager, Audit Commission (S. Lucas)**

14.2 Use of Resources - 2008/09 Assessment

Steve Lucas (Audit Manager, Audit Commission) presented the finding of the 2008/09 Use of Resources Assessment.

Mr Lucas reported on each theme score highlighting the key findings.

The Committee discussed ways of improving the scores. Attention was drawn to the challenges presented by the new national guidance for Audit and the challenges for the year ahead – 2009/10. It was also considered that some of the targets were very challenging, but not unrealistic.

RESOLVED That the report be received and noted.

ACTION BY: **Audit Manager, Audit Commission (S. Lucas)**

14.3 Audit 2007/08 - Opinion Memorandum

Steve Lucas (Audit Manager, Audit Commission) presented the opinion memorandum.

Members noted that the Council's Housing Arms Length Management Organisation (ALMO) commenced during 2008/09. It was noted that the ALMO had its own separate structure. A key aim was to manage this with the Authority's structure which was now being pursued.

RESOLVED That the report be received and noted.

ACTION BY: **Audit Manager, Audit Commission (S. Lucas)**

15. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

15.1 Revised Audit Plan for 2008-09

(Councillor Peck declared a personal interest in this agenda item ((8.1) Revised Audit Plan for 2008-09)). The declaration was made on the basis that the Bow Bengali Forum, (page 88 of the plan) operated in his ward.

Councillor Abbas declared a personal interest in this agenda item ((8.1) Revised Audit Plan for 2008-09)). The declaration was made on the basis that the Bow Bengali Forum operated in his ward. In addition his employer provided funding for the organisation.

Minesh Jani (Service Head Risk Management) introduced the report highlighting the key points.

Councillor Peck requested that some of the days in the new plan be devoted to the Community Language Process. **Agreed** that this issue be taken forward and added to the plan.

The Committee noted a summary of proposed changes to the Audit Plan 2008/09. In which it was proposed that the Bow Bengali Forum Financial Audit be allocated a total of 15 Audit days. A Member questioned the rationale behind the decision and considered that a proportionality test should be applied to this proposal to see whether the Audit required so many days.

Resolved: That the contents of the report be noted and the changes to the 2008/09 internal audit plan be endorsed subject to:

- (i) the inclusion of a review of the Community Language Process;
- (ii) a review of the Bow Bengali Forum Financial Audit

ACTION BY: Service Head Risk Management (M. Jani)

15.2 National Fraud Initiative And Anti Fraud Update

Tony Qayum, (Head of Audit Services) presented the report which highlighted the work of the National Fraud Initiative.

He reported some additional information not included in the report regarding recent work undertaken, highlighting the following points:

- That Audit Services had been asked by the Audit Commission to update the website from a National Fraud Prevention standpoint;
- That they had developed an e-learning package to cover a number of Anti Fraud Measures which would be launched this week;
- Were also carrying out a number of integrity checks to ensure trading partners stood up to scrutiny;
- That, in partnership with Trading Standards, Environmental Health and Registered Social Landlords (RSLs) were investigating the problem of unauthorised DVD selling to see whether properties were being developed for these purposes.

Reference was made to a national fraud line initiative aimed at reducing false insurance claims. It was reported that work was being undertaken to ensure this initiative was publicised widely. A Member also considered that the Authority should establish its own local fraud hot line.

A Member stressed the need for press coverage highlighting the Authority's efforts in tackling fraud to demonstrate that it was taking a proactive approach.

RESOLVED: That the contents of the report be noted.

ACTION BY: Head of Audit Services (T. Qayum)

15.3 Annual Governance Statement For 2007/08 - Update

Minesh Jani (Service Head Risk Management) presented the report.

The Committee noted the plans to further enhance the Authority's Business Continuity plans. Further work was being undertaken to ensure essential services could be carried out in emergencies. For example in the event of a pandemic flu epidemic.

RESOLVED That the report and the actions in dealing with the issues raised on the annual governance contents of the report be noted.

ACTION BY: (Service Head Risk Management) M. Jani

15.4 Risk Management Arrangements

Following a brief introduction by Minesh Jani (Service Head Risk Management) it was **RESOLVED:** that the contents of the report be noted.

ACTION BY: Service Head Risk Management (M.Jani)

16. ANY URGENT UNRESTRICTED BUSINESS

None was raised.

The meeting ended at 9.50 p.m.

Chair, Councillor Joshua Peck
Audit Committee

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	31 March 2009			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management	Quarterly Internal Audit Assurance Report Ward(s) Affected: N/A			

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2008 to February 2009.
- 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 will feed into the annual internal audit opinion which will be produced at the end of the financial year. The annual internal audit report will be brought to the Audit Committee on 30 June 2009.

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: -

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

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

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 on 6 January 2009, 12 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. **The Audit Committee is invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
 - The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in appendix 1. 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 where the level of assurance is Limited or Nil. 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.

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

Chart 1

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	0	1	0	0	0
	Moderate	0	7	2	1	0
	Low	0	0	1	0	0
Total 100%		0	8 67%	3 25%	1 8%	0 0%

- 5.4. From the table above it can be seen that of the 12 finalised audits which were of extensive or moderate significance, eight were assigned Substantial Assurance, three were assigned Limited Assurance and one was assigned Nil Assurance. The remaining one audit was of low significance which was also assigned Limited Assurance.
- 5.5. Overall, 67% of audits resulted in an adequate assurance (substantial or full). The remaining 33% of audits had 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 2008 to February 2009.

Performance measure	Target	Actual
Percentage of Audit Plan completed in year to date	88%	90%
Percentage of Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	79%

- 6.2. The table above shows that the proportion of internal audit work completed to February 2009 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 increased following the proactive approach that has being adopted by audit and management to implement recommendations in a timely manner. For follow ups completed from December 08 to February 09, the percentage of recommendations implemented is 88%. The cumulative position from April 08 to Feb 09 is 79%.
- 6.4. For follow ups, from 2009/10, the performance measure will be refined. In future, the percentage of recommendations implemented will be monitored in more detail capturing the each priority of recommendation. This will provide assurance over the implementation of the most important recommendations. The table below sets out the targets:

Performance measure	Target
Percentage of Audit Recommendations implemented by Auditees at six monthly follow up audit stage:-	
- Priority 1 recommendations	100%
- Priority 2 recommendations	95%

- 6.5. Priority 3 recommendations will not be followed up since these tend to be recommendations around best practice and suggestions for enhancing systems of control and not weaknesses in the current framework of control.

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.

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

Summary of Audits Undertaken

APPENDIX 1

Appendix 1

Assurance level	Significance	Directorate	Audit title
NIL	Moderate	Development and Renewal	Management of Commercial Property Portfolio
LIMITED	Moderate	Children's Services	Old Palace Primary School
	Moderate	Children's Services	St. Agnes RC Primary School
	Low	Tower Hamlets Homes	Horticulture Contract Monitoring
SUBSTANTIAL	Extensive	Children's Services	Building Schools for the Future
	Moderate	Tower Hamlets Homes	Sidney Street Estate – Central Heating Installation Works
	Moderate	Tower Hamlets Homes	Management of Voids
	Moderate	Chief Executive	Communication Strategy
	Moderate	Adults, Health and Wellbeing	Direct Payments – FU Audit
	Moderate	Children's Services	English Martyrs RC Primary School Malmesbury Primary School Wellington Primary School

Summary of Audits Undertaken

Appendix 2

Nil

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Commercial Property Portfolio</p> <p>Systems Audit</p>	<p>Jan. 2009</p>	<p>This audit reviewed the arrangements in place for managing the Council's commercial property portfolio of 293 commercial units. The total annual income raised from commercial rents is approximately £2.1M. The audit identified the following issues:-</p> <ul style="list-style-type: none"> • There was a high level Asset Management Plan, which governed the management of the Council's property portfolio. However, there were no documented policies and procedures in place which specifically dealt with the operational aspects of managing and controlling commercial portfolio. In the absence of procedural guidelines, there was a risk of inconsistent working practices leading to errors, omissions, irregularities and fraud. For example, instructions were being issued for lease renewals and assignments to Legal Services by Property Officers who did not have the appropriate authority. • We noted that a number of leases were assigned whilst the former leaseholders had outstanding rent arrears. Similarly, there was a risk of leases being renewed despite breaches of the lease terms and conditions, some of these had financial implications for the Council as the renewed leases were in the area earmarked for demolition. We were advised that there were no policy or procedures for rent reviews. Our analysis of the property database showed that of the 259 records shown, rent reviews were overdue in 90 cases, and in a further 52 cases rent review dates were not entered on the system. • Of the total annual value for commercial rents of £2.1M, the level of rent arrears amounted to £964,441 on a cumulative basis with the oldest debt dating back to 1995/96. <p>All findings and recommendations were agreed with the Service Head – Property Services.</p>	<p>£2.1M</p> <p>**</p>	<p>Nil</p> <p>*</p>

