

Meeting of the

AUDIT COMMITTEE

Monday, 29 June 2009 at 6.30 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 Fazlul Haque Vice-Chair: | |
| Councillor Helal Abbas Councillor Stephanie Eaton Councillor Clair Hawkins Councillor Denise Jones Councillor Abjol Miah Councillor David Snowdon | Councillor Shahed Ali, (Designated Deputy representing Councillor Abjol Miah) Councillor M. Shahid Ali, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones) Councillor Lutfu Begum, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones) Councillor Rupert Eckhardt, (Designated Deputy representing Councillor David Snowdon) Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah) Councillor Abdul Munim, (Designated Deputy representing Councillor Abjol Miah) Councillor Muhammad Abdullah Salique, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones) |

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

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Zoe Folley, Democratic Services, Tel: 020 7364 4877, E-mail: Zoe.Folley@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Monday, 29 June 2009

6.30 p.m.

1. APPOINTMENT OF VICE CHAIR

To seek nominations and appoint a Vice - Chair for the Municipal Year 2009/10.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF INTEREST

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

| | PAGE NUMBER | WARD(S) AFFECTED |
|--|----------------|---------------------|
| 4. UNRESTRICTED MINUTES | | |
| To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 31 st March 2009. | 3 - 10 | |
| 5. DEPUTATIONS AND PETITIONS | | |
| To receive any deputations or petitions. | | |
| 6. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP | 11 - 14 | |
| 7. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION | | |
| 7.1 Tower Hamlets Pension Fund - Annual Audit Fee 2009/10 | 15 - 18 | |
| 7.2 LBTH - Annual Audit Fee 2009/10 | 19 - 22 | |
| 7.3 Audit Committee Progress Report June 2009 | 23 - 32 | |

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

- | | | |
|-------------|--|------------------|
| 8 .1 | Annual Governance Statement 2008/09 | 33 - 54 |
| 8 .2 | Final Accounts 2008/09 (TO FOLLOW) | |
| 8 .3 | Internal Audit Annual Report 2008/09 | 55 - 104 |
| 8 .4 | Annual Anti Fraud Report 2008/09 | 105 - 114 |
| 8 .5 | Anti Fraud and Corruption Strategy Red Book 2 | 115 - 132 |
| 8 .6 | Treasury Activity for Period Ending 31st May 2009 (TO FOLLOW) | |
- 9. ANY URGENT UNRESTRICTED BUSINESS**

Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.30 P.M. ON TUESDAY, 31 MARCH 2009

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

Members Present:

Councillor Denise Jones
Councillor Helal Abbas
Councillor Rupert Eckhardt

Other Councillors Present:

None

Officers Present:

| | |
|-------------------|--|
| Minesh Jani | – (Service Head, Risk Management) |
| Jon Hayes | – (District Auditor, Audit Commission) |
| Sharon Martin | – (Senior Audit Manager, Audit Commission) |
| Tony Qayum | – (Head of Audit Services, Internal Audit) |
| Andy Algar | – (Head of Asset Strategy, Capital Delivery Property Services, Development & Renewal) |
| Isobel Cattermole | – (Service Head, Resources, Children's Services) |
| Alan Finch | – (Service Head, Corporate Finance, Resources) |
| Owen Whalley | – (Service Head, Major Project Development, Development & Renewal) |
| David Williams | – (Development Manager, Development & Renewal) |
| Kelly Powell | – (Communications Officer, Communications, Chief Executive's) |
| Zoe Folley | – (Committee Office) |
| | – |

1. APOLOGIES FOR ABSENCE

RESOLVED that apologies for absence be received on behalf of Councillors J. Peck, S. Eaton and F. Miah.

COUNCILLOR D.JONES IN THE CHAIR

2. DECLARATIONS OF INTEREST

Councillor D. Jones declared a general personal interest. The declaration was made on the basis that the agenda contained references to the Building Schools for the Future Initiative and Councillor Jones was a school governor.

Councillor H. Abbas declared a personal interest in Agenda item 4.3, (Quarterly Internal Audit Assurance Report, December 2008 - February 2009) The declaration was made on the basis that the report made reference to Old Palace Primary School and Councillor Abbas's daughter was a pupil at the school.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 6th January 2009 be approved.

Matters Arising.

(Item 13) Monitoring of CRB Checks – Report to CMT

The Committee queried whether the report to be submitted to CMT, regarding the development of a clear CRB policy, had been submitted to CMT?

In response, Minesh Jani (Service Head Risk Management) reported that the report had yet to be submitted to CMT but would be submitted to a future CMT meeting.

4.1 Schools Internal Audit

Isobel Cattermole, (Service Head, Resources, Children's Services) presented a paper on the training programme in place for School Staff and Governing Bodies.

Overall she was pleased with the progress made in implementing the standards.

Agreed that the paper be circulated to all Members of the Audit Committee.

ACTION: Z Folley (Committee Officer, Democratic Services).

Ms Cattermole reported on the Financial Management Standards for Primary Schools (FMSiS). All primary schools would be required to demonstrate compliance with the standards by the end of 2009. Ms Cattermole was hopeful that the schools would pass this assessment.

RESOLVED that the progress report be noted.

4.2 Members Briefing: Section 106 Agreements

Owen Whalley (Service Head, Major Project Development) presented a report on Section 106 Planning Agreements. This report was requested at the last meeting of the Audit Committee on 6th January 2009.

A Member requested to receive a further report on the Section 106 Account covering:

- contributions due to be received;
- committed expenditure
- Information on current programme (totalling £36,350,836) – project details;
- for agreements made in the past 5 years, (totalling £134,194,978) - list of projects that have contributed to this figure/due to contribute;

Councillor Jones asked about the decision making process for section 106 Agreements. Mr Whalley **Agreed** to send Councillor Jones a briefing note on the process.

ACTION: O Whalley (Service Head, Major Project Development).

In relation to the Cabinet reports on Section 106 agreements, **Requested** that they should be submitted to Cabinet on a six monthly, basis, rather than on a quarterly basis.

Having considered the report it was **RESOLVED** that the Members Briefing on Section 106 Agreements be noted.

ACTION BY: Owen Whalley (Service Head, Major Project Development)

4.3 Quarterly Internal Audit Assurance Report December 2008 - February 2009

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

Mr Minesh reported that the percentage of recommendations implemented at follow up stage had increased. For follow ups completed from December 2008 to February 2009, the percentage of recommendations implemented was 88%.

The Committee considered a summary of the Audits undertaken between December 2008 and February 2009. Consideration was given to those assigned nil or limited assurance as set out below.

(a) Management of the Commercial Property Portfolio - Nil (Moderate) Assurance

Andy Algar (Service Head, Asset Strategy, Capital Delivery Property Services) presented this report.

Mr Algar reported on the nil (moderate) assurance ascribed to the management of the Commercial Property Portfolio.

Mr Algar reported on progress made since the last Audit of the service which was completed in July 2008. In response to the recommendations, a comprehensive range of policies had been put in place to address the issues raised by the Audit. There was also a service improvement plan and clear targets. The service was in the process of codifying their quality assurance procedures. The process for authorising evaluations had been strengthened.

Mr Algar expressed confidence that the service area was now providing a substantive level of assurance. However, responsibility for debt recovery was one area where greater clarity was required.

Members asked about the scope of the Audit. Mr Algar clarified that the Audit did not examine community buildings only shop premises. The emerging Asset Management Strategy would cover all types of properties both commercial and community buildings. It was intended that the Strategy would be brought before Members early in 2010. However, in view of the issues raised in the Audit, Members requested that it be submitted to them ahead of this target date - that the timetable for Member consideration of the Strategy be brought forward in view of the issues raised by the Audit.

Mr Algar added that the follow up Audit would give coverage to the area of rent reviews. Specifically the operation of the commercial rent collection service. Mr Algar also reported that a more comprehensive report would be submitted to the Committee in June 2009. This report would cover in detail the improvements in commercial rent collection and include statistics showing scope of improvement.

A Member asked about the frequency of commercial rent reviews. Especially the number carried out in the last six months? Mr Algar undertook to provide this information.

(b) Schools Audit – Old Place Primary School, St Agnes Roman Catholic Primary School

Isobel Cattermole reported on the outcome of the schools audit. Two schools had been ascribed a nil assurance rating. However, a number of support mechanisms had been put in place and all of the audit recommendations had been implemented. Both schools had since completed and passed an FMSiS assessment.

(c) Horticulture Monitoring Contract – Systems

Minesh Jani presented the findings of this Audit. He referred to a recent meeting of the TH Homes Board where assurances were sought on the arrangements for monitoring the contract.

The information reported to the TH Homes Board in respect of this Audit would also be reported to the Audit Committee.

(d) Sidney Street Estate – Central Heating Installation.

Jon Hayes (District Auditor, Audit Commission) reported that this item had been deferred for consideration at the next meeting of the Audit Committee in June 2009 in view of the need for prior Cabinet consideration of the letter.

In explaining this, Mr Hayes reported that a copy of the letter would be circulated to all Members.

5.3 Council's Accounts: Supplementary Opinion Plan

Jon Hayes (District Auditor, Audit Commission) presented the reported which listed the additional risks that he considered appropriate to the current opinion audit.

Following a brief discussion in which reference was made to the current economic climate and the Council's reserves, it was **RESOLVED** that the report be received and accepted.

5.4 Pension Fund: Supplementary Opinion Plan

Jon Hayes (District Auditor, Audit Commission) presented this report.

Following a brief discussion in which attention was drawn to specific risks identified by the Audit Commission it was **RESOLVED** that the report be noted.

6.1 UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

6.2 Annual Internal Audit Plan 2009 -10

Mr Jani presented the proposed Annual Internal Audit Plan for 2009/10. The plan comprised of 1,882 days, across all directorates, which marked a slight increase on last year.

It was proposed that a number of days be devoted to the Grant Aid Commissioning Process, to examine the successfulness of the new commissioning approach, introduced this year, including the new online application process.

Having considered the report, it was **RESOLVED** That the Annual Internal Audit Plan for 2009/10 be endorsed.

7. ANNUAL ANTI FRAUD PLAN 2009/10

Councillor D. Jones declared a personal interest in this agenda item (Agenda Item 7, Annual Anti Fraud Plan 2009/10). The declaration was made on the basis that the report contained references to the Primary Care Trust and Councillor Jones was a non Executive Member of the Tower Hamlets Primary Care Trust (PCT).

Mr Tony Qayum (Head of Audit Services) presented the Annual Anti Fraud Work Plan. The plan set out the work to be carried out by the Corporate Anti Fraud Team in 2009/10. The Committee noted the following points:

- E Learning Tool for Ethical Governance – to be rolled out to all staff and Members during 2009. Project was on target; Software now in place;
- Fraud Line initiative – Advertised in conjunction with PCT principally in doctors surgeries and 'One Stop Shops' in Tower Hamlets.

RESOLVED: That the contents of the report be noted.

7.1 Audit Committee Training Plan

Mr Jani introduced the report. The report sought to develop a training plan for the Audit Committee members for 2009/10.

Mr Jani welcomed topics for inclusion in the plan. There was no specific timeline for this exercise. Members could submit any ideas they may identify during the course of 2009/10.

It was planned that the sessions be held directly prior to the Audit Committee meetings themselves, (which were held on a quarterly basis), with the training starting at 7:00pm and the Audit Committee at the usual time of 7:30pm. However all Members of the Committee would be consulted as to dates of training.

Attention was drawn to a list of suggested topics for the programme (page 118 of the Agenda). A Member suggested that the topics may need to be prioritised/longer sessions may need to be arranged to ensure completion of the programme within the course of a year.

RESOLVED: That the contents of the report be noted.

ACTION BY: Minesh Jani (Service Head Risk Management)

The meeting ended at 8.50 p.m.

Chair, Councillor Joshua Peck
Audit Committee

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Agenda Item 6

| | | | | |
|--|---|---|-------------------|----------------------------|
| Committee Audit Committee | Date 29th June 2009 | Classification Unrestricted | Report No. | Agenda Item No. |
| Report of: Service Head, Democratic Services Originating Officer(s): Zoe Folley | | Title: Audit Committee – Terms of Reference and Membership Ward(s) affected: ALL | | |

1. SUMMARY

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

2. RECOMMENDATION

- 2.1 That the report be noted.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background paper"

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

Council's Constitution

Zoe Folley
020 7364 4877

Council AGM 20 May 2009 – Report and Decision –
Agenda item 11

"Appointment to Committees and Panels of the Council"

Council 22 April 2009 – Report and Decision - Agenda item 10.1

"Programme of Meetings 2009/10"

Council 22 April 2009 — Report and Decision - Agenda Item 12.

Review of the Constitution

3. TERMS OF REFERENCE

- 3.1 On 20th May 2009 the Council established a cross party, non executive Audit Committee with terms of reference consistent with the Chartered Institute of Public Finance and Accountability Guidance (CIPFA) which are set out below:
- 1 To consider the Audit Plan and review the performance of Internal Audit against this target;
 - 2 To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary;
 - 3 To act as a forum for the Audit Commission (external audit) to bring issues to Members' attention including both specific reports and general item such as the Annual Audit Letter and the Annual Governance Report;
 - 4 To be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it;
 - 5 To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;
 - 6 To consider reports of audit activity together with specific investigations;
 - 7 To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates;
 - 8 To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds expect the appointment of the Chief Finance Officer which shall remain the duty of the Council; and
 - 9 To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).

4. MEMBERSHIP

- 4.1 The Audit Committee is subject to the proportionality rules in the Local Government and Housing Act 1989. As part of the overall allocation of Committee places under those rules the Council has agreed that the Committee will comprise of 7 Members, allocated amongst the political groups as set out below. The following Councillors have been appointed to serve on the Audit Committee for the remainder of the 2009/10 municipal year.

| Political Group | Labour (4) | Conservative (1) | Respect (1) | Liberal Democrat (1) |
|------------------------|---|---|--|-----------------------------------|
| Members | Councillors Fazlul Haque Helal Abbas Clair Hawkins Denise Jones (Deputies Councillors Lutfu Begum . Mohammed Abdullah Salique, Mohammed Shahid Ali) | Councillor David Snowdon (Deputy Councillor Rupert Eckhardt) | Councillor Abjol Miah (Deputies Councillors Shahed Ali Harun Miah Mohammed Abdul Munim) | Councillor Stephanie Eaton. |

6. QUORUM

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

7. CHAIR & VICE-CHAIR

- 7.1 On 22nd April 2009, Council resolved in line with CIPFA guidance that the Committee should not be chaired by an Executive Member.
- 7.2 It is traditional for the Chair and Vice-Chair of the Committee to be elected at the first meeting of each Municipal Year.

8. DATES OF FUTURE MEETINGS

- 8.1 Set out below are the dates for meetings of the Audit Committee during the Municipal Year 2009/2010, agreed by Full Council in April 2009.

Monday 29th June 2009,
Tuesday 29th September 2009
Tuesday, 15th December 2009
Tuesday , 30th March 2010

After liaising with the Chair, these meetings have been scheduled to take place at 7.30pm.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

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

10. COMMENTS OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 10.1 Pursuant to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) the duty to make arrangements for proper administration of financial affairs and the duty to approve the Council's statement of accounts etc are non-executive functions.
- 10.2 Under section 101 Local Government Act 1972 the Council may arrange for the discharge of its functions by a committee and pursuant to Section 15 Local Government and Housing Act 1989 the committee seats should be allocated to the political groups in proportion to the political breakdown of the Council (as far as reasonably practicable).

11. EQUAL OPPORTUNITY CONSIDERATIONS

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

12. ANTI-POVERTY CONSIDERATIONS

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

13. RISK MANAGEMENT IMPLICATIONS

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

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 14.1 There are no specific SAGE implications.

