

Meeting of the

# AUDIT COMMITTEE

---

Tuesday, 29 September 2009 at 7.30 p.m.

---

## A G E N D A

---

### VENUE

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

Members:	Deputies (if any):
Chair: Councillor Fazlul Haque Vice-Chair: Councillor Helal Abbas Councillor Stephanie Eaton Councillor Clair Hawkins Councillor Denise Jones Councillor Abjol Miah Councillor David Snowdon	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](mailto:Zoe.Folley@towerhamlets.gov.uk)

# LONDON BOROUGH OF TOWER HAMLETS

## AUDIT COMMITTEE

Tuesday, 29 September 2009

7.30 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

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

### 3. UNRESTRICTED MINUTES

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 29<sup>th</sup> June 2009.

**PAGE  
NUMBER**      **WARD(S)  
AFFECTED**

**3 - 8**

### 4. DEPUTATIONS AND PETITIONS

To receive any deputations or petitions.

### 5. MATTERS ARISING FROM PREVIOUS MEETINGS

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

**9 - 16**

To receive presentations from Development and Renewal on Section 106 Planning Agreements and Asset Management on the Management of the Commercial Property Portfolio.

(Issues last discussed by Committee on 31<sup>st</sup> March 2009).

Progress Reports attached.

Also attached is summaries of the audits undertaken of these areas and actions arising.

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

**6 .1 Tower Hamlets Annual Governance Reports 2008/09 -  
Council's Accounts and Pension Fund (To Follow)**

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

**7 .1 Internal Audit Annual Report 2008/09 17 - 66**

To note the content of the annual audit report, the summary of audits undertaken and the Head of Audit opinion.

**7 .2 Quarterly Internal Audit Assurance Report April 2009 -  
August 2009 67 - 116**

To note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.

**7 .3 Revised Statement of Accounts 2008 - 09 (To Follow) 117 - 120**

To note the amendments to the draft Statement of Accounts previously approved and the revised Statement of Accounts presented.

**7 .4 Pensions Fund Annual Report 2008 - 09 (To Follow)**

Report to follow.

**7 .5 Annual Anti Fraud Report 2008/09 121 - 130**

To note the contents of the report.

**7 .6 Anti Fraud and Corruption Strategy Red Book 2 131 - 148**

To note the contents of the report.

**7 .7 Treasury Activity for Period Ending 31st May 2009 149 - 156**

To note the contents of the report.

**8. ANY URGENT UNRESTRICTED BUSINESS**

This page is intentionally left blank

# Agenda Item 2

## DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

### Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 6.30 P.M. ON MONDAY, 29 JUNE 2009**

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

**Members Present:**

Councillor Fazlul Haque (Chair)

Councillor Helal Abbas

Councillor Clair Hawkins

Councillor Denise Jones

(Scrutiny Lead Member: A Safe and Supportive Community)

Councillor Stephanie Eaton

(Leader Liberal Democrat Group)

Councillor David Snowdon

**Other Councillors Present:**

**Officers Present:**

Alan Finch

– (Service Head, Corporate Finance, Resources)

Minesh Jani

– (Service Head, Risk Management)

Mario Leo

– (Head of Legal Services - Environment)

Jon Hayes

– (District Auditor, Audit Commission)

Sharon Martin

– (Senior Audit Manager, Audit Commission)

Zoe Folley

– (Committee Officer, Chief Executive's)

–

**1. INTRODUCTIONS AND ANNOUNCEMENTS.**

The Chair, Councillor Haque, welcomed all to the meeting and asked all in attendance to introduce themselves.

Councillor Haque reported that some of the non urgent items of business on the agenda may need to be deferred for consideration at the next meeting of the Committee as Members of the Committee were due to attend another meeting this evening starting at 7:00pm.

Councillor Eaton strongly objected to this proposal. She considered that this was an important meeting at which vital issues to the Authority would be discussed. This should not be rushed. She strongly objected to the proposal to defer these items to the next meeting in September. Councillor Snowdon concurred with these views.