APPENDIX 2

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Old Palace Primary School	Dec 2008	<p>The purpose of the audit was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration, school funds and asset management. The following findings were reported:-</p> <ul style="list-style-type: none"> • Whilst the school produced budget monitoring reports, there was no evidence that budget variances were analysed and appropriate action taken to resolve them. • The school's purchasing procedures required improvement and the system for acknowledging the receipt of goods and services needed to be strengthened. • The system for undertaking and verifying pre-recruitment checks needed to be improved. • Improvements were needed in the management and control of inventory items, including annual check and disposal. Loans of equipment needed to be recorded and controlled. <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
St Agnes Roman Catholic Primary School	Dec 2008	<p>The objective of the audit was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration school funds and asset management. The audit review identified scope for improvement in all the areas reviewed by us.</p> <p>Specific focus was required on the following issues:-</p> <ul style="list-style-type: none"> • The school needed to comply with financial regulations on procurement procedures to demonstrate compliance with best value principles. • Improvements were also needed in ordering procedures to raise commitments on the financial system to improve budget monitoring. • The school's personnel/payroll management was not adequate. • Inventory management and control was weak. <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
<p>Horticulture Contract Monitoring</p> <p>Systems audit</p>	<p>Jan. 2009</p>	<p>The objective of this audit was to provide assurance on the framework of systems for monitoring the contract. Following competitive tendering, the contract was awarded on 22nd August 2006 for the period 1st October 2006 to 30th September 2011, with an option for 5 years extension. Officers of the Caretaking and Estate Services are responsible for managing and monitoring the contract. The following issues were reported:-</p> <ul style="list-style-type: none"> • The service had just been restructured at the time of the audit and good practices in contract management had not been embedded. There were no comprehensive procedures for the management and monitoring of the contract. Moreover, there was no programme of inspections, and hence no assurance that inspections were carried out on a planned and programmed basis, targeting critical risks. • Whilst improvement notices were being issued, there was no record of a subsequent visit to verify the rectification of fault. There were no documented procedures for issuing and monitoring variation orders and there was little evidence of any market testing for these additional works. Some of the variation works were already included and priced in the contract, but this was not utilised. • Performance monitoring reports were produced on a monthly basis, but compliance by the contractor could not be assessed due to the limited number of inspections currently undertaken. Furthermore, we have noted that there were no local performance indicators and targets for assessing the efficiency of the service. <p>All findings and recommendations were agreed with the Head of Service and the final report was issued to the Chief Executive.</p>	<p>Contract value £380K</p> <p>Variation £140K</p> <p>*</p>	<p>Limited</p> <p>**</p>

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Building Schools for Future	Jan. 2009	<p>Building Schools for Future (BSF) is a long term investment programme for secondary schools. At LBTH this is in the form of a mixture of new build and refurbishment facilities under Design and Build (D&B) scheme. The initial project included two sample schools viz. St Paul's Way Community School and Bethnal Green Technical College, but the procurement contract was a package for delivering all the schools within the BSF programme with a capital value of £300M over a 10 year period.</p> <p>Our review of the pre contract stage for the two sample schemes covered the controls surrounding invitation, receipt, opening, evaluation and the awarding of the contract. Audit testing showed that there was compliance with EU Regulations and the procedures for inviting, receiving, opening, evaluating and accepting tenders were satisfactory. As this was eventually a single tender, approval was obtained for continuing the competitive dialogue with the single bidder subject to testing the sample schools' bids against national benchmarking data. This testing was carried out by an external company. The results of the benchmarking evaluation showed that in both cases, the bids were in the upper quartile of the benchmarking range. We, therefore, recommended that a clear system for variation control and cost control should be established to ensure sound management of design development so that client generated variations are minimised. Furthermore, we recommended that clear systems and structures for client-side contract monitoring during the construction period and also during the operational period be established to ensure continuity over a longer period.</p> <p>All findings and recommendations were agreed by the Service Head – Building Schools for the Future.</p>	£300M ***	Substantial ***

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sidney Street Estate - Central Heating Installation Current Contract Audit	Jan 2009	<p>This audit examine the systems in place for making interim payments; for controlling and issuing variation orders; for receiving and evaluating claims; and for monitoring cost and work programmes during the currency of contract works. The following issues were highlighted:-</p> <ul style="list-style-type: none"> • We reported that the controls in place for procuring works, managing the works programme and controlling variations were adequate. Furthermore, arrangements for securing a performance bond and deed were also satisfactory. • However, the review did highlight improvements in relation to cost reporting and the valuation of works completed, as cost reports were not being prepared and interim valuations were not undertaken. The only payment made was an advance payment of £700,000 which was secured by a Bond. We have recommended that THH should clarify within its Financial Procedures and policy as to whether Advanced Payments with a security of a Bond is an acceptable practice. <p>All findings and recommendations were agreed with Interim Head of Asset Management and final report was issued to the Chief Executive.</p>	£1.1M **	Substantial ***

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Voids Systems Audit</p>	<p>Jan 2009</p>	<p>The objective of this audit was to provide assurance over the soundness and adequacy of the systems in place for identifying, inspecting, repairing and re-letting void properties. The responsibility for controlling and managing housing voids, falls within the four Local Service Centres (Less).</p> <p>Our review showed that within their Initial Delivery Plan for the period up to March 2009 THH has a performance target for void turnaround of 30 days. Operational procedures for managing and monitoring void dwellings are currently under review. The Void Monitoring Panel meets on a quarterly basis and identifies the number of voids and their stages, achievement against targets and any specific problems and issues, although we reported that further improvements should be made to increase the effectiveness of the Panel. Higher level performance monitoring is provided by the Voids Star Chamber which considers more strategic and developmental issues.</p> <p>We, highlighted areas for improvement such as standardisation of systems and procedures across the four LSCs, better monitoring by the LSC Managers of compliance with these procedures, better record keeping to ensure that all the required records such as works specification, key records, job completions certificates, safety certificates, monitoring sheets etc. are filed in the manual file properly.</p> <p>All findings and recommendations were agreed with the Interim Head of Service and Final report was issued to the Chief Executive.</p>	<p>Moderate **</p>	<p>Substantial ***</p>

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Communication Strategy	Jan. 2009	<p>The objective of this review was to provide assurance that the Council's systems and procedures for planning, controlling and monitoring internal and external communications were sound and adequate.</p> <p>The audit review showed that the systems within the Communications Unit were generally sound and complied with legislative requirements. Best practice and professional standards were being adhered to in managing both External and Internal communications. However, we noted that the 2008/09 Corporate Communications Strategy and Team Plans required to be formally agreed. Moreover, the setting of staffing budgets needed to be within the available funding as required by the Financial Regulations and the recovery of debt for advertising in the East End Life needed to be improved.</p> <p>All findings and recommendations were agreed with the Service Head - Communications.</p>	£2.8M **	Substantial ***

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Direct Payments Follow Up audit	Jan 2009	<p>From our follow up review, we have found that of the six recommendations made in the original audit report, five had been progressed and implemented. Procedures for making, approving and monitoring direct payments were satisfactory. One recommendation relating to the monthly monitoring of performance by DMT on the number of referrals, number of Direct Payment users and the movement towards the set target, could not be verified as minutes of the DMT were not made available for verification purposes.</p> <p>The report was issued to the Corporate Director - AHW and there were no further recommendations raised.</p>	£2M **	Substantial ***

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
English Martyrs Roman Catholic School Malmesbury Primary School Wellington Primary School	Dec. 2008	<p>A programme of regularity audits was undertaken at the three schools. The objective was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration, school funds and asset management.</p> <p>Our testing showed that sound controls had been established to support governance within these schools. Financial planning and budget monitoring systems were also adequate.</p> <p>However, improvements were required to ensure that there was a clear process in recording Governing Body decisions and in asset management.</p> <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 **	Substantial ***

Audit Plan 2008/09
Work in progress

Audit Activity	Audit status
Corporate Systems and Council-wide Reviews	
Mapping of Material Systems	On-going
Project Management	Draft Report
Local Area Agreements	Draft Report issued
Procurement of Mobile Phones	Draft Report
BV Performance Indicators	Draft Report
Scheme of Delegation	Draft Report
Agency staff – FU audit	Field work
Children’s Services	
Contract Services Income Collection and Monitoring	Draft Report
Marnar school - Current contract audit	Draft Report
Child Protection	Field work
End of Year School Bank Accounts - FU	Draft Report
Fostering – FU audit	Draft report
Children’s Centres	Field work
CLC	
Boroughwide waste collection and cleansing contract - FU	Draft Report