27 April 2009

Mr Martin Smith
 Chief Executive
 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 Martin

Tower Hamlets Pension Fund Annual audit fee 2009/10

Further to the discussions my staff have been having with yours, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year on the Tower Hamlets Pension Fund. The fee is based on the risk-based approach to audit planning, as set out in the Code of Audit Practice, and work mandated by the Audit Commission for 2009/10.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The indicative fee for the Pension Fund audit for 2009/10 is for £38,500 (exclusive of VAT) which compares to the planned fee of £38,000 for 2008/09. The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Tower Hamlets Pension Fund is £38,500.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the Pension Fund will be issued by February 2010. This will detail the risks identified, planned audit procedures and any changes in fee. However, we are aware of the following risk at this stage:

Table 1 Opinion risks

| Risk | Response |
|--|--|
| The current economic climate may place pressure on the financial health of the Pension Fund creating a risk that inappropriate valuation methods are employed. | We will review the appropriateness of estimation and valuation techniques employed by the Pension Fund to determine the value of its assets and liabilities. |

If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

- Senior Audit Manager – Sharon Martin 020 7364 4783 or 07812 344672
- Audit Manager – Shona Milton 020 7364 4783 or 07812 157709

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the London Region Head of Operations, Les Kidner.

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources
Sharon Martin, Senior Audit Manager
Audit Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 2 **Planned outputs**

| Planned output | Indicative date |
|---|------------------------|
| Opinion audit plan | February 2010 |
| Annual governance report | September 2010 |
| Auditor's report giving the opinion on the financial statements | September 2010 |

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27 April 2009

Mr Martin Smith
 Chief Executive
 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 Martin

London Borough of Tower Hamlets Annual audit fee 2009/10

Further to the discussions my staff have been having with yours, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at the London Borough of Tower Hamlets. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead, Adewale Kadiri, will be writing to you separately on inspection fees.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £480,000 (exclusive of VAT) which compares to the planned fee of £442,000 for 2008/09. A summary of this is shown in Table 1 below.

Table 1 Audit fee

| Audit area | Planned fee 2009/10 (£) | Planned fee 2008/09 (£) |
|-------------------------------------|------------------------------------|------------------------------------|
| Financial statements | 310,000 | 276,000 |
| Use of Resources/VFM Conclusion | 161,500 | 158,000 |
| WGA | 8,500 | 8,000 |
| Total audit fee | 480,000 | 442,000 |
| Certification of claims and returns | 100,000 | 100,000 |

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
 T 0844 798 1212 F 0844 798 6187 www.audit-commission.gov.uk

The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for London Borough of Tower Hamlets is £527,400. The fee proposed for 2009/10 is 9 per cent below the scale fee (1 per cent below in 2008/09).

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued by February 2010. This will detail the risks identified, planned audit procedures and any changes in fee. However, we are aware of the following risks at this stage:

Table 2 Opinion risks

| Risk | Response |
|--|--|
| From 2010/11, local authorities will be required to prepare their accounts in accordance with international financial reporting standards (IFRS). | We will review the Council's arrangements for the transition to IFRS. |
| The current economic climate may give rise to further impairment of the Council's fixed assets and financial assets. The level of bad debtors may also increase. | We will review the appropriateness of estimation and valuation techniques employed by the Council to determine the value of its fixed, financial and current assets. |
| Professional standards require us to undertake a full review of internal audit every three years. The last full review was completed in 2006/07. | We will undertake a full review of internal audit against the standards specified by CIPFA. |

The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

My use of resources assessments will be based upon the evidence from three themes:

- managing finances;
- governing the business; and
- managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's Use of Resources Framework Overall Approach May 2008. My work on use of resources informs my 2008/09 value for money conclusion.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

- Senior Audit Manager – Sharon Martin 020 7364 4783 or 07812 344672
- Audit Manager – Shona Milton 020 7364 4783 or 07812 157709

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the London Region Head of Operations, Les Kidner.

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources
Sharon Martin, Senior Audit Manager
Audit Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 3 **Planned outputs**

| Planned output | Indicative date |
|--|------------------------|
| Opinion audit plan | February 2010 |
| Annual governance report | September 2010 |
| Auditor's report giving the opinion on the financial statements and value for money conclusion | September 2010 |
| Use of resources report | October 2009 |
| Final accounts memorandum (to officers) | October 2010 |
| Annual audit letter | November 2010 |

Progress Report

London Borough of Tower Hamlets

Audit 2008/09

Audit Committee 29 June 2009

(Written 10 June 2009)

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| The Audit Commission | 9 |

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.

Progress against audit plans

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on audit work completed by the Audit Commission since the Audit Committee meeting in March 2009 and to inform the Committee of work currently being planned or undertaken.

2008/09

- 2 Our work on the 2008/09 audit is progressing well and since the last Audit Committee we have continued our work reviewing the key financial systems of the Council.
- 3 Appendix 1 shows all work included in the 2008/09 Audit Plan.

2009/10

- 4 We have issued our 2009/10 Audit Plan for the Council and for the Pension Fund. These Plans are included as separate item on the Audit Committee agenda.
- 5 The 2009/10 Audit Plan covers the current Use of Resources assessment. We have received the Council's voluntary self assessment and our work is progressing well.
- 6 Appendix 2 shows all of the work in the 2009/10 Audit Plan.

Councillors' Update

- 7 Issue 2 of Councillors' Update was circulated in June 2009. This issue includes a guide for Councillors on Comprehensive Area Assessment. It also includes summaries of the following national reports published recently by the Audit Commission:
- Working better together? Managing local strategic partnerships;
 - Summing up - a review of financial management in local government 2005-2008; and
 - Risk and return - English local authorities and the Icelandic banks.
- 8 *Risk and return* summarises the investments placed in Icelandic banks by all local authorities in England. It also sets out the key principles of effective Treasury Management and makes recommendations for local authorities to consider. We will review the Council's response to these recommendations as part of our 2009 Use of Resources assessment.

Appendix 1 - Progress on 2008/09

Table 1 Progress on 2008/09 audit outputs

| Product | Tower Hamlets lead | Audit Commission lead | Timing | Current position |
|---|------------------------------|--------------------------------|-------------------------------|---|
| The Accounts | | | | |
| Work on financial systems | Alan Finch | Sharon Martin Shona Milton | December 2008 – June 2009 | Detailed work in progress. |
| Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • WGA consolidation pack | Chris Naylor Alan Finch | Jon Hayes Sharon Martin | July - October 2009 | To commence in July 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 (Review of housing management arrangements) | Jackie Odunoye | Vipul Thacker Sharon Martin | September 2008 – January 2009 | Final draft report issued June 2009. |
| Your Business at Risk IT survey | Jim Roberts | Paul Whelan Sharon Martin | February 2009 – June 2009 | Survey has been run, draft report to be issued June 2009. |
| Value for money conclusion | Martin Smith Chris Naylor | Jon Hayes Sharon Martin | August 2008 - September 2009 | Fully integrated with the Use of Resources assessment. |

Appendix 1 - Progress on 2008/09

| Product | Tower Hamlets lead | Audit Commission lead | Timing | Current position |
|-------------------------------------|---------------------------|------------------------------|---------------------|--|
| Grant claims | | | | |
| Claims for year ended 31 March 2009 | Alan Finch | Shona Milton | May - December 2009 | Detailed work in progress. All claims due to date have been submitted to audit by the Council. |

Appendix 2 – Progress on 2009/10

Table 2 Progress on 2009/10 audit outputs

| Product | Tower Hamlets lead | Audit Commission lead | Timing | Current position |
|--|------------------------------|-------------------------------|------------------------------|--|
| The Accounts | | | | |
| Work on financial systems | Alan Finch | Sharon Martin Shona Milton | December 2009 – June 2010 | Due to commence December 2009. |
| Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • WGA consolidation pack | Chris Naylor Alan Finch | Jon Hayes Sharon Martin | July - October 2010 | Due to commence July 2010. |
| Use of resources | | | | |
| Value for money conclusion | Martin Smith Chris Naylor | Jon Hayes Sharon Martin | June - September 2010 | To be integrated with next year's use of resources assessment. |
| Data quality: Performance Indicator spot checks | Stephanie Ford | Sharon Martin Shona Milton | July 2009 | Sample of indicators to spot check selected. |
| Use of resource judgements | Martin Smith | Jon Hayes | April - | In progress. |

| Product | Tower Hamlets lead | Audit Commission lead | Timing | Current position |
|-------------------------------------|--------------------------|-------------------------------|---------------------|---------------------------|
| | Chris Naylor | Sharon Martin Pam Hamilton | September 2009 | |
| Grant claims | | | | |
| Claims for year ended 31 March 2010 | Alan Finch Akrom Miah | Sharon Martin Shona Milton | May - December 2010 | Due to commence May 2010. |

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The Audit Commission

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

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

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

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|--|-----------------------------|--|------------|------------|
| REPORT TO: Audit Committee | DATE 29 June 2009 | CLASSIFICATION | REPORT NO. | AGENDA NO. |
| REPORT OF: Corporate Director, Resources | | Annual Governance Statement 2008/09 Ward(s) Affected: N/A | | |
| ORIGINATING OFFICER(S): <i>Service Head Risk Management</i> | | | | |

1. Summary

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

2. Recommendation

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2 Agree the Annual Governance Statement for the financial year 2008/09 at Appendix 3.

3. Background

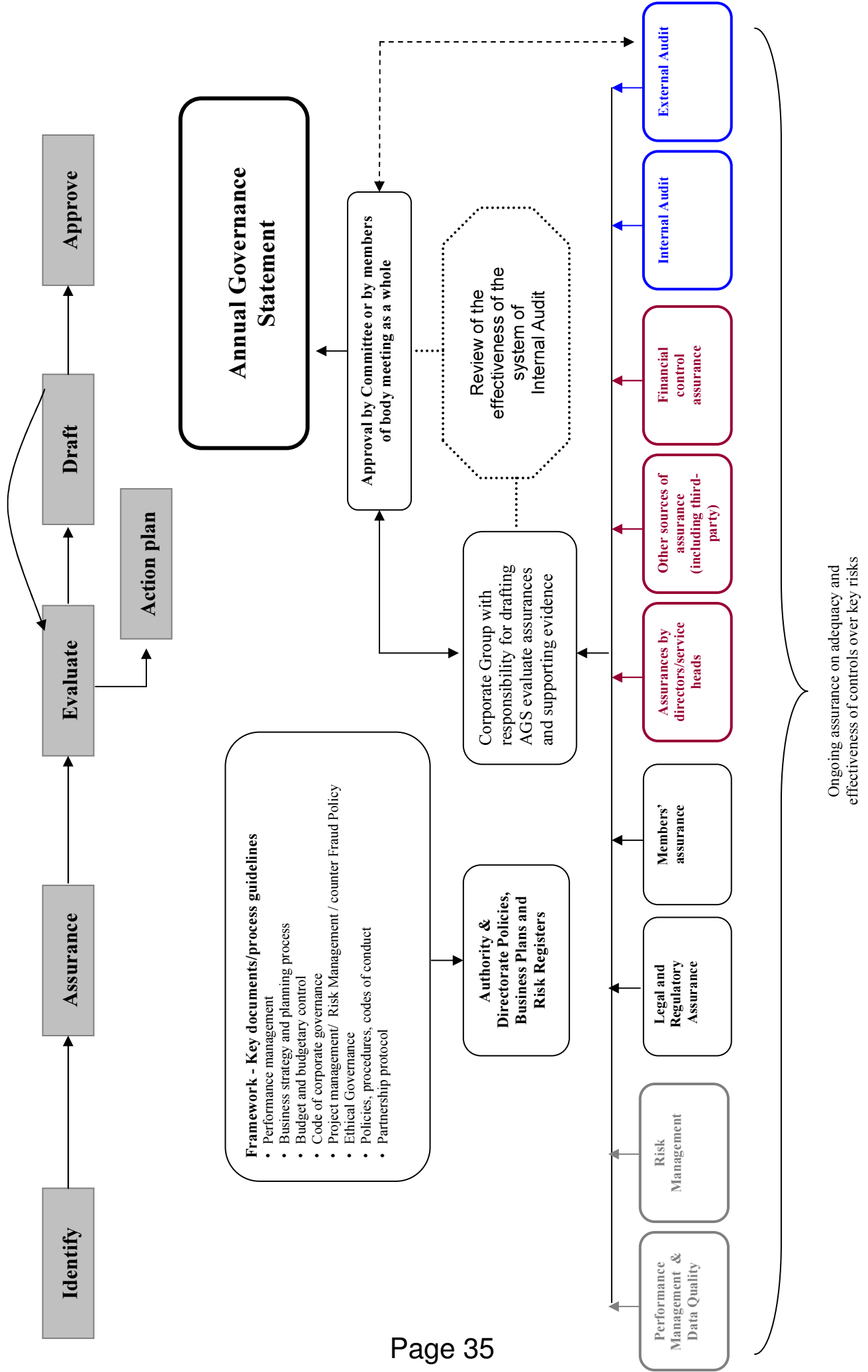
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2009 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

- 3.2 The statement will be signed by the Chief Executive and the Leader. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Leader.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30th June 2009).

4. Reviewing the Internal Control Environment

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
- Identify & review the internal control environment;
 - Obtain assurances on the effectiveness of those controls;
 - Evaluate those assurances and identify gaps in controls;
 - Plan actions to rectify those gaps; and
 - Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2007/08 statement.

Assurance Framework and the production of the Annual Governance Framework



5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
 - ◆ The processes for identifying the risks to the achievement of those objectives; and
 - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2008/09.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was approved in March. The Constitution has been subject to a review in 2008/09 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested in July and February 2009. The Corporate Procurement Strategy was approved by Cabinet in November 2006.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

6. Sources of Assurance

- 6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review

have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2007/08 are set out in the table below with an update showing the current status.

| Issues in 2007/08 statement | Status |
|---|---|
| Embed the operations of the property services management unit | Substantially complete. With the appointment of the Service Head, Asset Strategy, Capital Strategy (Property Services) and the review of structure and job description, the key issues are being dealt with. |
| Further develop arrangements to optimise asset management across public services | On-going, to be completed in 2008/09. The Asset Management Board has met with key public sector organisations (police, fire, PCT) and RSLs and quarterly reviews have been set up for overarching reviews of use of public assets. Joint use of buildings is already happening whilst the review is taking place with links with the Head of Property Services. |
| Enhance arrangements for maintaining records of Council assets | Substantially complete. The CAPS project has improved the quality of the Council's record of assets. Further checks will be undertaken to enhance the accuracy of records. |
| Improve the Council's recycling arrangements | Completed. The recycling target was met for 2008/09 and although the target for next year is challenging, current performance suggests the target should be met. |
| Ensure processes for managing sickness are effective | Systems and controls have been developed by Human Resources to monitor and control sickness across the authority. Although this has improved the means of performance management of sickness, the level of sickness is still above the Council's challenging target. Over 2008/09, further control measures are planned to improve on current levels. |
| Refresh the Council's procurement function to secure additional capacity | Completed. The most recent external audit report recognised that there are a number of challenges facing procurement, but the authority is well placed to meet them. |
| Enhance the benefits derived from the implementation of the SX3 system | On-going. The issues identified following transfer of the Housing ICT function into corporate ICT are being dealt with as discussions continue with Northgate and key officers within THH to maximise the benefits of the SX3 software. |
| To further enhance the authority's Business Continuity Plans | On-going. Good progress has been made over the last year in establishing a sound framework, but further work is required to ensure the BCP responds to disasters and catastrophes such as pandemic flu. |
| Maintain the ongoing drive to deliver decent homes standard by identifying and securing funding | On-going. The authority is actively seeking to confirm the funding envelop and managing its agent, THH to ensure it achieves two stars. |

7.3 The penultimate section of the 2008/09 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows.

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

- ◆ Optimise asset management across public services to enable Council assets to be utilised in the most effective way;
- ◆ To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery;
- ◆ Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars;
- ◆ Ensure processes for managing sickness are effective;
- ◆ Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders;
- ◆ Arrangements for Safeguarding Children / Child Protection;
- ◆ Improve information governance across the authority;
- ◆ To model an efficiency programme to take account of the likely reduction in future funding across public sector; and
- ◆ Enhance the benefits derived from effective contract management of key contracts with the private sector.