**2. APPOINTMENT OF VICE CHAIR****RESOLVED**

That Councillor Helal Abbas be appointed Vice-Chair of the Audit Committee for the municipal year 2009/10.

**3. APOLOGIES FOR ABSENCE**

No apologies were reported.

**4. DECLARATIONS OF INTEREST**

Councillor Fazlul Haque declared a general personal interest in the agenda. The declaration was made on the basis that the agenda contained references to Tower Hamlets Homes and Councillor Haque was a member of the Tower Hamlets Homes Board.

Councillor Denise Jones declared a general personal interest in the agenda. The declaration was made on the basis that the agenda contained references to:

- the Tower Hamlets Primary Care Trust (PCT) and
- Tower Hamlets Homes

And Councillor Jones was a non Executive Delegate for the Council on the PCT and a member of the Tower Hamlets Homes Board.

**5. UNRESTRICTED MINUTES**

**RESOLVED** that the unrestricted minutes of the meeting held on 31<sup>st</sup> March 2009 be approved subject to minute 5.2 (Annual Audit and Inspection Letter) being amended to clarify that the letter would be circulated to all Members and submitted to Cabinet in May for Member consideration. As a result it would not be submitted to this meeting for further Member consideration.

- **Matters Arising**

Mr Minessh Jani (Service Head Risk Management) reported that a number of presentations from services were due to be given at this meeting. Development & Renewal were due to present an update on Section 106 planning obligations, addressing the actions requested by the Committee on 31<sup>st</sup> March 2009 (minute 4.2).

Asset Management were also due to report on the Commercial Property Portfolio addressing the risks in this area. (Minute 4.3 (a)). However due to time constraints, these presentations would now be considered at the next meeting of the Audit Committee to be held on 29<sup>th</sup> September 2009.

**ACTION BY:** Minessh Jani (Service Head Risk Management)



**Democratic Services (ZF)****6. DEPUTATIONS AND PETITIONS**

None received.

**7. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP**

**RESOLVED** that the Terms of Reference and Committee Membership and future dates of meetings be agreed.

Councillor Hawkins considered that some of the future dates clashed with meetings of the General Purposes Committee and LAP meetings. Councillor Hawkins also pointed out that Councillor Shahed Ali was listed as a Deputy Member for the Respect Group, but was no longer a member of this Group. This needed to be reviewed. **ACTION BY:** Zoe Folley, (Committee Officer). Democratic Services.

**8. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION****8.1 Tower Hamlets Pension Fund - Annual Audit Fee 2009/10**

Mr Jon Hayes (District Auditor, Audit Commission) introduced the report of the Audit Commission.

The report confirmed the audit work they proposed to undertake for the 2009/10 financial year on the Tower Hamlets Pensions Fund. Following a brief discussion, it was **RESOLVED** that the report be noted.

**ACTION BY:** John Hayes (District Auditor, Audit Commission)

**8.2 LBTH - Annual Audit Fee 2009/10**

Mr Jon Hayes (District Auditor, Audit Commission) presented the report of the Audit Commission confirming the work they proposed to undertake for the 2009/10 financial year at the Authority.

The Committee considered a summary of the total indicative fee for the audit for 2009/10.

Councillor Haque queried the rise in fees baring in mind the Authority was now a four star Authority. Councillor Eaton requested that the rise in fees on the financial statements be discussed.

In reply, Mr Hayes reported that the level of fee was shaped by a number of factors including the requirements within the International Financial Reporting Standards and the current economic climate.

Mr Hayes also reported that the criteria was by and large guided by the scales of fees set by the Audit Commission. The fee for 2009/10 was 9% below the scale. The figures for 2009/10 were indicative at present.

Finally it was **RESOLVED** that the report be noted.