Audit Activity	Audit status
Blue Badges systems audit	Exit Meeting
Brady Arts Centre	Draft report
Fuel Purchase - Transport	Exit Meeting
The Car Pound – FU audit	Draft Report
Parking Income	Field work
Development and Renewal	
S 106 planning obligations – FU	Field work
Tower Hamlets Homes	
Gas repairs and maintenance – FU audit	Draft Report
RTB – FU audit	Draft Report
Major Works	Draft Report
TMO – FU audit	Field work
Governance	Field work
Adult, Health and Wellbeing	
Homeless Assessment – systems audit	Draft report
Commissioning of Elderly services	Draft report
Family Rent Deposit Scheme FU audit	Draft report
Sickness Management FU audit	Draft Report
Supporting people – systems audit	Exit Meeting
Head office – Income control FU audit	Field work
Receiverships – FU audit	Field work
Cash Income	Field work
Resources	
Council Tax	Draft Report
NNDR	Draft Report

Audit Activity	Audit status
Treasury management	Draft Report
Cashiers	Field work
IFRS – Planning and Implementation	Field work
Photocopier contract monitoring	Field work
Capital Accounting	Field work
General Ledger and Budgetary Control	Field work
Housing Benefit	Field work
Housing Rents	Field work
Sundry Debtors	Field work
Creditors	Field work
Payroll	Field work
Pensions	Field work

Progress Report

London Borough of Tower Hamlets

Audit 2008/09

Audit Committee 31 March 2009

(Written 12 March 2009)

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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

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 January 2009 and to inform the Committee of work currently being planned or undertaken. In addition, we draw to Members attention recent relevant Audit Commission publications.

2007/08

Since the last Audit Committee, in respect of the 2007/08 audit, we have:

- issued the certificate on the 2007/08 audit;
- issued our Annual Audit and Inspection Letter, incorporating the Direction of Travel results (separate item on the agenda); and
- issued our final report on the Procurement review.

In addition, we have now certified all the 2007/08 government grant claims and issued our final report on the Grant Claims audit.

All work in respect of 2007/08 is now complete.

2008/09

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

- issued our supplementary opinion plan (separate item on the agenda);
- issued our final report on the Data Quality audit;
- issued our draft report on the Decent Homes Standard follow-up review;
- set-up the all-staff IT risk survey; and
- progressed our work on reviewing the key financial systems of the Council.

Appendix 1 shows all work included in the 2008/09 Audit and Inspection Plan.

Assurances from the Audit Committee

In order to comply with International Standard on Auditing (UK&I) 240, we are required to obtain an understanding of how those charged with governance, the Audit Committee, exercises oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Under International Standard on Auditing (ISA(UK&I)250), we are also required to understand how those charged with governance gain assurance that the Council has complied with all relevant laws and regulations.

We will shortly be writing to the Chair of the Audit Committee requesting details as to how these functions are discharged. A copy of the standard letter is attached at Appendix 2.

2009/10

As part of our initial 2009/10 planning, we have had discussions with officers on the issues that may impact on our work for that year. We will issue our 2009/10 initial Audit Plan by 30 April 2008.

The 2009/10 Audit Plan will cover the Use of Resources assessment that we will be delivering this summer. We have been liaising with officers to highlight the key changes in the new Use of Resources approach and to support the preparation of the Council's self-assessment. The receipt of the self-assessment in early April will be the starting point for our work.

Recent Audit Commission publications

Our progress reports have previously included summaries of recent national reports issued by the Audit Commission. In March 2009, the Audit Commission launched the inaugural edition of Councillors' Update.

This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as CAA, national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work.

The first issue includes details of Comprehensive Performance Assessment and CAA and brief summaries of the most recent Commission reports that the Audit Commission thinks councillors would find useful in their work. Our progress report will therefore no longer contain a section on recent Audit Commission publications.

If you have not automatically received your copy of Councillors' Update, please subscribe via the following link:

<http://www.audit-commission.gov.uk/councillorupdate/issue1/mar09.asp>

Appendix 1 - Progress on 2008/09

Table 1 Progress on 2008/09 outputs

Product	Tower Hamlets lead	Audit Commission lead	Timing	Current position
The Accounts				
Work on financial systems	Alan Finch	Sharon Martin/ Malcolm Cox	December 2008 – June 2009	Detailed work in progress
Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • opinion memorandum 	Chris Naylor/Alan Finch	Jon Hayes/Sharon Martin/Malcolm Cox	July - October 2009	
Use of resources				
Homelessness	Jackie Odunoye	Vipul Thacker/ Sharon Martin	December 2008 - March 2009	Council providing results of internal reviews in this area
Decent Homes Standard	Jackie Odunoye	Vipul Thacker/ Sharon Martin	September 2008 – January 2009	Draft report issued
Your Business at Risk IT survey	Jim Roberts	Paul Whelan/ Sharon Martin	February 2009 – April 2009	Survey scheduled

Use of resources (Contd)				
Governance arrangements in partnerships	To be confirmed	Pam Hamilton	April - July 2009	To be incorporated into our Use of Resources assessment
Value for money conclusion	Martin Smith/ Chris Naylor	Jon Hayes/ Sharon Martin	August 2008 - September 2009	Fully integrated with the Use of Resources Assessment
Data quality arrangements Performance Indicators	Lucy Sutton	Steve Lucas/ Neil Whalley	June - November 2008	Final report issued.
Use of resource judgements	Chris Naylor/Alan Finch	Jon Hayes/ Steve Lucas/ Rama Krishnan/ Paul Jacklin	August - November 2008	Final report issued.
Inspection and CPA				
CPA/ Direction of Travel	Martin Smith/ Alan Steward	Adewale Kadiri/ Jon Hayes / Neil Foss	October 2008 - January 2009	CPA score and Direction of Travel report now issued.
Overall				
Annual Audit and Inspection Letter	Martin Smith/ Chris Naylor	Adewale Kadiri/ Jon Hayes / Steve Lucas	February - March 2009	Final report issued.
Grant claims				
Claims for year ended 31 March 2009	Alan Finch/Akrom Miah	Sharon Martin/Malcolm Cox	May - December 2009	

Appendix 2 – Assurances from the Audit Committee

Compliance with International Auditing Standards

This is a request for your assistance as Chair of the Audit Committee with our current work on the Council's accounts for 2008/09.

In order to comply with International Standard on Auditing (UK&I) 240, we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. I should be grateful if you would confirm:

- (i) how the Audit Committee oversees management processes to identify and respond to such risks, and
- (ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.

Management's processes may include:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter (or e-mail), by 30 April 2009 will suffice. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Jon Hayes
District Auditor

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.

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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For further information on the work of the Commission please contact:

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Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

4 February 2009

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 Director of Resources
 London Borough of Tower Hamlets
 Town Hall
 Mulberry Place
 5 Clove Crescent
 London
 E14 2BG

Direct line 020 7166 2877
Email j-hayes@audit-commission.gov.uk

Dear Chris

Supplementary opinion audit plan 2008/09

You will recall that I issued my initial Audit Plan for 2008/09 in May 2008. This set out the work that I proposed in order to satisfy my responsibilities under the Audit Commission's Code of Audit Practice. As this Plan was produced at the start of the financial year to give you an indication of the proposed fee, I was not able at that time to specify the detailed risks that I would need to consider as part of my audit opinion work.

I am now in a position to do this as the opinion work is about to commence. This letter represents my supplementary opinion plan under International Standard on Auditing (United Kingdom and Ireland) 300.

The above standard requires me to:

- identify the risk of material misstatements in your accounts;
- plan audit procedures to address these risks; and
- ensure that the audit complies with all relevant auditing standards.

I have therefore considered the additional risks that are appropriate to the current opinion audit and I have set these out below.

Risk	Residual risk	Audit response
The Council established an ALMO, Tower Hamlets Homes, during 2008/09. The Council is currently	Yes	We will review the Council's assessment of the need to prepare group accounts for the ALMO. We

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
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Risk	Residual risk	Audit response
reviewing whether it is required to produce group accounts to reflect the financial relationship between the Council and the ALMO.		will undertake specific audit procedures to provide assurance over the Council's financial transactions with the ALMO.
The current economic climate increases the likelihood of impairments occurring to Council fixed assets and financial instruments.	Yes	We will review whether the Council has taken appropriate steps to identify potential impairments and if they have occurred, ensure that these have been accounted for in accordance with the SORP, FRS11 and FS26.
<p>Our 2007/08 Annual Governance Report highlighted the following issues in respect of last year's draft financial statements:</p> <ul style="list-style-type: none"> • HRA subsidy receivable had not been calculated using the latest available guidance; • the cash flow statement contained a number of material errors and had to be re-drafted; and • internal debtors and creditors had not been excluded from the consolidated accounts. 	Yes	We will ensure that items reported in our 2007/08 Annual Governance Report have been addressed appropriately during the 2008/09 closedown.
There have been changes in the key staff responsible for preparing the draft financial statements.	Yes	We will hold regular liaison meetings with relevant Council officers during the closedown process. We will ensure arrangements are in place to address all issues arising from the previous year's audit and changes arising from the 2008 SORP.