8. Comments of the Chief Financial Officer

8.1 These are contained within the body of this report.

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

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

10. One Tower Hamlets

10.1 There are no specific one Tower Hamlets considerations.

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

11. Risk Management Implications

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

12. Sustainable Action for a Greener Environment (SAGE)

12.1 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

Internal Control Checklist (summary)

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

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

Summary of reports received in or pertaining to 2008/09

| Reports | Reporting period | Report date |
|--|------------------|----------------|
| Annual Audit and Inspection plan | 2008/09 accounts | June 2009 |
| Opinion on Financial Statements | 2008/09 | September 2008 |
| Approach to Value for Money | 2008/09 | November 2008 |
| Use of Resources | 2008/09 | January 2009 |
| Value for Money Conclusion | 2008/09 | September 2008 |
| Data Quality | 2008/09 | Feb 2008 |
| Final Accounts Memorandum | 2008/09 | Jan 2009 |
| Review of Procurement | 2008/09 | Feb 2009 |
| Grant Claim Report | 2008/09 | Feb 2009 |
| Annual Governance Report | 2008/09 | September 2008 |
| | | |
| Other | | |
| | | |
| CSCI Annual Performance Assessment of Social Care Service for Adult Services | 2008/09 | October 2008 |
| Annual Performance assessment of services for Children and Young people | 2008/09 | November 2008 |

Annual Governance Statement

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

Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council and the Chief Executive.

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

The Purpose of the Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

The Governance Framework

Vision and Priorities

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

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

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

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2008/09, 15 priorities were identified around all five Community Plan themes.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

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

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

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

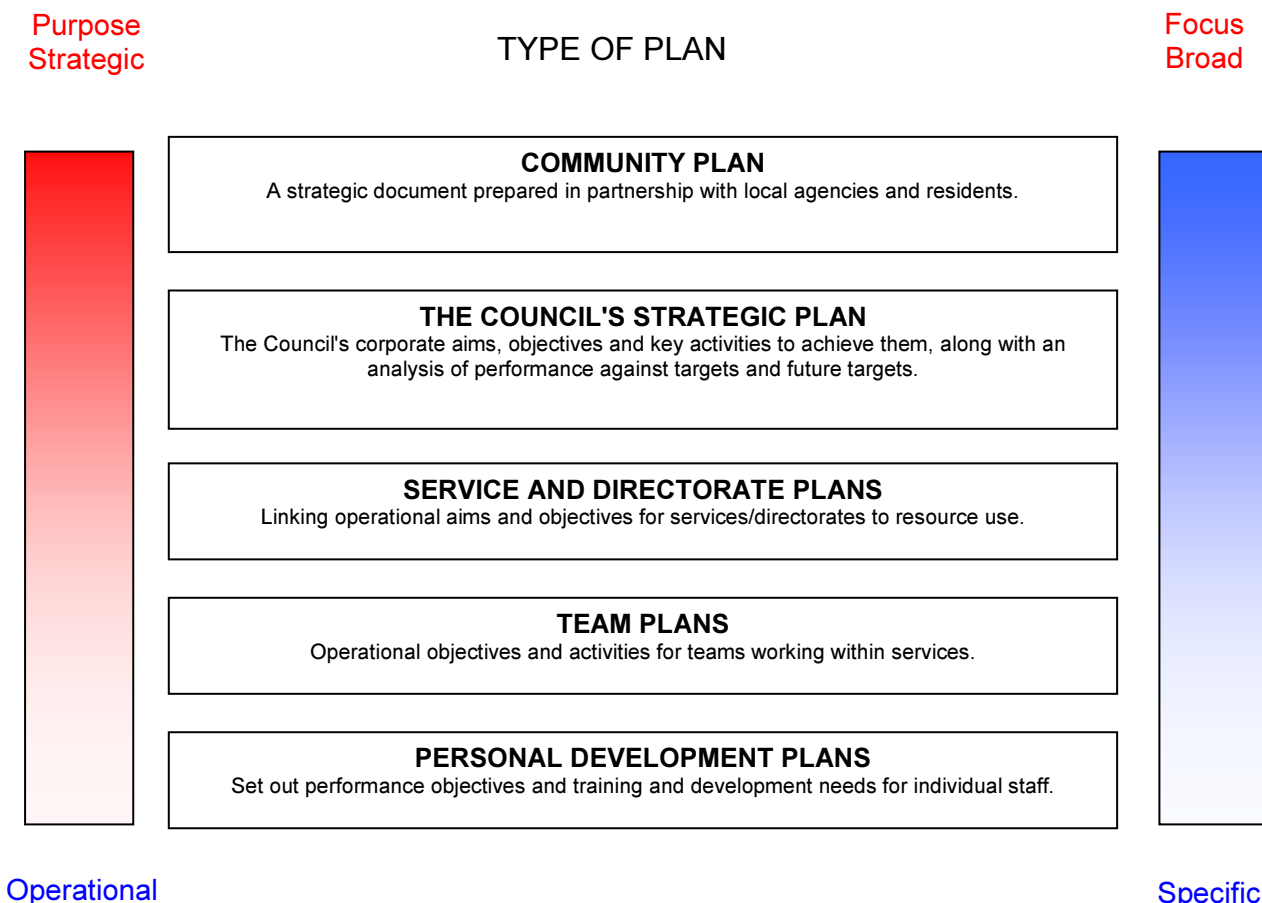
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and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

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

Quality of Service

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

The overall planning framework is illustrated in the following diagram.



Constitutional Matters

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

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

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

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

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

During 2008/09 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

Codes of Conduct

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

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

Compliance with Policies, Procedures, Laws and Regulations

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

Effective Audit Committee

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2008/09.

Whistle Blow and the Complaints Procedure

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

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

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

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

Risk Management

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

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

Financial Management

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

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2008/09 included:

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

The Efficient and Effective Use of Resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2008/09, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the

consideration of resource allocation. The Audit Commission's most recent Use of Resources assessment reported an improvement in the way the Council seeks to delivery value for money.

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

Learning and Organisational Development

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

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

Communication and Engagement

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

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

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

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

Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed this year for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government.

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

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

Review of Effectiveness

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

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'four star' and improving well in its Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services have shown significant improvement whilst both Children's and Adults Social Care Services have been awarded 3 stars (out of 3) with excellent prospects for improvement. Children's Services received a score of 4/4 in its Annual Performance Assessment.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2008/09 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

Overview and Scrutiny

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

Internal Audit

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

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control

framework based upon the work carried out during the year in the form of an annual report. For 2008/09, the overall the control environment is adjudged to be satisfactory.

External Audit

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

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their 2007/08 Annual Audit and Inspection Letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements. With regards the overall Use of Resources, the Council attained a score of 3. The score of 3 means the authority is performing well and consistently above the minimum requirement.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2008/09 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

| Governance Issue | Action taken and next steps | CMT Lead |
|---|---|--|
| Optimise asset management across public services to enable Council assets to be utilised in the most effective way. | <p>In February 2009 Cabinet approved an approach to the development of a cross-public sector asset strategy and phase 1 will commence on Summer 2009. This will involve a gap analysis of all public sector property requirements and the generation of options to address these requirements. This work will be undertaken in parallel with the development of the Infrastructure Delivery Plan for the Core Strategy and it is expected the Asset Strategy will be a significant part of the Delivery Plan.</p> <p>The Council has broadened membership of its Capital and Asset Management Board to include the Metropolitan Police and NHS Trusts and representatives attend meetings quarterly to focus on long term asset strategy and other issues of mutual interest {Priority 1.2 (6) – Strategic Plan}.</p> | Corporate Directors, Resources and Development and Renewal |
| To further enhance the authority's Business Continuity Plans, particularly in | The authority has a framework for business continuity planning and management. However, further | Corporate Director, Communities |

| Governance Issue | Action taken and next steps | CMT Lead |
|---|---|---|
| relation to disaster recovery. | enhancements will be made to ensure the authority can respond to any disaster around testing resilience at directorate level and scenario testing in case of a pandemic {Priority 1.2 - Communities Localities and Culture's Directorate Plan}. | Localities and Culture |
| Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars. | <p>A mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) is planned for mid June 2009. This will allow the ALMO to focus key areas.</p> <p>From discussions that have taken place with the Homes and Community Agency and the Department of Communities and Local Government, funding for this scheme is programmed within their financial projections although the funding is not fully committed at this stage. The authority is also progressing other opportunities around regeneration {Priority 2.1 (15) – Strategic Plan}.</p> | Corporate Director, Development and Renewal |
| Ensure processes for managing sickness are effective. | <p>Compliance to ensure that managers are taking responsibility for managing sickness cases, reducing absence and effective reporting and monitoring is in place at corporate, directorate and service levels to reduce sickness absence (both long-term and short-term) is taking place. Over 2008/09, further arrangements are planned to reduce sickness by ensuring compliance.</p> <p>The authority also plans to adopt a health and wellbeing strategy, in partnership with NHS Tower Hamlets to promote positive health and self-awareness of individual levels of health and risks attributed to the workplace, home and lifestyle {Priority 1.2 (3) – Strategic Plan}.</p> | Corporate Management Team |
| Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders. | A number of systems related issues arising from the implementation of SX3 to account for leaseholder charges have been identified. A project team created to deal with the issue has | Corporate Director, Development and Renewal |

| Governance Issue | Action taken and next steps | CMT Lead |
|---|---|---------------------------------------|
| | developed an action plan and is working to cleanse data, provide user training, and improve systems and control around the software {Priority 2.1.4.1 – Development and Renewal’s Directorate Plan}. | |
| Arrangements for Safeguarding Children / Child Protection. | <p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council is reviewing referral and safeguarding arrangements with social care and where necessary strengthening current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children’s Services and enhancing the use of Framework 1, the Council’s case management system {Priority 1, Stay Safe, CYPP}.</p> | Corporate Director, Children Services |
| Improve information governance across the authority. | Following loss of personal data by an employee, a number of steps are being taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords and the development of projects that look to encrypt data and information {Priority 1.7, point 7 – Chief Executive’s Directorate Plan}. | Assistant Chief Executive (Legal) |
| To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector. | The authority’s medium term financial strategy has been refreshed and sets out the funding needs to deliver the Council’s priorities for three years from 2009/10 to 2011/12. The strategy recognises the need to make efficiency savings in coming years and sets out the level of savings for each of the three years. The authority is taking active steps to continue to provide its services with reduced funding {Priority 1.2 (5) Strategic Plan and priority 8 – | Corporate Management Team |

| Governance Issue | Action taken and next steps | CMT Lead |
|---|--|----------------------------|
| | Resource's Directorate Plan}. | |
| Enhance the benefits derived from effective contract management of key contracts with the private sector. | The council delivers a number of its services in partnership with the private sector. The authority has recognised the scope to enhance current arrangements to improve the value it attains from its legal agreements and as such, is developing a contract management toolkit to achieve enhanced outcomes {Priority 9 – Resource's Directorate Plan}. | Corporate Management Team. |

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

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

.....

Chief Executive

Date:

.....

Leader

Date:

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Agenda Item 83

| | | | | |
|--|---|------------------------------|------------|------------|
| REPORT TO: Audit Committee | DATE 29 June 2009 | CLASSIFICATION | REPORT NO. | AGENDA NO. |
| REPORT OF: Corporate Director, Resources | Internal Audit Annual Report 2008/09 | | | |
| ORIGINATING OFFICER(S): Service Head Risk Management | | | | |
| | | Ward(s) Affected: N/A | | |

1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2008/09. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

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

3. Introduction

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

3.2 This report is set out as follows:

Opinion and basis of opinion

- **Summary of audit work undertaken in 2008/09**
- **Appendix 1 – Audit Resources**
- **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee. These are the outstanding summaries for 2008/09
- **Appendix 3 – List of audits undertaken in 2008/09**
- **Appendix 4 – Summary Head of Audit Opinion**
- **Appendix 5 – Detailed Head of Audit Opinion**
- **Appendix 6 – Peer review and benchmarking club.**

4. Statement of Responsibility

- 4.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 4.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

5. Opinion

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2008/09. The basis for this opinion is set out below.

6. Basis of Opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2008/09. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.

- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2008/09. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix one below. Internal Audit is provided in partnership with Deloitte & Touche Public Sector Ltd. An in-house team of nine auditors works with resources provided by Deloitte under the contract.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 6.2 days per person on average, compared to 5 days in 2007/08.
- 7.4 During the year, there was a greater emphasis on risk based audits, which reflects the internal audit strategy in delivering assurance to the Council. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2008/09 is attached to main body of the report at appendix 3 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and

Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.

- 8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2008/09.
- 8.3 A summary of the audit assurance resulting from audit reports in 2008/09 is provided in the table below.

| Audits 08/09 | | Assurance | | | |
|--------------|-----------|-----------|-------------|---------|-----|
| | | Full | Substantial | Limited | Nil |
| Significance | Extensive | 0 | 41 | 10 | 0 |
| | Moderate | 0 | 24 | 26 | 1 |
| | Low | 0 | 2 | 3 | 0 |
| Total | | 0 | 67 | 39 | 1 |

- 8.4 The table shows that 67 of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place. 40 of systems audited were rated as limited or nil assurance.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses. The one case where Nil assurance was given related to the management of the Council's Commercial Portfolio. A follow-up audit has been programmed to assess the progress in implementing the recommendations made in the audit report.
- 8.6 From the Internal Audit work during 2008/09 financial year, we identified risks in the Council's systems for paying its creditors; procurement; business continuity planning; and recovery of income for housing major works. Action plans have been agreed to address the key control

weaknesses in these areas, and a programme of follow up audit work will be undertaken to assess the progress.

8.7 From our Internal Audit work during 2008/09, we can provide an overall assurance that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

9 Audit Performance

9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2008/09 is set out in the table below.

| Performance Measure | 2008/09 | |
|---|---------|--------|
| | Target | Actual |
| Percentage of operational plan completed (to at least draft report stage) in the year | 100% | 100% |
| Percentage of recommendations followed up that have been implemented by 6 month review date | 95% | 77% |

9.2 As at the 31st March 2009, 100% of the operational plan was completed. A number of audits were still in progress, but have now been completed/ or are awaiting management comment.

9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. At the point of follow-up, 77% of recommendations had been implemented. Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.

9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2008/09 will be submitted and key points will be reported to a future CMT and Audit Committee.