**ACTION BY: John Hayes (District Auditor, Audit Commission)**

### **8.3 Audit Committee Progress Report June 2009**

Mr Hayes (District Auditor, Audit Commission) introduced the progress report. The purpose of which was to brief the Audit Committee on audit work completed by the Audit Commission since March 2009 and to inform the Committee of work currently being planned or undertaken.

Details of all work included in the 2008/09 report were attached to the report.

In relation to homelessness (page 27 of the agenda), Ms Sharon Martin (Senior Manager, Audit Commission) clarified that the work on this review was complete and the Audit Commission were now satisfied that the issues were being taking forward in action plans prepared by the Council. The Audit Commission work in this area will inform the Use of Resources assessment and a separate report would not be issued.

Councillor Ohid Ahmed asked about the fees quoted for Grant Claims given that there were now fewer grants claims that required certification by the Audit Commission. He commented that in particular the Council would not be receiving European Funding in the future. Mr Hayes reported that the figure for 2008/09 had yet to be finalised. However, once completed, this would inform the 2009/10 calculation. He also commented that the fee for grants had reduced in recent years in line with the reduction in the number of claims requiring certification.

Mr Hayes also clarified that the references to individual officers in the named officers column (in Appendix 1&2 of the report) related to their role rather than the post holder.

**RESOLVED** that the report be noted.

**ACTION BY: John Hayes (District Auditor, Audit Commission)**

## **9. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSDIERATION**

### **9.1 Annual Governance Statement 2008/09**

Mr Jani (Service Head Risk Management) introduced the Annual Governance Statement for 2008/09. The report sets out the framework for reviewing and reporting on the Council's systems on internal control and governance. The

purpose of this review was to provide assurance that the accounts were underpinned by adequate governance arrangements.

Councillor Eaton requested that the list of key governance and control issues, set out on page 38 of the report be expanded to include the following points:

- To improve the management of sickness absence;
- To review and ensure the arrangements for safeguarding children;
- To review and ensure the delivery of additional housing to reduce overcrowding in accordance with Cabinet policy in this area.

In response to advice from Mr Leo (Head of Legal Services, Environment), Mr Jani agreed to review the above suggested amendments, to clarify any areas outside the Authority's control and to report any significant issues arising from this back to the Committee for further discussion. **ACTION BY.** M Jani (Service Head Risk Management)

**RESOLVED:**

- (1) That the process and finding set out in paragraphs 4.1 and 7.4 of the report, be noted; and
- (2) That the Annual Governance Statement for the financial year 2008/09 at Appendix 3 to the report be agreed subject to the inclusion of the amendments proposed by Councillor Eaton and that any issues arising from the amendments be reported back to the next meeting of the Committee.

**ACTION BY:**           **Chris Naylor (Corporate Director Resources)**  
                                  **Minesh Jani (Service Head Risk Management)**

## **9.2 Final Accounts 2008/09**

Mr Finch (Service Head Corporate Finance) introduced the Draft Statement of Accounts for 2008-09 covering the key points within. He invited the Committee to consider and approve the Accounts and following on from that the Chair to sign a copy of them for submission to the external auditor.

In response, Mr Finch reported on the process for preparing the draft accounts. Mr Finch commented that this was a long and complex process, which started at the end of the financial year ending 31<sup>st</sup> March 2009.

The accounts had been submitted to the external Auditor for consideration. This process was due to run until the end of September 2009 and would be publicised to the public, who during which time, would be able to raise issues on the Accounts.

Councillor Abbas queried the implications of the loss on the Pension Fund Accounts. In reply, Mr Finch reported on the losses incurred during the year

and that this was likely to be fairly typical as all Local Government Pension schemes were subject to the same market conditions due to the current economic climate. However, it was a relatively immature scheme and was not due to pay the bulk of liabilities for many years. Mr Finch expressed near certainty that the markets would recover in this time and the funds value would rise accordingly.