In my initial Audit Plan, the estimated fee for the opinion audit was based on my best estimate at the time and agreed at £284,000 (including Whole of Government Accounts) as part of a total audit fee of £442,000.

I am satisfied that the original fee estimate for the opinion audit was appropriate and no adjustment is therefore required to the fee at this stage. However, I will keep the fee under review as the opinion audit progresses. If I need to amend the fee subsequently, I will first discuss it with you.

Yours sincerely

Jon Hayes
District Auditor

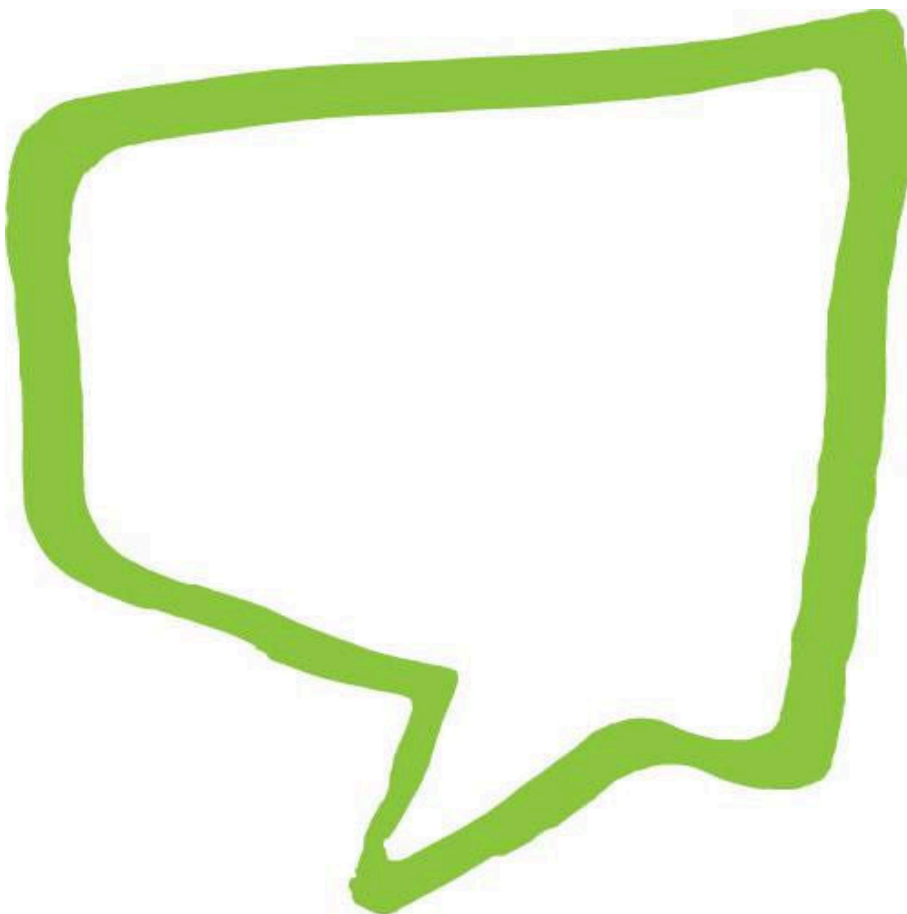
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Supplementary Opinion Plan

Tower Hamlets Pension Fund

Audit 2008/09

February 2009



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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:

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- any third party.

Introduction

- 1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts, from 2008/09 onwards. The Audit Commission work programme and fee scales introduced separate fee scales for Local Government Pension Scheme (LGPS) audit work from 2008/09 to reflect the change.
- 2 The new arrangements mean that I have prepared a separate audit plan for the Tower Hamlets Pension Fund. I will discuss and agree this plan, and any reports arising from the audit, with those charged with the governance of the pension fund.
- 3 As the pension fund accounts remain part of the financial statements of the London Borough of Tower Hamlets as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

The fee

- 4 We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced at the start of the financial year for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence. We are required to:
 - identify the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards, including Practice Note 15¹
- 5 We have therefore set out below our approach to identifying opinion audit risks and have considered the additional risks that are appropriate to the current opinion audit.
- 6 In my original audit plan, presented to the Audit Committee on 30 June 2008 the estimated fee for the Pension Fund opinion audit was based on my best estimate at the time and agreed at £38,000 as part of a total audit fee of £479,000.
- 7 I am satisfied that the original fee estimate for the opinion audit was appropriate and no adjustment is therefore required to the fee at this stage. However, I will keep the fee under review as the opinion audit progresses. If I need to amend the fee subsequently, I will first discuss it with you.

¹ Auditing Practices Board Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom'.

Specific actions Tower Hamlets Pension Fund could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

Process for agreeing any changes in audit fees

- 9 As set out at paragraph 8, we the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Director of Resources. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

Identifying opinion audit risks

Organisation level risks

- 10** As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Pension Fund; and
 - assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

Information system risks

- 11** To comply with ISA (UK&I) 315, we need to assess the risk of material misstatement arising from the activities and controls within the Pension Fund information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 12** Material systems are those which produce material figures in the annual financial statements. We have identified that the Pension Fund has five material systems. For these systems we need to demonstrate our understanding by documenting the following:
- how transactions are initiated, recorded, processed and reported in the financial statements;
 - the accounting records relevant to the transactions;
 - how the Pension Fund identifies and captures events and conditions which are material to the financial statements; and
 - the financial reporting process used to prepare the financial statements.

Assertions

- 13** When considering the risk of material misstatement we consider what the Director of Resources is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Pension Fund for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

14 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- the Fund Account items;
- Net Assets Statement items; and
- disclosures and presentational elements of the financial statements.

Identification of specific risks

15 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific risks
Specific opinion risks identified

Risk Area	Assertions	Audit response
<p>Contributions With effect from 1 April 2008 employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a considerable risk that contributions will not be being deducted and collected at the right rates.</p>	<p>Fund Account & Disclosure</p> <ul style="list-style-type: none"> • Accuracy. • Completeness. 	<p>We will review the systems that the Pension Fund has in place to ensure that all contributions (from all participating employers) are being collected at the right rates.</p>
<p>Investments The volatility in world financial markets impacts upon the value of the Pension Fund's investments holdings. There are risks around accurate recording at the year end and the adequacy of funding levels.</p>	<p>Net Assets Statement</p> <ul style="list-style-type: none"> • Valuation and allocation. • Rights and obligations. • Cut off. 	<p>We will review the Net Assets Statement and reconciliations to the Fund Manager and Custodian reports to ensure that investments are recorded correctly in 2008/09.</p>

Testing strategy

- 16** On the basis of risks identified above, we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 17** Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18** Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early:
- review of accounting policies;
 - bank reconciliation;
 - year end feeder system reconciliations; and
 - transfer values.

Where other early testing is identified as being possible this will be discussed with officers.

Key milestones and deadlines

- 19 The Pension Fund is required to prepare the financial statements by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. The key stages in the process of producing and auditing the financial statements are shown in Table 3.
- 20 We have provided a schedule of working papers required to support the entries in the financial statements.
- 21 We will meet with the key contact and review the status of all queries on a regular basis.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	February to April 2009
Receipt of accounts	No later than 30 June 2009
Forwarding of audit working papers to the auditor	No later than 30 June 2009
Start of detailed testing	TBA
Progress meetings	Weekly updates during the course of the post-statements audit
Present report to those charged with governance at the Audit committee	No later than 30 September 2009
Issue of opinion	By 30 September 2009

The audit team

22 The key members of the audit team for the 2008/09 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Sharon Martin Senior Audit Manager	s-martin@audit-commission.gov.uk 07812 344672	Overall coordination of the different elements of audit work. Key point of contact for the Director of Resources.
Nicholas Beth Audit Manager	n-beth@audit-commission.gov.uk 020 7364 4784	Responsible for the day-to-day management of the audit. Key point of contact for the Head of Finance.