10 Comments of the Chief Financial Officer

10.1 These are contained within the body of this report.

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

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

12 One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

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

13 Risk Management Implications

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

14 Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

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

Internal Audit – Resources 2008/09

| <u>Available audit days</u> | | | | |
|------------------------------------|---------------------|------------|----------------|------------|
| | Revised Plan | % | Outturn | % |
| In-house staff days | 2,228 | 81 | 2,282 | 79 |
| Deloitte / external | 522 | 19 | 591 | 21 |
| | 2,750 | | 2,873 | |
| Gross days | | | | |
| <i>less</i> Leave | 278 | 10 | 264 | 9 |
| <i>less</i> Sickness absence | 60 | 2 | 56 | 2 |
| <i>less</i> Non Operational Time | 220 | 8 | 194 | 7 |
| | 558 | 20 | 514 | 18 |
| | 2,192 | 80% | 2,359 | 82% |
| Net productive days | | | | |

Internal Audit Budget 2008/09

| | Budget £ | Actual £ | Variance £ |
|-----------------------------|---------------------|---------------------|-----------------------|
| Salaries | 547 | 537 | -10 |
| Contract costs | 209 | 237 | 28 |
| Running costs | 36 | 14 | -22 |
| Central Recharges | 119 | 124 | 5 |
| Gross cost recharged | 911 | (*)912 | 1 |

(*) – please note: £35k transferred to Risk Management for implementation of new system.

Internal Audit Reports 2008/09 – Summary of Audit Reports

Assurance ratings

Level

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

Significance ratings

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

APPENDIX 2

Summaries of 2008/09 audit reports not previously reported

| Assurance level | Significance | Directorate | Audit title |
|--------------------|--------------|------------------------------|---|
| LIMITED | Extensive | Adults, Health and Wellbeing | Sickness Management Follow Up |
| | Moderate | Children's Services | Redland Primary School |
| | Moderate | Children's Services | Arnhem Wharf Primary School |
| | Moderate | Children's Services | Stewart Headlam Primary School |
| | Moderate | Children's Services | Kobi Nazrul Primary School |
| | | | |
| | | | |
| SUBSTANTIAL | Extensive | Adults, Health and Wellbeing | Commissioning of Older People's Services |
| | Extensive | Adults, Health and Wellbeing | Receiverships - Follow Up |
| | Extensive | Adults, Health and Wellbeing | Homelessness Assessment |
| | Extensive | Adults, Health and Wellbeing | Supporting People |
| | Extensive | Children's Services | End of Year School Account Reconciliation – Follow Up |
| | Extensive | Resources | Council Tax |
| | Extensive | Resources | NNDR |
| | Extensive | Resources | Treasury Management |
| | Extensive | Resources | Cashiers/Cash Income |
| | Extensive | Resources | Debtors Systems audit |
| | Extensive | Resources | Data Centre and Data back up |
| | Extensive | Resources | Software Licensing |
| | Extensive | Resources | Anti virus and Anti spyware |
| | | | |

| Assurance level | Significance | Directorate | Audit title |
|-----------------|--------------|--------------------------------|---|
| | Extensive | Tower Hamlets Homes | Governance of Tower Hamlets Homes |
| | Extensive | Tower Hamlets Homes | Right to Buy – Follow Up |
| | | | |
| | Moderate | Adults, Health and Wellbeing | Family Rent Deposit Scheme – Follow Up |
| | Moderate | Adults, Health and Wellbeing | Direct Payments Follow Up |
| | Moderate | Adult, Health and Wellbeing | Income Collection and Banking – Follow Up audit |
| | Moderate | Children's Services | Cayley Primary School |
| | Moderate | Children's Services | Blue Gate Fields Infants School |
| | | | |
| | Low | Communities Localities Culture | Brady Arts Centre |
| | | | |

Summary of Audits Undertaken

Limited

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|------------------------|----------------|--|------------------|-----------------|
| Sickness Management FU | Jan 2009 | <p>Our review found that following the original audit, letters were sent to all Managers who have the responsibility for sickness management within AHW. These letters clarified the procedures for recording and submitting sickness returns on a timely basis. However, our testing showed that managers were still non-compliant with the procedures and this exposed the system to risks of errors and omissions which can compromise the quality of data produced for monitoring sickness and absences for the Directorate. There appeared to be persistent non-return of monitoring and absence returns by certain services, which needed to be addressed. From our sample testing, we noted a non return rate of 30%. There was wide variation within the services with some services performing a lot better than others.</p> <p>The findings and recommendations were agreed with the Head of HR and report was issued to the Corporate Director.</p> | Moderate ** | Limited ** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-------------------------|----------------|--|------------------|-----------------|
| Redlands Primary School | March 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Redlands School is based in the Mile End area of East London and offers education to boys and girls between the ages of 4 to 11 years. The annual budget for the school for the 2008/2009 financial year is approximately £3.0 million, with approximately £2.0 million allocated to staffing expenditure.</p> <p>12 recommendations were made as a result of this internal audit. This includes three priority 1 issues, seven priority 2 issues and two priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Scheme of Delegations did not specify the maximum limits for authorisation of orders for the deputy Head Teacher, budget holders and the Business Manager. • The declaration of business interest had not been obtained from all current governors at the time of the probity visit. • Monthly payroll reconciliations had not been undertaken at the time of the probity visit. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p> | Moderate ** | Limited ** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-----------------------------|----------------|---|------------------|-----------------|
| Arnhem Wharf Primary School | March 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Arnhem Wharf Primary School is a Community School with pupils ranging from the age of 3-11.</p> <p>13 recommendations were made as a result of the audit work, including two priority 1 issues, nine Priority 2 issues and two Priority 3 issues. Audit acknowledges that immediate action was taken to implement recommendations in the draft report and prior to finalisation. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Terms of Reference of the Finance Committee did not include the quorum requirements and financial limits. • Asset control in the school is weak. The school did not have an adequate inventory record in place. It is not evident whether a full inventory check had been undertaken in 2008, as the responsible officer (the Premises officer) had been on long term sick since September 2008. Although audit was informed that laptops and other equipment are loaned to personnel, the school did not maintain records for the loan of equipment. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services. It should be noted that a follow up visit was requested by the Head Teacher of the school to demonstrate the immediate action taken to address all audit recommendations. The assurance level assigned to this audit visit is expected to be upgraded on completion of follow up and audit acknowledge the proactive approach of the school.</p> | Moderate ** | Limited ** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--------------------------------|----------------|--|------------------|-----------------|
| Stewart Headlam Primary School | Feb 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Stewart Headlam Primary School is a community school which caters for 369 children from the ages of 3 to 11 years.</p> <p>19 recommendations were made as a result of the audit work, including four priority 1 issues, ten Priority 2 issues and five Priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The financial limits delegated to the Finance Committee in the Scheme of Delegations document were different from the limits specified in the Terms of Reference of the Finance Committee. • Some governors and staff with financial responsibilities had not completed business declaration forms. • The school had not undergone the procedure for obtaining quotes for purchases over £5,000 as specified in the approved Financial Procedures. • The Pay Policy had not been reviewed and approved annually at the time of the audit. New staff members had already started work in the school prior to receiving CRB clearance. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p> | Moderate ** | Limited ** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|----------------------------|----------------|--|------------------|-----------------|
| Kobi Nazrul Primary School | April 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Kobi Nazrul Primary School is a community school which caters for 233 children from the ages of 3 to 11 years.</p> <p>19 recommendations were made as a result of the audit work, including two priority 1 issues, ten Priority 2 issues and seven Priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • Whilst the Governing Body has set up Committees there were no Terms of Reference drafted specific to these Committees. • There was no evidence of the Governing Body approving the School's Development Plan (SDP). Further, the SDP was not updated to reflect the achievement of objectives. • The school's Financial Code of Practice did not have procedures for selection of suppliers/contractors for procurements over £10,000. Some invoices had not been certified prior to payment. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p> | Moderate ** | Limited ** |

Substantial

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--|----------------|---|------------------|--------------------|
| Commissioning of Older People's Services | Feb 2009 | <p>The objective of this audit was to assure management that the systems in place for the procurement, placement, performance monitoring and paying for elderly services were sound and secure. The audit showed that the Commissioning for Older People's Service was adequate, particularly budgetary and management information arrangements. The Compliance, Procurement and Placement process were also satisfactory. However, there were certain areas which needed addressing, notably: updating of the Commissioning Strategy, reviewing of the Eligibility Criteria; implementing a Declaration of Interest provision and reviewing of the Placement Panel process. Monitoring arrangements needed to be reviewed and measures taken to ensure full compliance with set criteria.</p> <p>All findings and recommendations were agreed with the Corporate Director.</p> | £19M *** | Substantial *** |
| Receivership Audit | March 2009 | <p>From our follow up review, we have found that of the four recommendations made in the original audit report, three had been progressed and implemented. One recommendation stating Management should consider incorporating an independent check of the bank account reconciliation process with client account could not be verified as no documentation was made available for verification purposes.</p> | £1.2M ** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|---|----------------|--|--|--------------------|
| Homelessness Assessment Systems Audit | March 2009 | <p>The objective of this audit was to assure management that the systems of control for managing homeless assessments were sound, secure and in accordance with the statutory requirements.</p> <p>Our review showed that assessments for homelessness were carried out correctly in terms of verification of applicant's eligibility regarding their actual state of homelessness, having a priority need and whether the homelessness was intentional. However, we found that there were no written procedural guidelines for staff to follow in assessing and paying for homelessness. Other weaknesses identified included an absence of a computer interrogation facility to monitor the 33 working day target for assessment and testing showed eight out of 20 cases did not meet this target.</p> <p>All findings and recommendations were agreed with the Service Head.</p> | <p>£25M ***</p> <p>Budget for Homeless Accommodation</p> | Substantial *** |
| Supporting People Programme Systems Audit | May 2009 | <p>The objective of this audit was to provide assurance over the systems of control for the administration and management of Supporting People programme.</p> <p>The audit review showed that there were policy and procedures in place which linked the strategic to the operational. The performance monitoring systems were adequate as were the Budgetary and Management Information arrangements. However, there was concern regarding some providers (10% - 6 providers) still performing at Level 'D' in potentially high risk areas such as safety and protection from abuse, despite having been flagged and reported on for some time.</p> <p>All findings and recommendations were agreed with the Service Head and report was issued to the Corporate Director.</p> | <p>£17M ***</p> | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--|----------------|--|------------------|--------------------|
| End of Year School Accounts Reconciliation FU Audit | May 2009 | <p>This follow up review found that out of 11 recommendations agreed at the conclusion of the original report, seven had been fully implemented and the rest were being progressed. In the past the calculation of advances to schools had been inaccurate, which resulted in over advances to some schools creating debts for the schools. We noted that progress had been made in recovering the excess sums advanced to schools, although there was still some £2M still to be collected and arrangements have been made to manage the issues.</p> <p>All findings and recommendations were agreed with the Finance Manager and Service Head – Resources.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-------------------------------|----------------|---|------------------|--------------------|
| Council Tax Systems Audit | April 2009 | <p>The objective of this audit was to assure management that the systems for administering, managing and controlling Council Tax assessments, payments and recovery are sound and secure.</p> <p>Our review found that clear policies and procedures were in place. Systems for managing processes such as billing, amendments to standing data and valuation lists, discounts, refunds, arrears, recovery and performance monitoring for collection rate were adequate. However, we found that all Council Tax information was not readily available on the Council's website, single person discounts were not always promptly processed and Revenue Services authorised signatory listing for approving refunds was not up to date.</p> <p>All findings and recommendations were agreed with the Revenue Services Manager and final report issued to the Corporate Director.</p> | £66M *** | Substantial *** |
| NNDR Payroll Systems Audit | April 2009 | <p>The objective of this audit was to provide assurance over the systems for NNDR assessments, payments and recovery. The audit found that there were clear policies and procedures in place and systems for calculating and assessing liability for NNDR, billing, collection, recovery, account amendments, reconciliation and performance monitoring were adequate. We however found a few weaknesses relating to delays in input of Valuation Office schedules and issues in the Authorised Signatories list for processing refunds.</p> <p>All findings and recommendations were agreed with the Revenue Services Manager and final report issued to the Corporate Director</p> | £291M *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-----------------------------------|----------------|---|------------------|--------------------|
| Treasury Management Systems Audit | April 2009 | <p>This audit reviewed the systems for controlling, monitoring and reporting treasury management transactions.</p> <p>The audit reported that the Council's Treasury Management and Annual Investment Strategies had been approved by the Cabinet. The Council has clear policies and procedures for managing its investments and the security and liquidity of those investments. There was a reasonable assurance that investments made during the review period were with counterparties that had been approved by the authority and had the necessary credit ratings.</p> <p>We, however, highlighted some minor weaknesses with regard to retention of evidence to support the transfer of funds to the counter party and managing the risks associated with the Treasury function. Investments were found to be promptly reconciled to the bank account, however, there needed to be a clearer segregation of duties in the certification of the reconciliation process.</p> <p>All findings and recommendations were agreed with the Investment and Capital Manager and final report issued to the Corporate Director.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--|----------------|--|------------------|--------------------|
| Cashiers and Cash Income Systems Audit | May 2009 | <p>This audit reviewed the systems for collecting, banking and reconciling income collected by the Cashiers Office at 62 Roman Road.</p> <p>The review showed that overall, there were adequate systems for receipting all income collected and clear audit trails were present in all the transactions processed by the Cashiers Office. Income collected was being banked promptly and reconciled to ensure that income was allocated to the correct account. Income which could not be identified was allocated to the suspense account for clearance by the Income Officer.</p> <p>We found some issues regarding the income received on the automated telephone payment system which was not being reconciled fully, end-of-day cash reconciliation reports were not being counter signed in all cases and the large volume of HB cheques printed at the office which can be minimised by having a BACS system in place.</p> <p>All findings and recommendations were agreed with the Chief Cashiers and Revenue Services Manager and final report was issued to the Corporate Director of Resources.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-----------------------|----------------|---|------------------|--------------------|
| Debtors Systems Audit | May 2009 | <p>The objective of the Authority's Debtors system is to ensure that debtor income due to the authority is identified, recorded and collected accurately and in a timely manner. Six recommendations were raised as a result of this audit although no priority 1 issues were raised. The main issues are summarised below:</p> <ul style="list-style-type: none"> • It was not evident that when debtors procedures were updated last as there was no version control found on the procedures. It was established that the department are currently in the process of reviewing department procedures on Sundry Debtors however. Instances were found where procedures did not reflect the current processes. • Cash collections are not always banked to the nearest Council bank account and cases were identified where officers were carrying cash collections all day. There is no maximum limit for cash collections that can be held by the staff at any one time. • In cases Service Departments direct the Debt Recovery Team not to take recovery actions for certain customers / invoices. These invoices still appear as an outstanding recovery item in debt recovery's patch and have a negative impact on their performance results. <p>12 Recommendations were made in the 2007/08 Audit of which 11 recommendations were agreed and action scheduled. It was identified that 10 out of the agreed 11 recommendations have been implemented.</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director of Resources.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--------------------|----------------|---|------------------|--------------------|
| Software Licensing | May 2009 | <p>The objective of this audit was to identify the controls that the Council has put in place to help ensure that software that is in use within the Council is fully licensed and that software licenses are controlled to ensure that the Council has sufficient licenses to meet the current usage of software in use across directorates. The audit was undertaken in December 2008.</p> <p>The Council has a software inventory that is maintained by ICT and all installation of new software is performed by ICT.</p> <p>The audit made four recommendations which were agreed by the ICT Departmental Management Team.</p> <p>Recommendations included the need to undertake a periodic software inventory and to ensure that an annual software audit is performed. We also recommended that installation procedures were documented and that licensing procedures were reviewed to identify if existing licences could be used.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|------------------------------|----------------|--|------------------|--------------------|
| Data Centre and Data back up | May 2009 | <p>The objective of this audit was to identify the controls that the Council has put in place over the Data Centre located in Anchorage House including the physical and environmental controls that manage the Councils Server and Communications infrastructure. The second part of the audit covered the procedures put in place for the back up of data located on Authority servers to ensure that in the event of a disaster event that copies of data were held to recover Council data. The audit was performed in November 2008.</p> <p>The audit made 9 recommendations which were agreed by the ICT DMT team.</p> <p>Data Centre - Recommendations were made to ensure that records are retained of maintenance checks on the environmental controls to evidence that these had been serviced. Two minor recommendations were made to ensure that a server room is cleaned and that hand held fire extinguishers are provided.</p> <p>Back up – Recommendations were made to document the back up process and for back up tapes to be replaced according to a cycle. We also recommended that restores should be performed on a periodic basis. Recommendations were also made to ensure a formal log is made for the monitoring of back up tapes and that management should consider encrypting back up tapes.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-----------------------------|----------------|--|------------------|--------------------|
| Anti Virus and Anti Spyware | May 2009 | <p>The objective of this audit was to identify the controls that the Council has put in place to prevent virus and spyware attacks on the Councils PC and IT infrastructure. It was performed in August 2008. The Council uses the eTrust Virus Management Console and this allows management to configure and manage the Virus and Spyware policies and alerts for events affecting Council PCs and laptops.</p> <p>The Audit report made 5 recommendations which were all agreed with the ICT Departmental Management Team.</p> <p>Recommendations were made to periodically review anti-virus updates to ensure that the administrator is receiving alerts on virus updates, that all PCs are receiving the latest version of the anti virus software and that software is operating as intended. Recommendations were also raised for the Council to periodically review the software deployed on PCs and to consider locking down the desktop to prevent unauthorised software from being loaded.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-------------------|----------------|--|------------------|--------------------|
| Governance of THH | April 2009 | <p>The objective of this audit was to provide assurance on the soundness and adequacy of the governance arrangements put in place over THH to ensure that there are clear accountability structures and processes in place to achieve the objectives of the ALMO. The review showed that since its establishment in July 2008, good progress has been made in establishing adequate arrangements to govern the business of the company. The roles and responsibilities of the Board and its three Committees have been established clearly and our testing showed that overall, the framework for accountability at both member and officer level was adequate.</p> <p>We have reported some issues such as the need to strengthen financial controls and risk management and ensuring that Board members are aware of the requirements regarding gifts and hospitalities. At officer level, we have identified issues around ensuring that the Financial Regulations, the Scheme of Delegation and other key procedural documents reflect the current officer structures, receive the approval of the Board and the compliance with these procedures is monitored. We have emphasised the need to have an Anti-Fraud Strategy for the company and to have an adequate segregation of duties at officer level to manage the risk of fraud and irregularities.</p> <p>All findings and recommendations were agreed with the Director of Resources in Tower Hamlets Homes.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|------------------------|----------------|--|------------------|--------------------|
| Right to Buy Follow Up | April 2009 | <p>This follow up review found that good progress has been made by the Home Ownership Section in addressing the weaknesses identified in the original Audit report. Further work is currently in progress to ensure that greater reporting functionality is available from the Comino system which will enable more effective tracking of key milestone dates within the Right to Buy process. We noted that a system of performance monitoring to the star chamber is in place and that some of the targets were not being achieved, which would require management action.</p> <p>The findings and recommendations were agreed with the THH Director of Resources and the Chief Executive.</p> | Extensive *** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--|----------------|--|--------------------|----------------------------|
| Family Rent Deposit Scheme FU Audit | Jan 2009 | <p>Our Follow-up review has found that 8 out of 9 recommendations made in the original report had been implemented. The report indicated one area that needed to be progressed and has resulted in one follow up recommendation. This related to having a monitoring system for recovering historic debt.</p> <p>The report was agreed and issued to the Corporate Director.</p> | £402K [*] | Substantial ^{***} |
| Direct Payments Follow Up | Feb 2009 | <p>This audit followed up the progress made in implementing the recommendations made in the original audit report. The follow up review found that of the six recommendations made, five had been progressed and implemented. 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 meeting needed to be made available to us.</p> | £2M ^{**} | Substantial ^{***} |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|---|----------------|---|------------------|--------------------|
| Income Collection and Banking FU Audit | March 2009 | <p>This follow up review found that of the three recommendations made in the original audit report issued in July 2008, two had been progressed and implemented. One recommendation relating to the Finance section ensuring that Collection & Deposit officers comply with the Financial Regulations relating to the collection and banking of income had been partially progressed. We recommended that the Finance Team should reissue the guidance on a regular basis, to ensure that C & D Officers are made aware of the importance of complying with the procedure.</p> <p>The finding and recommendation was agreed with the Finance Manager and report was issued to the Corporate Director.</p> | Moderate ** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|-----------------------|----------------|---|------------------|--------------------|
| Cayley Primary School | Feb 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Cayley Primary School is a community school which caters for boys and girls from the ages of 3 to 11 years.</p> <p>8 recommendations were made as a result of the audit <u>none</u> of which were priority 1 recommendations. The main findings are summarised below:</p> <p>Some items have been written off in the Inventory. However, there was no evidence of any authorisations for these write offs.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p> | Moderate ** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|--------------------------------|----------------|---|------------------|--------------------|
| Blue Gate Fields Infant School | May 2009 | <p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Blue Gate Fields Infant School is a community school which caters for boys and girls from the ages of 2 to 7 years.</p> <p>12 recommendations were made as a result of the audit work, including one Priority 1 issue, eight Priority 2 issues and three Priority 3 issues. The findings are detailed within section five of this report, with the main issues being summarised below:</p> <ul style="list-style-type: none"> The school had not undergone tendering procedures for works carried out over £15,000 as specified in the approved Financial Procedures. Furthermore, official orders had not been raised for all relevant goods and services. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p> | Moderate ** | Substantial *** |