Councillor Haque referred to the International Financial Reporting Standards. He asked about the planning process for this? Mr Finch clarified that a project team had been established to take forward this work and an accountant had been seconded to work on this. Further advice from CIPFA was awaited to clarify what exactly needed to be done.

In relation to reserves, Councillor Abbas asked whether they were sufficient in view of the economic downturn? Mr Finch acknowledged that the downturn introduced a fair degree of uncertainty and pressure on budgets. However he was confident that the reserves were sufficient.

**RESOLVED:**

1. That the draft final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2009 be approved;
2. That it be noted that the accounts will now be submitted for audit; and
3. That progress towards meeting the International Financial Reporting Standard (IFRS) be noted.

**ACTION BY:**            **Chris Naylor (Corporate Director Resources)**  
                                 **Alan Finch (Service Head Corporate Finance)**

**10. ITEMS DEFERRED TO THE NEXT MEETING**

**RESOLVED:** That the following items of business be deferred for consideration at the next meeting of the Audit Committee on 29<sup>th</sup> September 2009:

- Internal Audit Annual Report 2008/09
- Annual Anti Fraud Report 2008/09
- Anti Fraud and Corruption Strategy Red Book 2
- Treasury Activity for Period Ending 31st May 2009

The meeting ended at 7.10 p.m.

Chair, Councillor Fazlul Haque  
Audit Committee

# Agenda Item 51

Report To Audit Committee	Date 29 <sup>th</sup> September 2009	Classification	Report No.	Agenda Item
Report From:  <b>Corporate Director of Development and Renewal</b>  Originating Officer(s)  David Williams, Development Manager Development and Renewal		Title:  <b>Briefing S106 Planning Contributions Up-date</b>  Wards Affected : All Wards		

## Summary Up-date

- Officers made reports to Audit Committee in January 2009 and again in March 2009 detailing progress against recommendations from the 2008 Internal Audit of s106 and explaining what s106 planning contributions are and processes around its administration and management.
- At the March 2009 Audit Committee it was agreed that the s106 accounts be reported on a six monthly basis to Cabinet.
- Officers have now prepared the first of these overall reports on the current accounting position and it is to go to the Leadership in late September 2009. As the reports on the accounts at this stage are for noting the reports are not going forward to Cabinet.
- The Audit Committee also asked some more detailed questions about the information presented at the March 2009 meeting. To remind the Committee these were:
  - (i) A breakdown of the contributions yet to be received but secured in the last 5 years:
  - (ii) the programme of received and committed expenditure including project expenditure details;
- It was discussed in March 2009 with Members that this information could be extremely detailed and may be too much for an up-date report, in effect there were hundreds of individual agreements which would need to be listed.
- It was agreed that this would be done and presented in a manageable way which is what Officers are working on and have now completed.
- Officers are currently preparing a report for the Leadership following which the detailed information requested can be reported to Audit.

This page is intentionally left blank

Internal Audit Annual Report

2007/08

S.106 Planning Obligations - Systems Audit

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

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



## AUDIT COMMITTEE – 29 September 2009

### ASSET MANAGEMENT - Management of the Council's Commercial Portfolio

#### Background

This report provides an update on the current position in respect of the Service's management of the Council's commercial property portfolio following the Audit Report issued in January 2009.

The final report issued contained seventeen audit recommendations, fifteen of which were high priority with the remaining two ranked medium priority resulting in a "Nil Assurance" rating being assigned to the service in that report.

A follow up review has since been undertaken and a further report assigning the service a "Substantial Assurance" has been issued.

Since issuing the earlier report, documented procedures have been put in place and widely publicised within the team. The procedures cover the range of work undertaken by the team such as rent reviews, lease renewals, valuations, and other landlord and tenant matters as well as disposals and acquisitions. These procedure notes are considered "living" documents and are kept under regular review.