Quality of service

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

The audit team

Planned outputs

25 Reports will be discussed and agreed with the appropriate officers before being issued to the Pensions Committee.

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements	30 September 2009
Final accounts memorandum	30 November 2009

The Audit Commission

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Agenda Item 72

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	31 March 2009			
REPORT OF:	Annual Internal Audit Plan 2009/10			
Corporate Director, Resources				
ORIGINATING OFFICER(S):	Ward(s) Affected: N/A			
Service Head Risk Management				

1. Introduction

- 1.1 This report presents the proposed Annual Internal Audit Plan for 2009/10. The plan was compiled using the Internal Audit Strategy approved by the Audit Panel in July 2005 and endorsed each year thereafter as part of the annual planning process.
- 1.2 The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

2. Recommendation

- 2.1 That the Audit Committee endorse the Annual Internal Audit Plan for 2009/10 (Appendix 1).

3. **Background / Methodology**

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses 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 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

- 3.3 Following this assessment, those systems with the highest score were added to the audit plan based on the resources available. In addition to the above assessment, auditable areas that have a low score, but in order to support the work of external audit or to provide assurance to key officers, are necessary also feature in this audit plan. These include areas such as the reviews of key financial systems, and performance indicators and an assessment of how primary schools meet the requirements of the Financial Management Standards as required by the DCfS.

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Deloitte.

Audit Resources 2009/10		Days	Days
Deloitte	Core Audit	322	
	Computer Audit	130	
	Management	129	581
In-house	6 auditors @ 195 days pp	1,170	
	Management	131	1,301
TOTAL			1,882
PLAN TOTAL			1,882

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the significance of the systems (High, Medium or Low), and where relevant, the source of the auditable area and its link to the authority's corporate priorities.
- 3.6 In summary, for 2009/10, the Internal Audit Plan comprises of 1,882 days across all directorates, covering a full range of audit activity including contract and computer audit. The table below shows the comparison with the original and revised audit plans for 2008/09. It is inevitable that changes will be made to the plan during 2009/10 due to factors such as changes in services and personnel, changes in priorities and changes in the Council's risk profile. The audit plan, therefore, has to be used flexibly. In line with the established protocols, all changes to the agreed 2009/10 plan will be reported to the CMT and Audit Committee in December 2009.

	Original plan 2008/09	Revised Plan 2008/09	Audit Plan 2009/10
Corporate systems	135	135	135
Chief Executive's	25	35	30
Children's Services	391	391	402
Communities, Localities and Culture	105	105	120
THH	135	135	150
Development & Renewal	75	75	90
Adult Health and Wellbeing	75	65	75
Resources	305	305	260
Contract audit	50	50	50
Computer audit	144	144	130
VFM & pro-active fraud	70	70	70
Follow-up & reactive work	370	370	370
Total	1,880	1,880	1,882

4. Comments of the Chief Financial Officer

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

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

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

6. One Tower Hamlets

- 6.1 There are no specific one Tower Hamlets considerations.
- 6.2 There are no specific Anti-Poverty issues arising from this report.

7. Risk Management Implications

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

8. Sustainable Action for a Greener Environment (SAGE)

8.1 There are no specific SAGE implications.

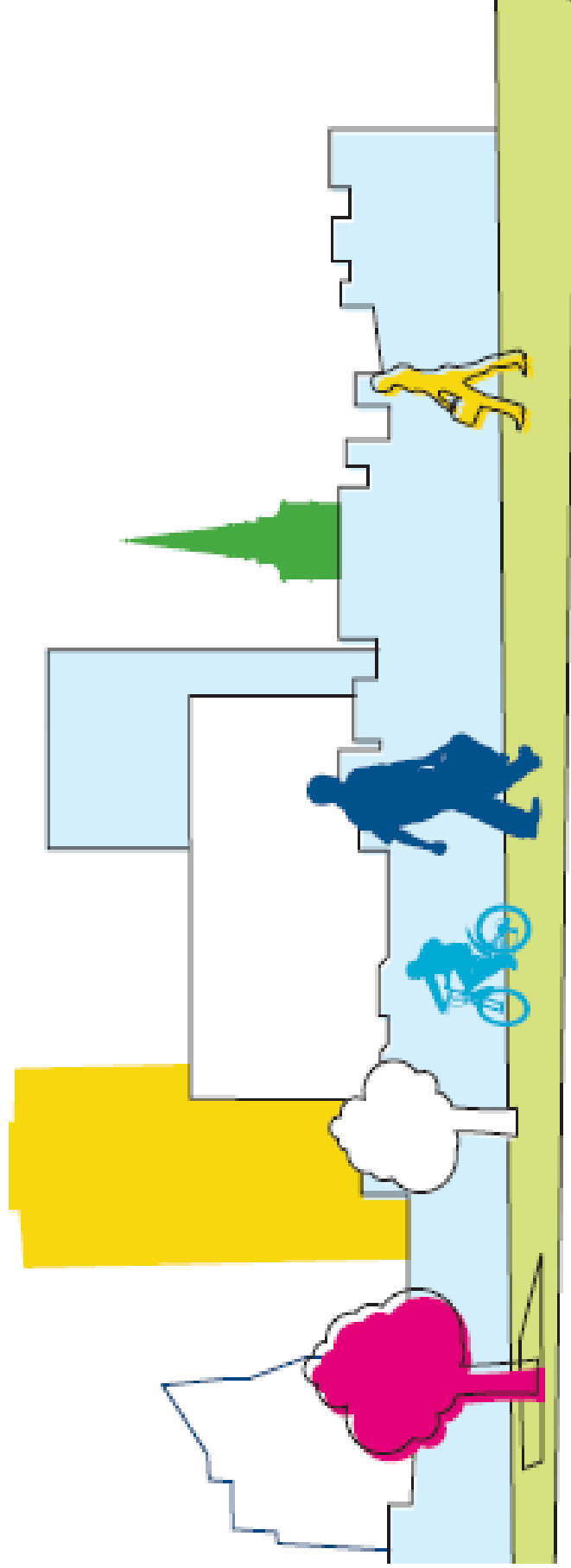
Local Government Act, 1972 SECTION 100D (AS AMENDED)

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

Brief description of "background papers"

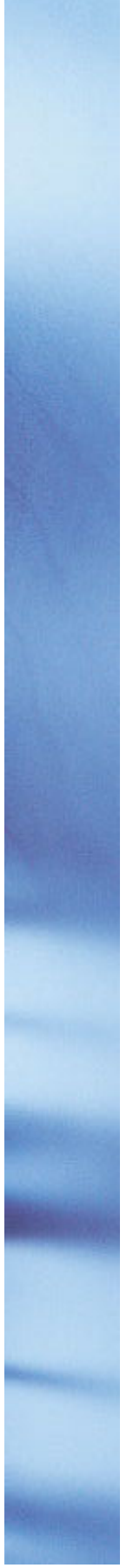
Contact :

Minesh Jani, 0738



London Borough of Tower

Hamlets



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Foreword

The role of internal audit is becoming increasingly important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2009-10 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani
Service Head – Risk Management and Audit
15 March 2009

Context

Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks. Internal audit through its reviews assesses the significance of risks and where it identifies inappropriate levels of exposure, recommends implementation of action to mitigate against the risk. Internal audit also has a role in bringing to management attention over control of risk, which if unchecked can stifle innovation and deliver poor value for money.

The Role of Internal Audit

The role of Internal Audit is to provide an independent 'assurance' to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation's internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 defines internal audit as:

"an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Head of Audit Opinion which then feeds into the Annual Governance Statement.

London Borough of Tower Hamlets 2009/10 Internal Audit Plan

	Audit Days	Pages
Corporate Systems and Council-wide reviews	150	6-8
Assistant Chief Executive's	30	9
Children's Services	387	9-12
Communities, Localities & Culture	120	13-14
Tower Hamlets Homes	150	15-17
Development & Renewal	90	17-18
Adult, Health and Wellbeing	75	19-20
Resources & core financial systems	260	20-22
Contract audit	50	22
Information Technology audits	130	23
VFM and Pro-active fraud	70	23
Follow up, management and reactive fraud provision	370	24
Total Provision	1,882	-

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Management of Climate Change	This audit will review the Council's arrangements for managing climate change and carbon reduction initiatives.	M	20	From Audit Needs Analysis and Risk Register	A Great Place to Live Improve the environment and tackle climate change.
Health and Safety	Following recent changes in the legislative requirements, this audit will seek to provide assurance over the soundness and adequacy of Health and Safety issues at work place.	H	20	From Audit Needs Analysis and Risk Register	One Tower Hamlets Working efficiently and effectively as One Council.
Management and Monitoring of Local Public Service Agreements	This review will focus on the systems and procedures for planning, monitoring and delivering the stretched performance and delivery targets set within the Council's LPSA.	H	20	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Establishment Controls	This audit will examine the systems for controlling and managing establishment levels within the Corporate Directorates.	H	20	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Core Management Processes	This review will look to assess how the Council's core processes relating to people are applied in practice such as induction, PDRs, training and development.	H	15	Management request	One Tower Hamlets Working efficiently and effectively as One Council.
Debt Management (Council Wide)	This review will examine the arrangements in place for the management of debt holistically across the authority.	H	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council.
Contract management and monitoring	This review will examine the Council's arrangements for ensuring sound contract management and monitoring across all Directorates.	H	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
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Corporate Systems