| Title | Date of Report | Comments / Findings | Scale of Service | Assurance Level |
|---------------------------------------|----------------|---|------------------|--------------------|
| Brady Arts Centre Regularity Audit | April 2009 | <p>This regularity audit sought to provide assurance over the procedures for petty cash, collection of income, banking, ordering, payment of invoices, control of inventory and security of cash. Our review showed improvements since the last audit review in 2002, specifically in the areas of petty cash, income collection and banking. However, we have reported weaknesses in inventory control procedures. We found that an annual inventory check was not undertaken, inventory items were not security marked and that procedures for recording and loaning out equipment were weak. We also found that a TV purchased in March 2008 using the Corporate Purchase card was still (November 2008) in its original box, therefore the need for this item was questioned.</p> <p>Findings and recommendations were agreed with the Centre Manager and Head of Arts.</p> | £1.85M ** | Substantial *** |

Internal Audit Coverage – 2008/09

Internal Audit Reports 2008/09 – Summary of audit reports

| Audit Description | Significance | Assurance |
|--|--------------|-------------|
| Corporate Systems | | |
| Project Management | Moderate | Limited |
| Management of Corporate Complaints | Extensive | Substantial |
| Scheme of Delegation | Extensive | Substantial |
| Local Authority Performance Indicators | Extensive | Substantial |
| | | |
| Assistant Chief Executive's | | |
| Communication Strategy | Extensive | Substantial |
| Members Code of Conduct – Follow Up | Moderate | Substantial |
| | | |
| Children's Services | | |
| Building Schools for the Future – Programme and project management | Extensive | Substantial |
| Children's Centres | Moderate | Limited |
| Contract Services – Income Collection and monitoring | Extensive | Limited |
| Contract Services – Income Collection and monitoring – FU | Extensive | Substantial |
| Home to School Transport | Moderate | Substantial |
| Officers Expense Claims | Low | Limited |
| End of Year School Accounts Reconciliation – Follow Up | Extensive | Substantial |
| Fostering Follow Up | Extensive | Limited |
| Marnier School Contract Audit | Low | Substantial |

| Audit Description | Significance | Assurance |
|---|---------------------|------------------------|
| Schools' Regularity Audit | | |
| Lawdale Primary School - Regularity audit | Moderate | Limited |
| Old Palace Primary School | Moderate | Limited |
| St. Agnes RC Primary School | Moderate | Limited |
| Redlands Primary School | Moderate | Limited |
| Arnhem Wharf Primary School | Moderate | Limited |
| Stewart Headlam Primary School | Moderate | Limited |
| Kobi Nazrul Primary School | Moderate | Limited |
| Malmesbury Primary School | Moderate | Substantial |
| English Martyrs Roman Catholic School | Moderate | Substantial |
| Wellington Primary School | Moderate | Substantial |
| Bluegate Fields Infant School | Moderate | Substantial |
| Cayley Primary School | Moderate | Substantial |
| Arnhem Wharf Primary School | Moderate | Substantial |
| Sir William Burrough Primary (Draft) | Moderate | Substantial |
| Elizabeth Selby Infant School (Revised Draft) | Moderate | Substantial |
| Ben Jonson School (draft) | Moderate | Substantial |
| Holy Family Catholic Primary School (Revised Draft) | Moderate | Limited |
| St Peters CoE Primary School (Draft) | Moderate | Limited |
| St Mary and St Michael Primary (Draft) | Moderate | Limited |
| St Elizaebeth Catholic Primary School (revised draft) | Moderate | Limited |
| Lansbury Lawrence Primary School (draft) | Moderate | Limited |
| St Saviours Primary School (draft) | Moderate | Limited |
| | | |
| Communities, Localities and Culture | | |
| Control and Monitoring of on-street Parking Income | Moderate | Limited |
| Brady Arts Centre | Moderate | Substantial |
| Waste Disposal – Contract Monitoring | Extensive | Limited |
| Fuel Purchase and usage | Low | Limited Substantial |
| Crime Reduction – Project Management and grant usage | Extensive | Substantial |
| Transport Recharges | Moderate | Limited |
| Blue Badges | Moderate | Limited |
| Street Lighting – Follow Up | Moderate | Limited |
| Street Works – Follow Up | Moderate | Limited |
| Waste Collection Contract Monitoring – Follow up | Extensive | Substantial |

| Audit Description | Significance | Assurance |
|--|---------------------|------------------|
| Car Pound – Follow Up | Moderate | Substantial |
| Canary Wharf Idea Stores - FU | Moderate | Substantial |
| Highways Inspections - FU | Moderate | Limited |
| HR2 Forms sample test - Compensation Claims for Highways | Moderate | Limited |
| Penalty Charge Notices - FU | Moderate | Limited |
| | | |
| Development and Renewal | | |
| Client Monitoring of ALMO | Extensive | Limited |
| Local Area Agreements | Extensive | Substantial |
| Management of Commercial Property portfolio | Moderate | Nil |
| | | |
| Tower Hamlets Homes | | |
| | | |
| Governance | Extensive | Substantial |
| Horticulture contract monitoring | Low | Limited |
| Major Works | Extensive | Limited |
| Management of Voids | Extensive | Substantial |
| Service Charges | Extensive | Limited |
| Right to Buy – Follow Up | Extensive | Substantial |
| Gas Repairs and Maintenance – Follow up | Moderate | Substantial |
| Sidney Street – Contract Audit | Moderate | Substantial |
| | | |
| Adults Health and Wellbeing | | |
| Commissioning of Elderly Services | Extensive | Substantial |
| Homelessness Assessment | Extensive | Substantial |
| Supporting People | Extensive | Substantial |
| Income collection and monitoring | Extensive | Substantial |
| Sickness Management – Follow Up | Moderate | Limited |
| Family Rent Deposit Scheme – Follow Up | Moderate | Substantial |
| Receiverships – Follow Up | Moderate | Substantial |
| Direct Payments – Follow Up | Moderate | Substantial |
| Income Control – Follow Up | Moderate | Substantial |
| | | |
| Resources | | |

| Audit Description | Significance | Assurance |
|--|---------------------|------------------|
| Housing and Council Tax Benefit (draft) | Extensive | Substantial |
| General Ledger incl. Budgetary Control | Extensive | Substantial |
| Cashiers / Cash income | Extensive | Substantial |
| Council Tax | Extensive | Substantial |
| Sundry Debtors including Recovery and Write offs | Extensive | Substantial |
| Creditors | Extensive | TBC |
| Capital Accounting (draft) | Extensive | Substantial |
| Pensions (draft) | Extensive | Substantial |
| N.N.D.R. | Extensive | Substantial |
| Personnel/Payroll (draft) | Extensive | Substantial |
| Housing Rents (draft) | Extensive | Substantial |
| Investments /Loans/Prudential Borrowing | Extensive | Substantial |
| Grant Claim of Teachers Pensions | Extensive | Substantial |
| Procurement | Extensive | Limited |
| Housing Allowance - implementation | Extensive | Substantial |
| Implementation of IFRS | Extensive | Substantial |
| Photocopying Contract Monitoring | Moderate | TBC |
| Compensation Claims - FU | Moderate | Substantial |
| Bank Reconciliation FU | Extensive | Limited |
| Acting up and Honoraria - FU | Moderate | Substantial |
| Staff Hospitality and Gifts - FU | Moderate | Substantial |
| Corporate Complaints - FU | Extensive | Substantial |
| HB Overpayments | Extensive | Substantial |
| Agency Staff - FU | Extensive | Substantial |
| | | |
| Computer Audit | | |
| Business Continuity Planning | Extensive | Substantial |
| Virus Protection | Extensive | Substantial |
| Accolaid Applications Review | Moderate | Substantial |
| Off-site working | Moderate | Limited |
| Software Licences | Extensive | Substantial |
| IT Security | Extensive | Substantial |

| Audit Description | Significance | Assurance |
|---------------------------------|---------------------|------------------|
| Network Security | Extensive | TBC |
| Data backup and data centre | Extensive | Substantial |
| ICT Management and Organisation | Extensive | Substantial |
| IT Server Consolidation | Extensive | Substantial |
| | | |

Head of Audit Opinion - Summary

Background

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

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

The Code of Practice also states at Paragraph 10.4 that:

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

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

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

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2008/09

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2009.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Purpose of the System of Internal Control

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

The Internal Control Environment

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

Review of Effectiveness

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

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2008/09, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2008/09 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

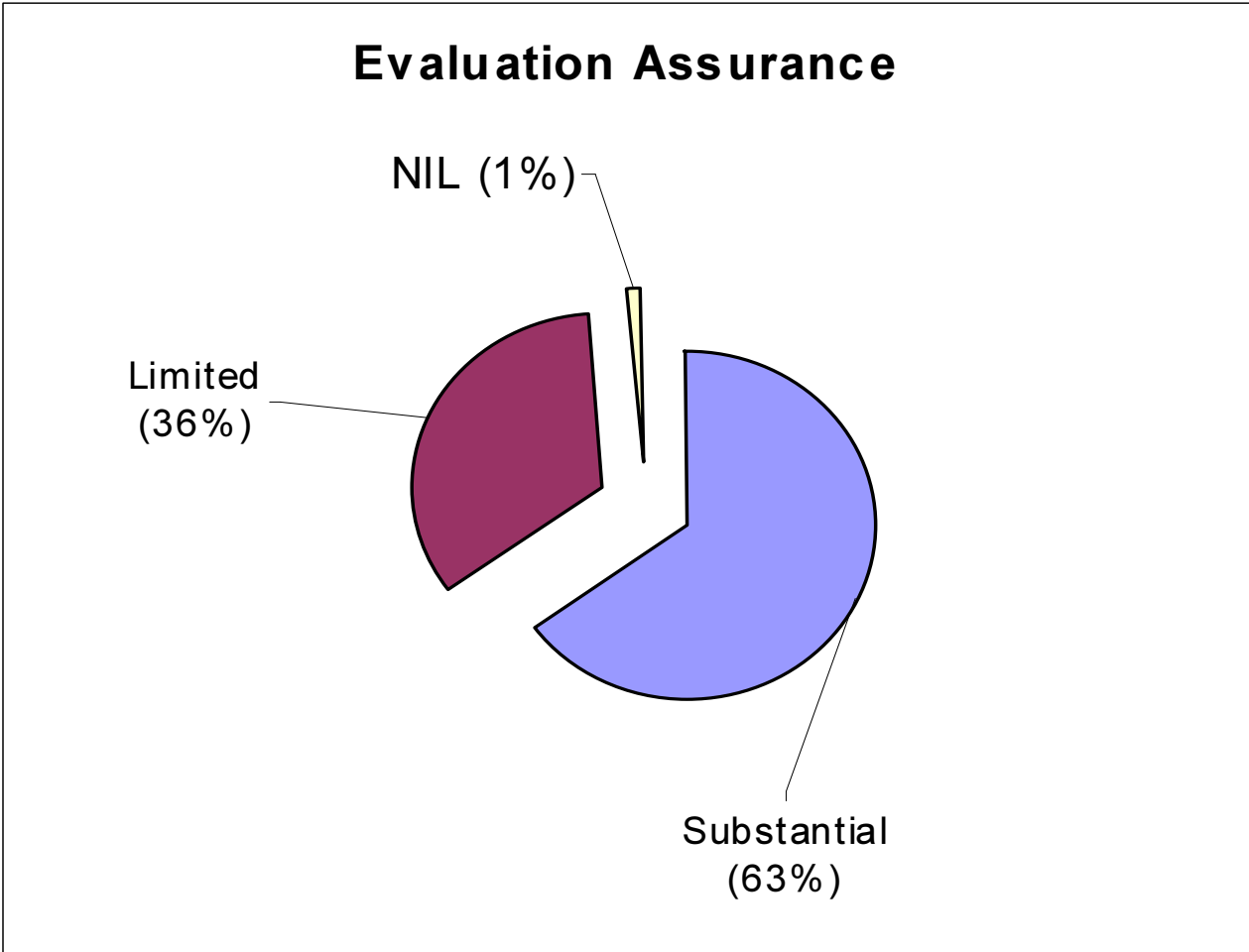
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 3](#).