Risk Management	<p>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.</p>	H	20	From Audit Needs Analysis	<p>One Tower Hamlets Working efficiently and effectively as One Council.</p>
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INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Assistant Chief Executive's</u>					
Members Allowances	This audit will examine systems for managing and controlling allowances to the members of the Council.	M	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Charges on Property	This audit will review the Council's arrangements for putting charges on property to ensure that where debt recovery or other enforcement actions have failed, the income due to the Council is appropriately secured.	M	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
<u>Children's Services</u>					
Building Schools for the Future	The scope of this audit would be to review the procurement arrangements for the wave 5 of secondary schools BSF initiative and primary Schools Capital programme.	H	25	Risk registers CS17 and CS18 and Audit Needs analysis.	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
	A current contract audit will be carried out on the building works at the two sample schools in the BSF programme.				A Prosperous Community Support lifelong learning opportunities for all.
Common Assessment Framework	The objective of this audit will be to examine systems for managing and controlling the implementation of the CAF.	H	20	Risk registers CS20 and Audit Needs analysis.	A Safe and Supportive Community. Empower vulnerable people and support families.
ContactPoint Implementation and Accreditation	The implementation and use of the ContactPoint system requires accreditation checks by Internal Audit. This audit will provide assurance to the national CP team and the DCFS that arrangements made by LBTH are sound and secure.	H	15	Risk register and Audit Needs analysis.	A Safe and Supportive Community. Empower vulnerable people and support families.



INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Social Care Commissioning and Client Monitoring	This audit will review the systems in place for commissioning and monitoring social care services for children managed by the Strategy, Policy and Partnerships service of the Directorate.	H	20	Management request and Audit Needs analysis.	<p>A Safe and Supportive Community. Empower vulnerable people and support families.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council.</p>
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.	H	224	From Audit Needs Assessment	<p>A Prosperous Community Support lifelong learning opportunities for all.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council</p>
Financial Management Standards for Primary and Secondary Schools	The DCFS's guidance requires bigger primary schools to demonstrate good financial management arrangements by	H	68	DCFS regulation on financial management standards at	<p>A Prosperous Community Support lifelong learning opportunities for all.</p>

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
	31/03/2010. 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.			schools in line with the DCFS toolkit.	One Tower Hamlets Working efficiently and effectively as One Council.
Management and control of surplus balances	This audit will seek to provide assurance on the systems and procedures for managing, controlling and monitoring schools surplus balances.	H	10	Management request and audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council.

To be allocated subject to operational risk assessment

5



Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities.</u> <u>Localities and Culture</u>					
Recycling of household waste contract monitoring	Our scope for this audit will include Council's arrangements for managing and monitoring the recycling contracts.	H	20	Risk register and Audit Needs Assessment	A Great Place to Live Improve the environment and tackle climate change.
ASBO Management and enforcement	The scope of this review will include the Council's systems for managing and enforcing Anti-Social Behaviour Orders.	M	20	Risk register and Audit Needs analysis.	A Safe and Supportive Community. Empower vulnerable people and support families. Tackle and Prevent Crime.
Governance of Tower Hamlets Partnership	This audit will examine the system of governance to regulate the business of the LBTH strategic partnership.	H	20	Risk register H1 / H2 and Audit Needs analysis.	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Management of the Working Neighbourhood Fund	This review will seek to provide assurance over the arrangements in place for managing and controlling the WNF	H	20	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Management of Highways works	The systems and procedures for managing and controlling repairs and maintenance works to highways and footways will be examined during this audit.	M	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.

To be allocated subject to operational risk assessment

20

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Housing Repairs	This audit will examine systems for managing and controlling repairs to housing dwellings managed by THH. Arrangements for monitoring the performance of the repairs contractors will also be reviewed.	H	20	Audit Needs analysis risk register.	A Great Place to Live. Provide affordable housing and strong neighbourhoods.
TD This review will provide assurance on the soundness and legacy of the company's financial systems and procedures. This will include systems for treasury management, VAT, accounting, Bank Reconciliation, Creditors, payroll etc.	H	20	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.	
Performance Management	This audit will seek to provide assurance that systems and procedures in place for performance management are sound, secure and are complied with.	H	15	Audit analysis register	One Tower Hamlets Working efficiently and effectively as One Council.

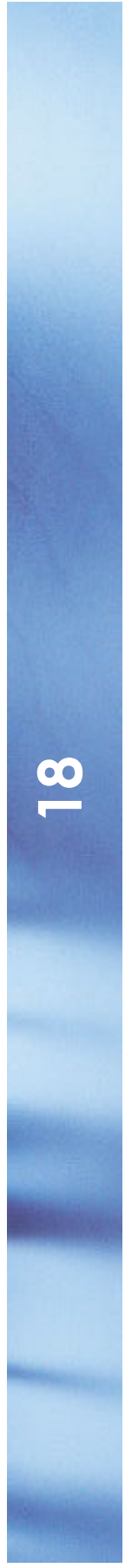
Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Budgetary Control	Systems for planning controlling and monitoring budgets will be examined in this audit.	H	15	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Caretaking Service	The scope of this audit will be to examine systems for managing and monitoring caretaking service	M	15	Audit Needs analysis risk register	A Great Place to Live. Provide affordable housing and strong neighbourhoods.
Strategic Management of SLAs	This audit will examine the soundness and adequacy of systems for managing and monitoring SLAs for various services.	M	10	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Systems Development work	The objective of this work will be to advise management on procedures and controls during the systems development stages.	H	15	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
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.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	20		One Tower Hamlets Working efficiently and effectively as One Council.
<u>Development and Renewal</u>					
Asset Management	This audit will examine systems for managing the assets of the Council to ensure that its strategic objectives and priorities are achieved.	H	20	Audit Needs analysis risk register DR9.	One Tower Hamlets Working efficiently and effectively as One Council.
Commissioning	We will review the systems and procedures for commissioning services from the third sector organisations using the Council's mainstream and external funding programmes.	H	20	Audit Needs analysis risk register DR1 and DR8.	One Tower Hamlets Working efficiently and effectively as One Council.
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	One Tower Hamlets Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Management and control of Planning Permissions	This audit will examine systems for managing and controlling planning permissions.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.

To be allocated subject to operational risk assessment

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INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Governance of Pooled Agreements and Partnerships	This review will examine governance systems and procedures for partnership working with other organisations to provide adult services.	H	20	Audit Needs analysis risk register AS5	A Safe and Supportive Community. Empower vulnerable people and support families.
Homelessness and Temporary Accommodation	This audit will examine systems in place for capturing homelessness cases and the arrangements placing them in temporary accommodation.	M	20	Audit Needs analysis risk register	A Safe and Supportive Community. Empower vulnerable people and support families.
Integrated Commissioning of Mental Health	This audit will review the systems and controls for commissioning mental health services for adults using the integrated commissioning approach.	M	20	Risk register AS11	A Safe and Supportive Community. Empower vulnerable people and support families.
To be allocated subject to operational risk assessment			15		

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Housing and Council Tax Benefit		H	20	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One.
General Ledger incl. Budgetary Control		H	20		
Cashiers / Cash income		H	10		
Council Tax		H	15		
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	15		
Creditors		H	20		
Capital Accounting		H	10		
Pensions		H	10		

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
N.N.D.R.					
Personnel/Payroll		H	10		
Housing Rents		H	20		
Investments		H	10		
/Loans/Prudential Borrowing		H	10		
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 this process over three years.	H	35	To identify key controls that facilitates good financial governance.	
Competitive tendering	This review will seek to provide assurance over the soundness and adequacy of the Council's competitive tendering arrangements for procuring works, goods and services.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One.
Parking Permits	Systems and procedures for issuing various parking permits by the Council's Chief Cashiers Office and by One Stop Shops	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
Grant Claim - Teachers Pensions Return	<p>will be reviewed.</p> <p>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.</p>	H	15	Audit Commission requirement	<p>One Tower Hamlets Working efficiently and effectively as One.</p>
<u>Contract Audit</u>					
Contract Audit Reviews	<p>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.</p>	H	50	Audit Needs Analysis	<p>One Tower Hamlets Working efficiently and effectively as One.</p>



INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>					
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.	-	130	Risk Registers CO5 and management request	One Tower Hamlets Working efficiently and effectively as One.
<u>Value for Money Audits</u>					
Procurement of Temporary Accommodation	This audit will provide assurance over the soundness and adequacy of the Council's arrangements for procuring temporary accommodation for homeless families.	H	20	Audit Needs analysis and risk register AS10	One Tower Hamlets Working efficiently and effectively as One.
Proactive Fraud Work	A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised.	H	50	Part of the contract	One Tower Hamlets Working efficiently and effectively as One.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Follow Ups</u>	Follow-up of reviews carried out in 08/09 to ensure implementation of audit recommendations.	H	110		One Tower Hamlets Working efficiently and effectively as One.



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.	or
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.	or
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.	or
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.	or
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	or

Internal Audit Risk Assessment Matrices

B Corporate Sensitivity 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.

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	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	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 Simple system with low risk of error	Limited changes planned with reasonable timescale	
7	Medium vulnerability	or Moderately complex system with medium risk of error	Moderate level of change over medium term	
8	Medium to high inherent risk	or Complex system with high risk of error	Significant level of change with restricted timescale	
10	Highly vulnerable	or 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	Management Risk and Control Environment	Condition of Risk Management Controls
2	No history of control weakness	There is effective risk management in place and adequate controls operated by risk-aware management	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	Good management risk and control environment	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	No knowledge of management risk and control environment	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	Some significant concerns have been expressed by management (through Controls Risk Workshops)	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	Major concerns have been expressed by management (through Controls Risk workshops)	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 effectively 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 be 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 primary 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

Page 94

- 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.

The Internal Audit Process

The Pre-Audit Stage

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

During the Audit

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

Post Audit Stage

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the CMT and Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee, particularly in relation to audit reports where the level of assurance is not satisfactory.

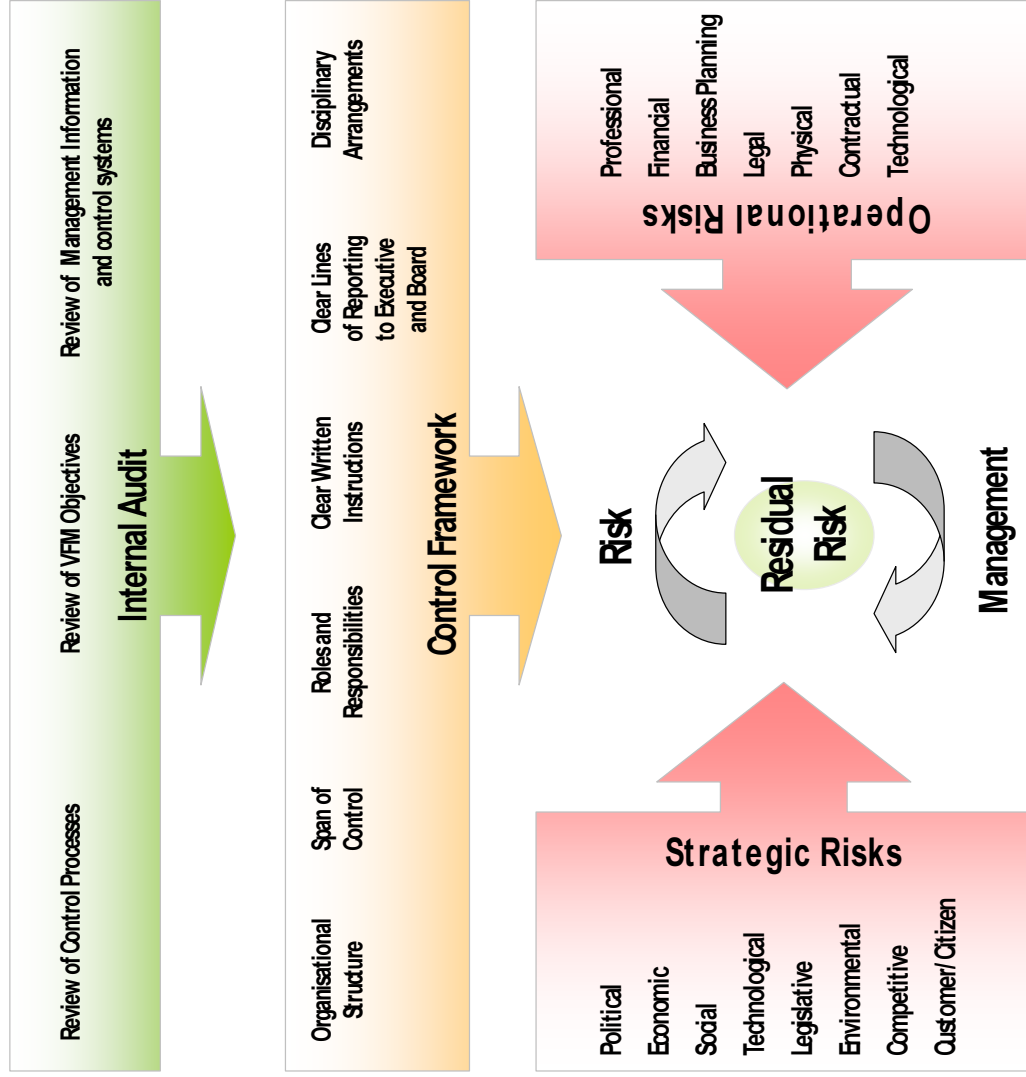
The Monitoring Process

Follow-up audits will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

Internal Audit recommendations are classified as follows:

- Category 1 – High Priority - 100% of recommendations to be implemented within six months
- Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

Summary



Internal Audit: Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

Control Framework: A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

Risk Management: The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

Appendix 1: Risk Management Framework

Definitions

Risk “Any issue which could impact on an organisation’s ability to meet its objectives”

Risk Management Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

Objective Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

Our Policy: We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.

Objectives of Risk Management:

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

These Objectives will be Achieved by:

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

To Emphasise the Organisation’s Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:

“London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community”.

The Audit Committee, CMT and the DMT will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

Roles and Responsibilities

<p>Audit Committee</p>	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
<p>Corporate Management Team</p>	<p>One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.</p>
<p>Corporate Director of Resources</p>	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
<p>Corporate Directors</p>	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>

Risk Management Action Plans

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, CMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Corporate Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Corporate Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

Classification of Risk

Strategic Risks		Operational Risks	
<p>Political</p> <p>Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO</p>	<p>Economic</p> <p>General economic problems Regional economic problems Treasury risk Missed business or service opportunities</p>	<p>Professional</p> <p>Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners</p>	<p>Financial and business planning</p> <p>Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services</p>
<p>Social</p> <p>Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working</p>	<p>Technological</p> <p>Obsolescence of technology Security policies Breach of confidentiality Failure in communications</p>	<p>Legal</p> <p>Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation</p>	<p>Physical</p> <p>Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies</p>
<p>Legislative</p> <p>Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission</p>	<p>Environmental</p> <p>Impact of sustainability policies Noise, contamination and pollution</p>	<p>Contractual</p> <p>Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies</p>	<p>Technological</p> <p>Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites</p>
<p>Competitive</p> <p>Failure to show best value Failure of bids for government funds</p>	<p>Customer/Citizen</p> <p>Lack of appropriate consultation Bad public and media relations</p>		

Agenda Item 8

REPORT TO: Audit Committee	DATE 31 March 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Annual Anti Fraud Plan 2009/10		
ORIGINATING OFFICER(S): Service Head, Risk Management		Ward(s) Affected: N/A		

1. SUMMARY

1.1 This report provides Audit Committee with a work plan for proactive and reactive anti fraud work in 2009/10.

2. RECOMMENDATIONS

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

3. INTRODUCTION

3.1 This report provides Audit Committee with a summary of the planned work to be carried out by the Corporate Anti Fraud Team in 2009/10.

3.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. This minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.

3.3 The need for effective anti fraud work within local authorities has also been reflected by the Audit Commission, through the Use of Resources Assessment. The requirements highlight the expectations around the framework local authorities have in place in respect of the prevention and detection of fraud. As such, it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption activities.