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

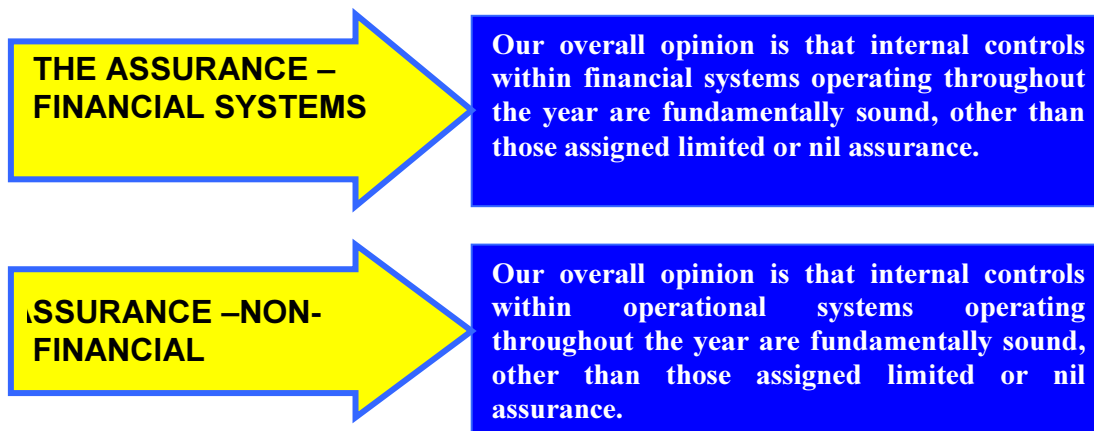
100% of Internal Audit work for the year to 31 March 2009 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the Audit Panel and Audit Committee in 2008/09 are depicted in Graph 1 below. This shows **that 63%** of the systems audited achieved an assurance level of full or substantial assurance, whereas only **37%** of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a positive performance by the Council, particularly given that 77% of recommendations followed up had been implemented within six months of the recommendations being raised. However, I recognise this means just under a quarter of the recommendations raised are not implemented within six months which exposes the authority to unnecessary risk. I have therefore developed escalation procedures over the last year to improve on current performance.

Graph 1



From the Internal Audit work undertaken in 2008/09, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2009 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **page 6**. The assurance can be further broken down between financial and non-financial systems, as follows:



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

- In its Annual Audit and Inspection Letter 2008/09, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission’s definition of the Council’s achievement of a score of three means that the Council is performing well and the direction of travel was positive.
- The Audit Commission’s CPA assessments on financial standing, systems of internal financial control, standards of financial conduct and the prevention and detection of fraud and corruption, and their opinion on the financial statements.
- BFI (Benefit Fraud Inspectorate) reviews

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

- Other review agencies

In the 2008 annual performance assessment of the service for Children and Young People, Ofsted rated the overall effectiveness of Children’s services grade 4, and in its commentary, said “Tower Hamlets Council consistently delivers service well above minimum requirements and makes an outstanding contribution towards improving outcomes in all five areas for its children and young people.”

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

Corporate Governance

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

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

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

Risk Management

In my opinion, risk management within the Council continues to improve, with increased emphases on buy in from staff, Member and the Executive Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. In drawing together my opinion, I have relied upon the following:

- The CPA assessment of Use of Resources

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

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

Minesh Jani – Service Head, Risk Management

June 2009

DETAILED REPORT**Introduction**

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2008/09 year against the original Internal Audit plan; and
- a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2008/09. Key issues included:

- Procurement systems audit – the Council's Procurement Strategy and Policy required to be reviewed. There were no up-to-date procedures for the procurement process and the forward procurement plan had not been fully developed. A system was required to ensure that the contracts register was supported by an appropriate monitoring of the contracts. A follow up audit is scheduled for quarter 2 within the audit plan.
- Creditors systems audit – the objective of the creditors system is to ensure that payments are made accurately, cost-effectively and in a timely manner. We found that the controls around setting up of new creditors on the system and preventing payments without purchase orders were not adequate, increasing the risk of error, omission etc. Invoices were not generally processed promptly upon receipt. A debit balance of more than £3.3m was identified in the Sundry Creditors Account, which may represent the likely balance of money owed to LBTH by various creditors. A follow up audit will take place as part of the full audit in quarter 3 in this financial year.

- Business Continuity – our review of the systems of control to ensure that the Council’s key services can continue to operate in case of interruption to its infrastructure, showed that the business continuity arrangements needed to be strengthened. Particularly, disaster recovery priority, critical recovery times and testing of recovery systems required addressing. A follow up audit is scheduled for quarter 2 within the audit plan.
- Management and control of commercial portfolio- this audit reviewed the arrangements in place for managing the Council’s commercial property portfolio. There were no documented policies and procedures in place for dealing with the operational aspects of managing and controlling commercial portfolio, which increased the risk of inconsistent working practices, such as unauthorised instructions being issued to Legal Services. There were issues regarding overdue rent reviews and high level of accumulated rent arrears. A follow up audit is scheduled for quarter 3 within the audit plan.
- Contract Management and Monitoring – we reported on 4 contract monitoring audits during the year, viz. horticulture contract, photocopying contract, telephony contract and waste disposal contract. The objective was to provide assurance on the framework of systems for monitoring the revenue contracts. We found that generally there were adequate systems for letting contracts. However, weaknesses were identified in the systems for managing and monitoring revenue contracts. In our view, if the Council aspires to realise full benefits and efficiency savings from these contracts, then a robust contract monitoring regime must be established at Directorate level. A follow up audit is scheduled for quarter 3 within the audit plan.
- Major works – this audit examined the systems for consulting, calculating, apportioning, and recovering costs of major works from leaseholders. We reported that leaseholders were not being provided with sufficient information to demonstrate that the works were competitively priced under partnership contracts and that VFM was being achieved. In the previous 18 months, no reminders or chase up letters had been issued to leaseholders in respect of significant level of outstanding debt for major works. Therefore, no recovery action has been undertaken since January 2007. A follow up audit is scheduled for quarter 2 within the audit plan.
- Client monitoring of THH – The objective of this review was to examine the robustness of monitoring of THH by LBTH. The client side has not yet developed written procedures for monitoring the key activities. The system for controlling and approving variations to the Management Agreement e.g. the annual Delivery Plan, required to be clarified. Overall, the robustness of the monitoring system to ensure that THH delivers the key outcomes needed to be improved. A follow up audit is scheduled for quarter 2 within the audit plan.

- Service Charges – significant post-implementation IT problems were encountered in the service charge module of SX3 application. There are significant issues relating to the raising of accurate accounts to leaseholders and prompt arrears recovery action. There is a significant level of outstanding debt to be recovered for service charges. A follow up audit is scheduled for quarter 1 within the audit plan.
- Highways Inspections - the Council has a statutory duty to maintain its highways and footways to a satisfactory standard and regular inspection programme is an important element. We found that the highways asset database is still incomplete and not in a standardised format without a common referencing point across the different teams. The inspection regime has still shown some weaknesses in its recording and provision of relevant information of the Highways network. A follow up audit is scheduled for quarter 1 within the audit plan.
- Follow Up Audits – we carried out a programme of follow up audits during the year to assess the progress made in implementing the agreed audit recommendations to improve systems of control. We were satisfied that progress was made in some cases, but we were generally concerned that some high and medium priority recommendations had not been implemented. In order to address the matter, an escalation procedure was introduced which involved the relevant Service Head and Corporate Director being alerted and we will keep this under review.

Qualifications to the Opinion

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

Other Assurance Bodies

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

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

Risk Management Process

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

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

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

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

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

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

Comparison of Internal Audit Work

The Operational Plan for 2008/09 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

100% of audit fieldwork is complete for audits relating to the 2008/09 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2008. A copy of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

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

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

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year

we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

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

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

External audit carried out a review of internal audit and a final report was issued in March 2008. The main conclusions of their review were: -

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

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

Our review of a sample of files concluded that they contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

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

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

Peer Review and Benchmarking Club Results

1. Peer Review

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

states that:

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

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

1.3. In order to ensure that a robust review of the internal audit service has been carried out, Financial Directors (or equivalent) agreed that in addition to the internal reviews, peer reviews would be undertaken to ensure that internal audit service has been externally assessed as well. As a part of this reciprocal arrangement, in May 2009, the Head of Internal Audit from the London Borough of Barking and Dagenham conducted a peer review of the effectiveness of internal audit at LBTH. The review focused on compliance with the 11 Professional Standards set out in the CIPFA Code of Practice on Internal Audit. The review is currently on-going and any issues arising from this will be reported separately.

2. Benchmarking Club Results

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

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

- 2.3. As part of the 2007/08 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.
- 2.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £324 compared with the comparator group average of £370 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.

| REPORT TO: | DATE | CLASSIFICATION | REPORT NO. | AGENDA NO. |
|--------------------------------------|--------------|------------------------------|------------|------------|
| Audit Committee | 29 June 2009 | | | |
| REPORT OF: | | Annual Fraud Report 2008/09 | | |
| ORIGINATING OFFICER(S): | | Ward(s) Affected: N/A | | |
| Corporate Director, Resources | | | | |
| Service Head Risk Management | | | | |

1. Introduction

- 1.1 This report provides the Audit Committee with the results of reactive and Anti Fraud work undertaken during 2008/09.
- 1.2 It provides a corporate perspective on the results of the work of Audit Services as well as that of the Housing Benefit Investigations Team and the Parking Service.

2. Recommendations

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

3. Background

- 3.1 This report provides Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2008/09. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations and the Parking Service.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

| Service | FTE | Role |
|-----------------------------|-----|--|
| Risk Management | 2 | <ul style="list-style-type: none"> • Head of Audit Services • NFI Co-ordinator and Corporate Fraud Manager |
| | 0.1 | <ul style="list-style-type: none"> • Fraud Assistant “bought in” resource |
| Central Benefits Fraud Team | 1 | <ul style="list-style-type: none"> • Fraud Manager |
| | 2 | <ul style="list-style-type: none"> • Team Leaders |
| | 8 | <ul style="list-style-type: none"> • Investigation Officers |
| | 1 | <ul style="list-style-type: none"> • Intelligence Officer |
| | 1-2 | <ul style="list-style-type: none"> • Admin Support |
| Parking Services | 2 | <ul style="list-style-type: none"> • Parking Fraud Investigation Officers |

3.3 A detailed analysis of the results of the anti fraud and reactive work carried out by the Audit service is attached as Appendix A.

4. Key matters arising from the Audit Service Outturn for 2008-09

- 4.1 There has been one substantial inquiry which has involved close working between the relevant Directorate, Audit Services, the Police and Legal Services. The matter arose from an internal referral.
- 4.2 The resultant investigation has covered an extensive range of systems and processes and has required substantial staff resources to finalise all of the issues relating to potential criminality. The matter has been referred to the Metropolitan Police and an arrest will be made shortly. Further reports on this matter will be presented to the Audit Committee as the case goes forward as will the outcomes of the improvement to the control environment.
- 4.3 Audit Services has also worked closely with the Corporate Property Services division of the Development and Renewal directorate on a number of matters including Asset Disposals, a financial review of charging and rental review of a number of sites within the borough and a financial review of Property Management arrangements for one of our centres. This last matter has been undertaken in close liaison with the Assistant Chief Executive (Legal Services).
- 4.3 The Audit Service has also provided support to Directorates upon request. This included an ongoing review of the SX3 system, Cheque formats for a number of Schools within the borough and

further investigative work on a number of identified abuses of our Corporate Purchase Card system.

- 4.4 We have continued to work closely with the Councils Legal Service on a number of matters including Right to Buy valuations, employment law matters and governance matters including Money Laundering issues, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of Blue Badge irregularity has involved members of staff.
- 4.5 We have challenged and enhanced the Anti- fraud and Corruption Strategy to ensure it reflects current best practice. A separate report on this and the CIPFA publication “Managing the Risk of Fraud- Actions to counter Fraud and Corruption- Red Book 2” can be found elsewhere in the agenda.
- 4.6 We have organised and run several training sessions with staff on Risk Management and the Anti Fraud and Corruption Strategy as part of our proactive initiatives and more are planned for this financial year.
- 4.7 Appendix B attached is a summary of the results and value of anti fraud work carried out in 2008/09 and in including some findings for the NFI 2007/08.

5. The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported. The Audit Commission manage this under their powers in the Audit Commission Act 1998.
- 5.2 The NFI is managed and co-ordinated by the Audit Service with joint working and protocols with all the key services including Central Benefits Investigations Team, Payroll, Pensions, Rents and Right-to-Buy services to examine, refine and investigate the data matches.
- 5.3 For this exercise there were also formal joint working arrangements in place between the Central Benefits Team and the local fraud team from the Department of Works and Pensions (DWP) to work on cases which affected both Housing and Council Tax benefits along with the DWP benefits.
- 5.4 The work on the NFI is largely finalised with all reports having been examined and refined. Investigations have also been generally completed although there are still some investigations in progress.

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

5.6 The following is a summary of the results of the LBTH outcome from the NFI work -

- £432,143.36 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
- £50,391 in Housing Benefit / Council Tax overpayments.
- £31,546.67 representing 16 deceased pensioners
- £232,604 representing 1298 cases of Council Tax Single Person Discount
- 2 Housing properties were recovered.
- 2 Staff members left the Councils employment following the NFI probity checks

5.7 In addition to the above there were

- Fifteen employees who have left the Councils employment following investigative work

6. Other Audit Activity

6.1 The following work areas have been undertaken, during 2008/09 by the Audit Service:-

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

7. Fraud Response Plan including Whistle-Blowing

7.1 The Audit Committee received a report at the June 2008 meeting, proposing a number of minor enhancements to the existing Anti-fraud and Corruption Strategy following a review undertaken by the former Chief Legal Officer of the Council.