4. ANNUAL CORPORATE ANTI FRAUD PLAN 2009/10

- 4.1 This is the second year where we have provided a separate and specific plan for anti fraud work as previously it had been included within the Internal Audit Plan. This is to reflect the increasing priority of the service within Internal Audit.
- 4.2 The overall aims and objectives of this plan reflect the Council's Anti Fraud and Corruption Strategy. The key aims are to:
- Highlight and promote the Council's commitment to stop fraud and corruption;
 - Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
 - Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
 - Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.
- 4.3 The key drivers used to compile the corporate anti fraud plan for 2009/10 has built on experience and takes account of the: -
- Fraud Risk Register (maintained by audit through training with services);
 - Management requests and priorities;
 - Local Knowledge;
 - Joint working arrangements - external (DWP, PCT, Police and other Local Authorities);
 - Joint Working arrangements – internal (payroll, pensions, parking services, benefits services, housing services; and
 - Issues identified from planned audit work;
 - Good Practice checklists from the CIPFA Publication-Managing the risk of Fraud- Red Book 2.
- 4.4 Our plan is attached as Appendix A. The focus of the plan is to:-
- Plan work for Tower Hamlets Homes that will include a pro active review of access to accommodation, including nominations, transfers, successions and management determinations;
 - Continue to support the Authority on providing assurance on data quality of the newly created National Indicators which have replaced the best value performance indicators;
 - Continue management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements

under the Audit Commissions Code of Data Matching Practice and that the NFI 2009 exercise is appropriately resourced and finalised within prescribed deadlines;

- Ensure that the work of those engaged in Anti Fraud work supports the Council's Strategic Plan;
- Work jointly internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to provide anti fraud training and awareness to members and officers;
- Continue to hold monthly meetings with the Assistant Chief Executive (Legal Services) on Governance issues;
- Ensure that the E-Learning tool for Ethical Governance is rolled out to all staff and Members during 2009;
- Publicise all our successes;
- Introduce Fraud line, a national Whistle blowing hotline number organised through LAML (London Authorities Mutual Limited) for receiving Insurance Fraud allegations;
- Ensure that Fraud Line is properly publicised in partnership with the PCT; and
- Ensure that all agreed timescales prescribed for the completion of investigation work are met and that all cases are adequately reported to senior management as part of our ongoing reporting procedures.

4.5 The plan makes provision for the existing resource plus a buy in of circa 100 additional days, which is 50% of that purchased in pervious years. These additional days will be delivered from existing resources.

4.6 The following table shows the Corporate Anti Fraud Team resources for 2009/10 and the resource required to complete the anti fraud work in 2009/10.

Reactive resources	Days
Head of Audit Services	180
NFI co-ordinator and Fraud Manager	200
Additional bought in requirement	100
	480

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 reviews identified as part of this plan inform the authority's risk environment and takes account of the anti fraud risk register.

9. Sustainable Action for a Greener Environment (SAGE)

9.1 There are no specific SAGE implications.

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

Brief description of "background papers"

Contact :

Minesh Jani, 0738

APPENDIX A

	No of days	Broad scope	Risk assessment	Source of Risk Area	Link with Corporate priorities
<u>Tower Hamlets Homes</u>					
Management Support and Advice	5		H		One Tower Hamlets Working efficiently and effectively as one Council.
Work carried forward incl. Whistle blows, RTB SI (Including attendance at Court Hearing)	15	The work in these areas has largely been completed following initial requests by management. There is likely to be follow up work following management consideration.	H	Various	One Tower Hamlets Working efficiently and effectively as one Council.
Anti Fraud Arrangements/ Joint Working-	20	This work includes the Fraud Forums, training with the service on Anti Fraud and Corruption Strategy, Money Laundering etc. There is also provision for in year unplanned investigations and support to management.	H	Legislative Requirement	One Tower Hamlets Working efficiently and effectively as one Council.
Pro active Anti Fraud Initiative	10	Overview of access to accommodation, including nominations, transfers, successions and management determinations.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>50</u>				

	No of days	Broad scope	Risk assessment	Source of Risk Area	Link with Corporate priorities
<u>Housing Client</u>					
NFI Management	10	This work will involve managing the Audit Commission Web base site, provision of training and support and monitor progress.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>10</u>				
<u>Work in progress jobs B/F from 08/09</u>	<u>50</u>				
<u>Proactive Training and Development</u>					
Anti fraud liaison groups development	5	This will involve close working with a number of our external partners including the Police, DWP and PCT.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Anti fraud training and development for members and services- Includes multi module E-Learning package	10	This is an ongoing mechanism that seeks to embed good practice within the Council and will be enhanced by the introduction of our E- Learning package on Governance matters.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>15</u>				

<u>Overall Governance</u>							
Audit Committee	10		H				
Review of Complaints	5	This work supports the Annual Governance Statement	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.		

	No of days	Broad scope	Risk assessment	Source of Risk Area	Link with Corporate priorities
FOI	5	Reactive responses to Freedom of Information requests for information.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Money laundering- Training Module and compliance	10	This work enhances our existing arrangements for the proper disclosure of Money Laundering instances and will ensure we meet best practice.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>30</u>				
<u>Joint working with other agencies</u>					
DWP joint working and referrals and EQ1 employee related proactive	10	This involves providing support to DWP referrals on staff related inquiries	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Police referrals	15	Responding to Met Police referrals from both the local and specialist police functions.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Joint working with PCT	20	This will involve joint Risk Assessment of key Fraud Risks to both organisations and resultant joint working	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Joint working and referrals from other LA's	10	Supporting inquiries from other Local Authorities where cases of suspected Fraud and Irregularity are identified.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>55</u>				
National Indicators					
National Indicators*	10	This is a first year review of the new National Indicators and will form a key evaluation within the CAA process.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
LPSA / Strategic / Priority Indicators	15	This is an audit review of the remaining LPSA target outcomes to ensure the Councils funding claims are accurate and reliable.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
National Indicators Working Groups	5	Working with the each of the directorate performance teams and the corporate performance team on an evaluation of the adequacy of returns in preparation of the external	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

			audit review.				Council.
<i>* Management Role only- Deloitte delivering</i>							
	<u>30</u>						
<u>National Fraud Initiatives</u>							
NFI 2009/10 management, overview and training	40		This work will involve managing the Audit Commission Web base site, provision of training and support and monitoring progress for the Council as a whole. It will also include the provision of reporting to the Audit Commission in accordance with prescribed deadlines.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.	
NFI 2009/10 investigation	75		This work will involve undertaking specific investigations of the outcome of the NFI 2009 on all matches and ensuring each case is adequately resolved.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.	
	<u>115</u>						
<u>Planned other pro active work</u>							
Review of Homelessness Fraud Investigation unit	10		This review will evaluate the effectiveness of processes and procedures to ensure that the risk of inappropriate use of scarce accommodation is minimised and that the service is achieving best practice.	H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.	
Access controls- Review of recruitment vetting for new staff	20		This review will evaluate the effectiveness of access to	H	Governance arrangements	One Tower Hamlets	

			employment to the Council from both permanent and temporary staff to ensure systems are as robust as possible.			Working efficiently and effectively as one Council.
Anti Fraud Data Matching Testing	20	H	This will involve data matching various key financial systems to ensure that the data held is reliable and provides good evidence of the minimisation of fraud and or error.	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.	
	<u>50</u>					

	No of days	Broad scope	Risk assessment	Source of Risk Area	Link with Corporate priorities
<u>Contingencies</u>					
Proactive contingency	50				
W/B contingency	25				
	<u>75</u>				
<u>TOTAL</u>	<u>480</u>				

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	31 March 2009			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head, Risk Management		Audit Committee Training Plan Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report looks to develop a training plan for the Audit Committee members for 2009/10.

2. RECOMMENDATION

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

3. Background

- 3.1. The guidance issued by CIPFA on Audit Committees (Audit Committees: A Practical Guidance for Local Authorities' 2005) describes the importance of members of the Audit Committee understanding of the role of Audit Committees and the issues that are presented to it. Further, CIPFA's guidance refers to regular and specific audit committee training.
- 3.2. Members of the Audit Committee have received training relating to:
- The role of the Audit Committee;
 - Audit Committee terms of reference;
 - The frequency of meetings and the approximate time input required of members;
 - The roles of internal and external audit;
 - An overview of Council activities; and
 - The financial and risk environment and the approach of the Council.

4. Proposed Training

4.1. With regards to continued training and development, and following consultation with the Chair of the Audit Committee, it is proposed to provide the following training over the next financial year: -

- Financial reporting including understanding the financial statements;
- Governance arrangements of the Council and the Annual Governance Statement;
- The importance of risk management;
- Comprehensive Area Assessment;
- School's Financial Management Standards and school audits;
- Fraud Management;
- Business Continuity Planning including the Civil Contingencies Act;
- The Corporate Manslaughter Act and its implications for Councils; and
- Money Laundering Regulations and their impact on local authorities.

4.2. There are various methods that can be used to provide the training, such as :-

- Briefings from external organisations;
- E-learning solutions;
- Internally arranged sessions; and
- Conferences.

4.3. Depending upon the content of the training, the most appropriate training method will be selected which is adjudged to be cost effective and providing good value for money.

5. Comments of the Chief Financial Officer

5.1. These are contained within the body of this report. The cost of the training will be met from within the risk management budget.

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 reviews identified as part of this plan inform the authority's risk environment and takes account of the anti fraud risk register.

9. Sustainable Action for a Greener Environment (SAGE)

9.1. There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

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