7.2 Following endorsement by the Audit Committee the Anti- fraud and Corruption Strategy was updated and placed on the new Council Internet.

- 7.3 As identified in paragraph 4.6 we have had an independent review undertaken of the Councils arrangements for the prevention and detection of Fraud and Corruption to assess our compliance with the new CIPFA publication "Managing the Risk of Fraud- Actions to counter Fraud and Corruption- Red Book 2".
- 7.4 The resultant findings will be implemented following endorsement by the Audit Committee.

8. Housing Benefits Investigation Service

- 8.1 The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-
- Benefits Whistle-blowing hotline;
 - Internal Referrals;
 - External Referrals (Agencies and public);
 - Joint working with Department of Work and Pensions (DWP);and
 - Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);
- 8.2 During 2008/09 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-
- 170 cases being dealt with;
 - 29 convictions at court;
 - 70 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
 - 71 Administrative Penalties; and
 - Total Housing and Council Tax overpayments that represent the 170 cases equates to £509,344.25.

9. Parking Services

- 9.1 The Parking Service investigations have resulted in seventeen parking fraud cases.

Of these:-

- 13 cases resulted in convictions with fines amounting to £4,770 and costs in the sum of £2,675 - both of which were awarded to the Council;
- One case was disposed of via the application of a Caution.

- Three cases were withdrawn following representation on the grounds that there was no longer an economic prospect of conviction.

10. Comments of the Chief Financial Officer

10.1 These are contained within the body of this report.

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

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

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

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

13. Risk Management Implications

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

14 Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

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

| <u>Tower Hamlets Homes</u> | | |
|-----------------------------------|--|--|
| <u>No. of Days</u> | <u>Audit Activity</u> | <u>Comments/Outcome</u> |
| 11 | Whistle bow concerning appropriate allocation of property. | Allegations of inappropriate allocation were not substantiated, although systems control weaknesses identified. Improved system of control being implement by management |
| 9 | Theft of fuel | Disciplinary hearing found serious management weakness in system of controls |
| 15 | RTB valuation and litigation | On-going support on the litigation resulting from in-appropriate valuations of RTB's |
| 6 | Follow-up work RTB employee | Support to management, employee has now left organisation |
| 7 | 4 Police and other external agency referrals | Joint working with other agencies concerning THH current and employees |
| 10 | 4 Whistle bowing under 5 days | Management of whistle bows and investigations as necessary |
| 10 | Members enquiry concerning recovery of utilities charges | Investigations confirmed that utility charges had been under recovered. Action plan to recover |
| 15 | NFI investigations and apportionment of preparatory work for the 2008-9 exercise | National fraud initiative 2006-7 and 2008-9 meeting requirements for Section 151 officer under the Audit Commissions Code of Data matching Practice 2008 |
| 5 | Governance | |
| 17 | 9 Enquiries under 3 days | |
| 5 | Anti fraud arrangements and partnership | |
| | | |
| <u>110</u> | | |
| | | |

| LBTH Re-active | | |
|-----------------------|--|---|
| <u>No. of Days</u> | <u>Audit Activity</u> | <u>Comments/Outcome</u> |
| 3 | Anti Fraud Forums | 3 Anti fraud forum groups were setup across the Council as a proactive co-ordination of anti fraud work in key areas |
| 26 | Data Quality Review and Best Value Performance Indicator | This output includes all internal Audit work on supporting data quality and joint working with the Performance Review Team including review and assurances on quality of services data sampling, testing and preparation of documentation for BVPI returns. It also includes comprehensive reviews of all the high risk BVPIs in preparation for the external audit, and minimising the need for amendments to BVPIs and training and development of Coordinators for the return preparation... |
| 4 | Freedom of information enquires | Investigating and responding to freedom of investigation enquiries |
| 9 | Governance and code of conduct | Joint working into improve systems and procedures for declarations of interest, gifts and hospitality and code of conduct |
| 8 | Internal referrals | Joint working and referrals from Payroll Services, Benefits Services and Trading Standards |
| 21 | LPSA 2 | Audit of LPSA 2 activities to support claim |
| 14 | Money Laundering | Setting up referral system with the cash collecting services to ensure compliance with money laundering regulations. Including liaising with the police on potential breaches |
| 59 | National Fraud Initiative | Finalising the 2006/07 exercise and publicising consulting and initiating the 2006/07 to meet the requirements of the Audit Commission Code of Data Matching Practice. Including resultant review of output data, and co-ordinating follow-up work. |
| 9 | Outside agencies | Requests for information, and whistle blow referrals from other local Authorities, DWP and other agencies, Banks, Building Societies, Health Authorities, etc. |
| 7 | Parking joint working | Joint working with parking service and support on specific cases |
| 7 | Parking Shop | Joint working with parking service for the closure of the Parking shop and restructure and re engineering of the service |
| 15 | Police Enquiries | Reactive support to police enquires from local Financial Investigation Units on recovery of assets and support to enquires to Metropolitan Police |

| <u>No. of Days</u> | <u>Audit Activity</u> | <u>Comments/Outcome</u> |
|--------------------|---|---|
| 5 | Proactive Fraud Training and advertising | Preparing and providing training to Members, Senior Management for cascading to staff and Investigating Officers. Review and a re-launch of revised Anti Fraud and Corruption Strategy on the Intranet and advertising of anti fraud work |
| 8 | Property disposals | Review of property disposal process to ensure compliance with procedures and good practice |
| 2 | Public Sector Partnership (PSP) | Active members of the PSP Training Group with the Met Police, which meet during the year and feed into the overall PSP. |
| 10 | Purchase cards | On going joint working with procurement on purchase card fraud (external) |
| 38 | Reactive work 3-5 days | 11 jobs - include management inquiries and NFI investigations concerning code of conduct follow up including reporting and supporting any subsequent action. |
| 9 | Reactive work/enquiries under 3 days | 45 Reactive responses to internal inquiries under three days, these include review and response to appropriate Service Head. |
| 4 | Review of Complaints Service | This review was undertaken to support the accreditation of the service from an external source. The examination also supported the assessment of the Councils Statement on Internal Control. |
| 10 | Review of use of Resources for CPA | Preparation for use of resources external review and implementation of Red Book 2 |
| 7 | Schools Cheques | Working with schools on improving quality of cheques following unsuccessful manipulation |
| 6 | Schools Employment Tribunal | Support to Employment tribunal after audit work |
| 18 | Servicing Committees and management support | |
| 6 | Statement on Internal Controls | Collation of evidence for the an preparation of SIC |
| 10 | Statements to police | (4 cases) Statements to police to support external agencies prosecution of former LBTH clients and employees |
| 18 | Theft of monies | Investigations into theft of monies by employee and support to both internal action and police |
| 10 | Whistle blow - School | School invited Audit to under take a review of its governance arrangements following the concerns of the Governors |
| | | |
| | | |
| 369 | | |
| | | |
| 479 | Total days | |

| <u>APPENDIX B</u> | | No. | Notional future savings value | Notional future savings value total | Actual Value |
|--------------------------|---|-----|-------------------------------|-------------------------------------|-------------------|
| | <u>NFI 2006/7 (2 year outturn)</u> | | | | |
| | Identified value of overpayment/losses - recovery in the process | | | | 432,143.36 |
| | 2 Housing properties were recovered. | 2 | 75,000.00 | 150,000.00 | |
| | 2 Staff members left the Councils employment following the NFI probity checks | 2 | 5,000.00 | 10,000.00 | |
| | | | | | |
| | | | | <u>160,000.00</u> | <u>432,143.36</u> |
| | <u>Value of other anti Fraud work carried out in 2008/09</u> | | | | |
| | | | | | |
| | Employees leaving after identity checks | 15 | 5,000.00 | 75,000.00 | |
| | Benefits Prosecutions | 29 | 3,200.00 | 92,800.00 | |
| | Benefits Cautions | 70 | 1,200.00 | 84,000.00 | |
| | Benefits Administrative penalties | 71 | 1,200.00 | 85,200.00 | |
| | Housing benefits overpayments under recovery | | | | 509,344.00 |
| | Blue badge recovery | 1 | 1,500.00 | 1,500.00 | |
| | Blue badge misuse | 12 | 500.00 | 6,000.00 | |
| | | | | | |
| | | | | <u>344,500.00</u> | <u>509,344.00</u> |
| | | | | | |
| | <u>overall totals</u> | | | <u>504,500.00</u> | <u>941,487.36</u> |

| REPORT TO: | DATE | CLASSIFICATION | REPORT NO. | AGENDA NO. |
|--|--------------|--|------------|------------|
| Audit Committee | 29 June 2009 | | | |
| REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management | | Anti Fraud and Corruption Strategy - Red Book 2 Ward(s) Affected: N/A | | |

1. Summary

- 1.1 This report provides the Audit Committee with an update on the results of an independent review of the Councils Anti Fraud and Corruption Strategy as set against the CIPFA publication “Managing the Risk of Fraud – Actions to Counter the Risk of Fraud- Red Book 2”, which was issued in October 2008 and serves as best practice.
- 1.2 The report also provides a corporate perspective on the effectiveness of the strategy and highlights existing areas of good practice with some areas for further enhancement to ensure that we continue to meet the new and enhanced requirements.
- 1.3 A further report on the implementation of the recommendations of the report will be presented to the Audit Committee in due course.

2. Recommendations

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

3. Introduction

- 3.1 As part of our ongoing efforts to ensure the strategy and systems in place within the Council remain relevant and meets best practice the Anti Fraud and Corruption Strategy as well as a range of other procedures and practices within the Council including Prosecutions Policy, Joint Working etc. have been the subject of an independent review.

3.2 The review was undertaken by the former Head of Legal Services and evaluated the existing strategy and arrangements against the following five key tests. These are further broken down into a number of additional key questions which seek to evidence the effectiveness of the Councils overall Governance arrangements.

3.3 The key tests were:-

3.3.1 Adopting the right strategy

“Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the Effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place.”

3.3.2 Measuring Fraud and Corruption Losses

“Are fraud and corruption risks considered as part of the organisation’s strategic risk management arrangements.”

3.3.3 Creating and Maintaining a strong structure

“Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation’s counter fraud and corruption strategy.”

3.3.4 Taking action to tackle the problem

“Is the organisation undertaking the full range of necessary action.”

3.3.5 Defining Success

“Relevant officers and Committees are made aware of investigations which may effect their”

3.4 The methodology used to undertake this review was to examine the available evidence against each of these tests and develop recommendations to ensure we meet best practice where this was considered necessary.

3.5 The Red Book 2 requirements form part of the new Comprehensive Area Assessment testing under the Key Lines of Enquiry sections 2.3 and 2.4. The questions they cover are:-

- Does the organisation promote and demonstrate the principles and values of good governance?
- Does the organisation manage its risks and maintain a sound system of internal control?

4. Key Findings

4.1 The review found that against each of the tests undertaken, the Council's arrangements were generally good with most points either fully or partially met.

4.2 Some of the questions require further development to meet full compliance and where this has been found there are suggestions to enhance the arrangements further.

4.3 The Organisation does not have formal links between a range of anti fraud activity. There are informal links in place but we need to consider a more "joined-up" approach.

4.4 The review looked primarily at the corporate anti fraud arrangements and not the other Services. A further review of the anti fraud arrangements of other Council Services needs to be undertaken.

4.5 The level of resource required at the Corporate level is increasing, this is being reviewed in light of this report.

4.6 The findings arising from this review are summarised under the relevant key control Objective included within Appendix A.

5. Comments of the Chief Financial Officer

5.1 These are contained within the body of this report.

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

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

7. One Tower Hamlets

7.1 There are no specific one Tower Hamlets considerations.

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

8. Risk Management Implications

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

9. Sustainable Action for a Greener Environment (SAGE)

9.1 There are no specific SAGE implications.

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

| 1. ADOPTING THE RIGHT STRATEGY | | | | | |
|---------------------------------------|--|--|--------------------|--|--|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to enhance compliance | |
| 1.1 | Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the organisation's overall strategic objectives? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy with links to overall governance arrangements • Annual Fraud Plan which is also reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Monthly meetings between the Monitoring Officer and Head of Audit Services | Y | Revisions to be made to the Strategy and updated on Intranet and Internet by September 2009. | |
| 1.2 | Is there a clear remit 'to reduce losses to fraud and corruption to an absolute minimum' covering all areas of fraud and corruption affecting the organisation? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy | Partial | The introduction to the Anti Fraud and Corruption Strategy should be amended to specifically state that it is the Council's aim to reduce losses to fraud and corruption to an absolute minimum. | |
| 1.3 | Are there effective links between 'policy' work (to develop an anti-fraud and corruption and 'zero tolerance' culture, create a strong deterrent effect and prevent fraud and corruption by designing and redesigning policies and systems) and 'operational' work (to detect and investigate fraud and corruption and seek to apply sanctions and recover losses where it is found)? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Anti fraud and corruption clause in Council contracts • Ethical Governance Protocol for Council contracts • Financial Regulation CR6 Preventing Fraud and Corruption • Sanctions Policy | Partial | The Anti Fraud and Corruption Strategy should be included as a specific item in the Council's corporate induction process for new employees; consideration should be given to amending employee contracts of employment to include anti fraud and corruption clauses linked to a disciplinary procedure amended to make fraud and corruption a specific disciplinary offence. The Sanctions Policy should be expanded to cover all areas of fraud and corruption and to include a recovery of losses and a police referrals policy. The risk assessment included in the Annual Fraud Plan should be expanded to include financial impact. The outcome of audit investigations include proportionate proposals for counter fraud measures where appropriate and this practice should be formalised as a requirement for consideration in all cases. | |

1. ADOPTING THE RIGHT STRATEGY

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to enhance compliance |
|----------|--|--|--------------------|---|
| 1.4 | Is the full range of integrated action being taken forward or does the organisation 'pick and choose'? | Overall compliance is assessed by reference to the extent to which the Council meets the criteria specified in Section 4.1 to 4.34 of the Red Book Review included in the latter section of this appendix. | Partial | See required actions as detailed in section 4.1 to 4.34 |
| 1.5 | Does the organisation focus on outcomes (i.e. reduced losses and not just activity (i.e. the number of investigations, prosecutions, etc.)? | The Annual Anti Fraud Report to the Audit Committee and Standards Committee is currently predominantly activity based. | N | The Annual Anti Fraud Report should therefore be expanded to include targets for reduction in losses and consideration should be given as to whether it is possible to quantify losses and introduce targets in additional areas to benefits and NFI. |
| 1.6 | Has the strategy been directly agreed by those with political and executive authority for the organisation? | The revised Anti Fraud and Corruption Strategy was approved by the Audit Committee on 30 th June 2008 and compliance is further demonstrated by previous publication of the Anti Fraud and Corruption Strategy during 2006 in a leaflet accompanying pay/allowance advices for all Councillors, employees and pensioners and an intranet article. | Y | The Anti Fraud and Corruption Strategy should be amended to include reference to the internal approval process for adoption of the Strategy and specify the Lead Cabinet Member with overall responsibility for the Strategy. |

| 2. MEASURING FRAUD AND CORRUPTION LOSSES | | | | | |
|--|--|---|--------------------|--|--|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance | |
| 2.1 | Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements? | <ul style="list-style-type: none"> Corporate Fraud Risk Register (TQ to provide) Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee | Y | | |
| 2.2 | Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption? | <ul style="list-style-type: none"> Anti Fraud and Corruption Strategy which includes a definition of fraud Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee Annual Anti Fraud Report to the Audit Committee and Standards Committee | Partial | <p>The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each area. The report should also include civil proceedings taken (if any) and anonymised information about disciplinary sanctions applied (if any). Consideration should be given to adopting a method of assessing losses prevented in areas susceptible to such a calculation.</p> | |
| 2.3 | Does the organisation use accurate estimates of losses to make informed judgments about levels of budgetary investment in work to counter fraud and corruption? | <ul style="list-style-type: none"> Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee Annual Anti Fraud Report to the Audit Committee and Standards Committee | Partial | <p>The risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each additional area. Corporate Anti Fraud should consider setting up a system to record losses to fraud and corruption</p> | |

3. CREATING AND MAINTAINING A STRONG STRUCTURE

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|--|--|--------------------|--|
| 3.1 | Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's counter fraud and corruption strategy? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Constitution • Scheme of Management • Financial Regulation CR6 - Preventing Fraud and Corruption | Y | Financial Regulation CR6 should be amended as part of the current review of Financial Regulations to include specific reference to the Head of Audit Services in the investigation of potential fraud and corruption. |
| 3.2 | Is there strong political and executive support for work to counter fraud and corruption? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Statements by the Lead Member Resources & Performance (ELA Article 02/10/08) | Y | Consider issuing a joint statement from the Leader of the Council and the Chief Executive. |
| 3.3 | Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified? | <ul style="list-style-type: none"> • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee | Partial | Consideration should be given to benchmarking expenditure on counter fraud and corruption arrangements with other comparable local authorities. As in recommended in 2.3 above, the risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each area. |

3. CREATING AND MAINTAINING A STRONG STRUCTURE

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|--|--|--------------------|---|
| 3.4 | Are all those working to counter fraud and corruption professionally trained and accredited for their role? | <ul style="list-style-type: none"> • Benefits, and Parking Services officers PINS accredited • Qualified Trading Standards Officers • Head of Audit Services is a certified fraud examiner • Ad hoc other training – e.g. witness training for those giving evidence in criminal proceedings | N | The Head of Audit Services to identify services with profession skills gaps and recommend and develop relevant training. |
| 3.5 | Do those employees who are trained and accredited formally review their skills base and attend regular refresher courses to ensure they are abreast of new legislation? | <ul style="list-style-type: none"> • PDR Process • Fraud circulars • Refresher courses • London Borough Fraud Investigation Group | Partial | The Head of Audit Services should review random sample of PDR records to ensure this area of personal development is being effected and reviewed. |
| 3.6 | Are all those working to counter fraud and corruption undertaking this work in accordance with a clear ethical framework and standards of personal conduct? | <ul style="list-style-type: none"> • Employees' Code of Conduct • Audit Manual • Fraud investigation policy code of conduct | Y | |
| 3.7 | Is there an effective propriety checking process? | <ul style="list-style-type: none"> • At present CRB checks only are obtained for specific services and corporate anti fraud staff | Partial | Current arrangements do not include the more extensive pre employment screening required to meet the requirements of this criteria and consideration should be given to implementing applicant propriety checks, including the resources available/required for the introduction of such a process. |

| 3. CREATING AND MAINTAINING A STRONG STRUCTURE | | | | | |
|--|---|--|--------------------|--|--|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance | |
| 3.8 | Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented? Are framework agreements in place to work with other organisations and agencies? | <ul style="list-style-type: none"> See compliance and recommendations for 3.7 above | Partial | | |
| 3.9 | Are framework agreements in place to work with other organisations and agencies? | <ul style="list-style-type: none"> There are no such formal agreements in place at present. The Anti Fraud Forum which was established in 2007 and includes partner organisations such as the police, PCT and Tower Hamlets Homes is however well placed to consider any proposed arrangements which might be developed. The Forum's terms of reference already include these matters and the Forum oversee implementation and review of any agreements and ensure they focus on the practicalities of common work. | Partial | Agreements should be developed with the police and NHS as a minimum and approved by the Forum as soon as possible. | |
| 3.10 | Are the framework agreements focused on the practicalities of common work? | <ul style="list-style-type: none"> See compliance and recommendations for 3.9 above | Partial | | |
| 3.11 | Are there regular meetings to implement and update these arrangements? | <ul style="list-style-type: none"> See compliance and recommendations for 3.9 above. | Partial | | |

| 4. TAKING ACTION TO TACKLE THE PROBLEM | | | | |
|--|--|---|--------------------|--|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
| 4.1 | Is the organisation undertaking the full range of necessary action? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Annual Fraud Plan which is also reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Ethical Governance Protocol for Council contracts • Financial Regulation CR6 - Preventing Fraud and Corruption • Sanctions Policy • Audit Manual (TQ to provide relevant extract) • Anti Fraud Forum • CRB Checks • Constitution • Scheme of Management | Y | The recommendations arising out of this review should be implemented |
| 4.2 | Does the organisation have a clear programme of work attempting to create a real anti fraud and corruption and zero tolerance culture (including strong arrangements to facilitate whistle blowing)? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy including whistle blowing arrangements • Confidential Whistle Blowing hotline • Annual Fraud Plan which is also reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Statements by the Lead Member Resources & Performance (ELA Article 02/10/08) • In your best interests! Pulling Together Article – October 2008 • Beat the cheats adverts (TQ to confirm publication details) • E-Learning | Y | |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|--|---|--------------------|---|
| 4.3 | Are there clear goals for this work (to maximize the percentage of staff and public who recognize their responsibilities to protect the organisation and its resources)? | There are no goals in place for this work. | N | The Annual Fraud Plan and Report should be expanded to include targets and timelines for assessing and evaluating the extent to which an anti fraud and corruption culture is developing and embedded within the Council. |
| 4.4 | Is this programme of work being effectively implemented? | See compliance and recommendations for 4.3 above. | N | |
| 4.5 | Are there arrangements in place to evaluate the extent to which a real anti fraud and corruption culture exists or is developing throughout the organisation? | See compliance and recommendations for 4.3 above. | N | |
| 4.6 | Are agreements in place with stakeholder representatives to work together to counter fraud and corruption? | The Council has agreed anti fraud and corruption clauses for use in its contracts and adopted an Ethical Governance Protocol but has not yet developed agreements with stakeholder representatives. | Y | Agreements with staff groups, professions and the unions should be developed. |
| 4.7 | Have arrangements been made to ensure that stakeholder representatives benefit from successful counter fraud and corruption work? | There are currently no specific arrangements in place. | N | A policy should be agreed to ensure that feedback is provided so that remedial action can be taken and recovered or prevented losses are returned/retained in the stakeholder's budget. |
| 4.8 | Does the organisation have a clear programme of work attempting to create a strong deterrent effect? | Annual Fraud Plan which is also reported to the Audit Committee | Y | |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|--|---|--------------------|--|
| 4.9 | Does the organisation have a clear programme of publicity to counter fraud and corruption? | <ul style="list-style-type: none"> • Statements by the Lead Member Resources & Performance (ELA Article 02/10/08) • In your best interests! Pulling Together Article – October 2008 • Beat the cheats adverts (TQ to confirm publication details) • Intranet postings • Pay slip notifications | Partial | Publicity has been targeted at successes and areas of known loss but a comprehensive publicity programme for each year should be agreed with Communications and reviewed as part of the Annual Fraud Plan. |
| 4.10 | Has the organisation successfully published work in this area? | See compliance and recommendations for 4.9 above. | Partial | |
| 4.11 | Has the publicity been targeted at the greatest fraud losses? | See compliance and recommendations for 4.9 above. | Partial | |
| 4.12 | Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses? | Review of key projects in advance of contract award: <ul style="list-style-type: none"> ➢ Purchase Cards ➢ Commensura ➢ SX3 | Y | |
| 4.13 | Do concluding reports on investigations include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place? | In practice, the outcome of audit investigations include proportionate proposals for counter fraud measures where this is considered appropriate. | Partial | This practice should be formalised as a requirement for consideration in all investigations. |
| 4.14 | Is there a system in place for considering and prioritising action to remove identified weaknesses? | In practice, the outcome of audit investigations identify the extent of any weaknesses and allocate responsibility for implementing changes where this is considered appropriate. | Partial | This practice should be formalised as a requirement for consideration in all investigations and a grading system against which weaknesses are measured should be approved by the Audit Committee |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|--|---|--------------------|--|
| 4.15 | Are there effective whistle blowing arrangements in place? | Anti Fraud and Corruption Strategy including whistle blowing arrangements Telephone survey on awareness of strategy – March 2008 <ul style="list-style-type: none"> • Confidential Whistle Blowing hotline • Beat the cheats adverts joint publication with Benefits Fraud • Intranet postings • Pay slip notifications • Benefits and Parking officers PINS accredited • Head of Audit Services is a certified fraud examiner • Ad hoc other training – e.g. witness training for those giving evidence in criminal proceedings | Y | The Annual Anti Fraud Report should be expanded to identify the sources and nature of disclosures made under the whistle blowing procedure. |
| 4.16 | Are analytical intelligence techniques used to identify potential fraud and corruption? | National Fraud Initiatives and reactive/proactive IDEA data matching | Y | |
| 4.17 | Are there effective arrangements for collating, sharing and analysing intelligence? | <ul style="list-style-type: none"> • Each Fraud Service has it's own data case handling systems • Internal protocols for information sharing between Audit and Benefits, Payroll, Parking, Trading Standards and ad hoc arrangements with the DWP other LA's and Police | Partial | Any agreements developed in accordance with the recommendations contained in 3.9 above should include provision for information/data sharing with other organisations, such as police and NHS. |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|---|--|--------------------|---|
| 4.18 | Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Financial Regulations • Internal information exchange • Employee Code of Conduct • NFI notifications and consultation | Partial | The Anti Fraud and Corruption Strategy should be included as a specific item in the Council's corporate induction process for new employees; consideration should be given to amending employee contracts of employment to include anti fraud and corruption clauses linked to a disciplinary procedure amended to make fraud and corruption a specific disciplinary offence. A leaflet should be produced for managers reminding them of their obligation to report actual or suspected cases of fraud and corruption to internal audit. The leaflet could also usefully identify the key indicators of potential fraud and corruption and provide an outline of the process followed by internal audit in accordance with the Audit Manual for the investigation of suspected fraud and corruption. |
| 4.19 | Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated? | <ul style="list-style-type: none"> • Audit Manual • NFI targets • Whistle-blowing time frames • Benefits time frames within key work objectives | Y | |
| 4.20 | Are proactive exercises undertaken in key areas of risk or known system weaknesses? | <ul style="list-style-type: none"> • Fraud Risk Register • Annual Fraud Plan | Partial | The risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each additional area. The level of proactive fraud work should also be reviewed |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|---|--|--------------------|---|
| 4.21 | Is the organisation's investigation work effective? | There are currently no arrangements in place for analysing investigations that have been undertaken in terms of timeliness, outcomes, level of sanctions, prosecutions and the amount of losses recovered. <ul style="list-style-type: none"> • Audit Manual • Fraud investigation policy code of conduct | N | These arrangements should be implemented and the outcome reported to the Audit Committee and relevant stakeholders. |
| 4.22 | Is it carried out in accordance with clear guidance? | <ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Constitution • Scheme of Management • Financial Regulation CR6 - Preventing Fraud and Corruption • RIPA and PACE authorised officers (TQ to confirm) | Partial | Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes. |
| 4.23 | Do those undertaking investigations have the necessary powers, both in law and where necessary, within the organisation? | <ul style="list-style-type: none"> • NFI Monitoring by the audit commission • Benefits time frames within key work objectives • Whistle blowing reporting • Reporting to Audit Committee | Partial | Financial Regulation CR6 should be amended as part of the current review of Financial Regulations to include specific reference to the Head of Audit Services in the investigation of potential fraud and corruption. Any agreements developed in accordance with the recommendations contained in 3.9 above should include provision for internal rights of investigation with other organisations, such as the NHS. |
| 4.24 | Are referrals handled and investigations undertaken in a timely manner? | <ul style="list-style-type: none"> • Deloitte's periodic external audits | Partial | Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes. |
| 4.25 | Does the organisation have arrangements in place for assessing the effectiveness of investigations? | Sanctions Policy | Partial | In 2009 The Head of Audit Service to introduce client feedback surveys following each investigation which can also be used to provide feedback to investigators on their performance. |
| 4.26 | Does the organisation have a clear and consistent policy on the application of sanctions where fraud and corruption is proven to be present? | | Partial | The Sanctions Policy should be expanded to cover all areas of fraud and corruption and to include a recovery of losses and a police referrals policy. |

4. TAKING ACTION TO TACKLE THE PROBLEM

| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N | Actions to achieve full compliance |
|----------|---|---|--------------------|--|
| 4.27 | Are all possible sanctions disciplinary/regulatory, civil and criminal considered? | Annual Fraud Report MATT & YAS investigations | Partial | The Anti Fraud and Corruption Strategy and Sanctions Policy should be amended to include specific reference to 'triple tracking'. |
| 4.28 | Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available? | MATT & YAS investigations Recommendation: | Partial | Any revisions to the Sanctions policy should reflect current practice to consider sanctions at the end of an investigation unless earlier intervention is necessary (for example civil proceedings to obtain a freezing order to protect assets) or where earlier intervention is possible (for example disciplinary action not dependent on the outcome of a criminal investigation). |
| 4.29 | Does the organisation monitor the extent to which the application of sanctions is successful? | Annual Anti Fraud Report to the Audit Committee and Standards Committee | Partial | The Annual Fraud Report should be expanded to include an analysis and comparison in the successful application of sanctions in previous years. |
| 4.30 | Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption? | There is no current policy. | N | Revisions to the Sanctions Policy should include the addition of a recovery of losses policy. |
| 4.31 | Is the organisation effective in recovering any losses incurred by fraud and corruption? | There is no monitoring of the recovery of losses at present. | N | An analysis and monitoring information relating to the recovery of losses should be included in the Annual Anti Fraud Report to the Audit Committee and Standards Committee. |
| 4.32 | Does the organisation use the criminal and civil law to the full in recovering losses? | Partial compliance demonstrated by: MATT & YAS investigations | Partial | The Anti Fraud and Corruption Strategy and Sanctions Policy should be expanded to reflect current practice and to consider to parallel sanctions, POCA applications and the potential for insurance claims. |
| 4.33 | Does the organisation monitor proceedings for the recovery of losses? | Annual Anti Fraud Report to the Audit Committee and Standards Committee | Y | Consideration should be given as to whether it is possible to quantify losses in additional areas to benefits and NFI and to reporting the amount of losses recovered by reference to individual cases (where the losses are significant) and otherwise by reference to categories or types of case, for example depending on the sanction applied. |

| 4. TAKING ACTION TO TACKLE THE PROBLEM | | | |
|--|---|--|--|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N |
| 4.34 | What is the organisation's successful recovery rate? | There is no monitoring of the recovery of losses at present. | N |
| | | | Actions to achieve full compliance An analysis and monitoring information relating to the recovery of losses should be included in the Annual Anti Fraud Report to the Audit Committee and Standards Committee. |

| 5 DEFINING SUCCESS | | | |
|--------------------|---|---|---|
| Item Ref | Key Objective | Evidence of Compliance | Compliance Met Y/N |
| 5.1 | Are there clear outcomes described for work to counter fraud and corruption? | <ul style="list-style-type: none"> Red Book Review Annual Fraud Plan which is also reported to the Audit Committee Annual Anti Fraud Report to the Audit Committee and Standards Committee | Partial |
| 5.2 | Do the desired outcomes relate to the actual sums lost to and harm caused by fraud and corruption? | See recommendation relating to 5.1 above. | Partial |
| | | | Actions to achieve full compliance Fully implementing the recommendations of the Red Book Review will establish clearer outcomes which relate to actual sums lost and harm caused by fraud and corruption. |