#### Current Position

A team plan detailing key performance indicators is also in place and progress made in respect of some of the key areas to date is outlined below:

Work Stream	Position as at July 2008	Position as at September 2009	Comments
Rent Reviews	90 Outstanding	42 completed with 48 outstanding.	All outstanding rent reviews have been actioned with negotiations either concluded or in progress. A total of 8 have either been or are in the process of being referred to third party determination.

Lease Renewals	65 outstanding	29 outstanding with 11 completed.	All outstanding lease renewals have been actioned with Legal Services instructed in respect of 25 and the remainder under negotiation with the lessees.
----------------	----------------	-----------------------------------	---

- Condition Surveys – 95% completed
- Statutory Testing – 100% on order
- Shop Policy Report drafted for Cabinet
- Asset Management Board established and meets regularly
- The Council’s Asset Management Plan has been written and adopted
- The Councils property database, CAPS, is now in place, populated and reconciled with the Council’s Fixed Asset Register maintained by the Council’s Corporate Finance Team. It is proposed to reconcile both sets of records on a regular basis.
- Regular routine inspections are now being undertaken of the Council’s commercial portfolio.

Resources – A fully funded structure has now been agreed and recruitment is currently underway with two rounds of interviews completed and appointments made into permanent posts

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

This page is intentionally left blank

# Agenda Item 71

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

## 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 31<sup>st</sup> 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**

<b><u>Available audit days</u></b>				
	<b>Revised Plan</b>	<b>%</b>	<b>Outturn</b>	<b>%</b>
In-house staff days	2,228	81	2,282	79
Deloitte / external	522	19	591	21
	<b>2,750</b>		<b>2,873</b>	
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
	<b>558</b>	<b>20</b>	<b>514</b>	<b>18</b>
	<b>2,192</b>	<b>80%</b>	<b>2,359</b>	<b>82%</b>
Net productive days				

**Internal Audit Budget 2008/09**

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

(\*) – 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
<b>LIMITED</b>	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
<b>SUBSTANTIAL</b>	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
	Extensive	Resources	

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"> <li>• 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.</li> <li>• The declaration of business interest had not been obtained from all current governors at the time of the probity visit.</li> <li>• Monthly payroll reconciliations had not been undertaken at the time of the probity visit.</li> </ul> <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"> <li>• The Terms of Reference of the Finance Committee did not include the quorum requirements and financial limits.</li> <li>• 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.</li> </ul> <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"> <li>• 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.</li> <li>• Some governors and staff with financial responsibilities had not completed business declaration forms.</li> <li>• The school had not undergone the procedure for obtaining quotes for purchases over £5,000 as specified in the approved Financial Procedures.</li> <li>• 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.</li> </ul> <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"> <li>• Whilst the Governing Body has set up Committees there were no Terms of Reference drafted specific to these Committees.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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 P Systems Audit Page 35	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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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 <sup>*</sup>	Substantial <sup>***</sup>
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 <sup>**</sup>	Substantial <sup>***</sup>



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 &amp; 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 &amp; 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"> <li>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.</li> </ul> <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

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Corporate Systems</b>		
Project Management	Moderate	Limited
Management of Corporate Complaints	Extensive	Substantial
Scheme of Delegation	Extensive	Substantial
Local Authority Performance Indicators	Extensive	Substantial
<b>Assistant Chief Executive's</b>		
Communication Strategy	Extensive	Substantial
Members Code of Conduct – Follow Up	Moderate	Substantial
<b>Children's Services</b>		
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

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
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
<b>Communities, Localities and Culture</b>		
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

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
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
<b>Development and Renewal</b>		
Client Monitoring of ALMO	Extensive	Limited
Local Area Agreements	Extensive	Substantial
Management of Commercial Property portfolio	Moderate	Nil
<b>Tower Hamlets Homes</b>		
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
<b>Adults Health and Wellbeing</b>		
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
<b>Resources</b>		

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
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
<b>Computer Audit</b>		
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



<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
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

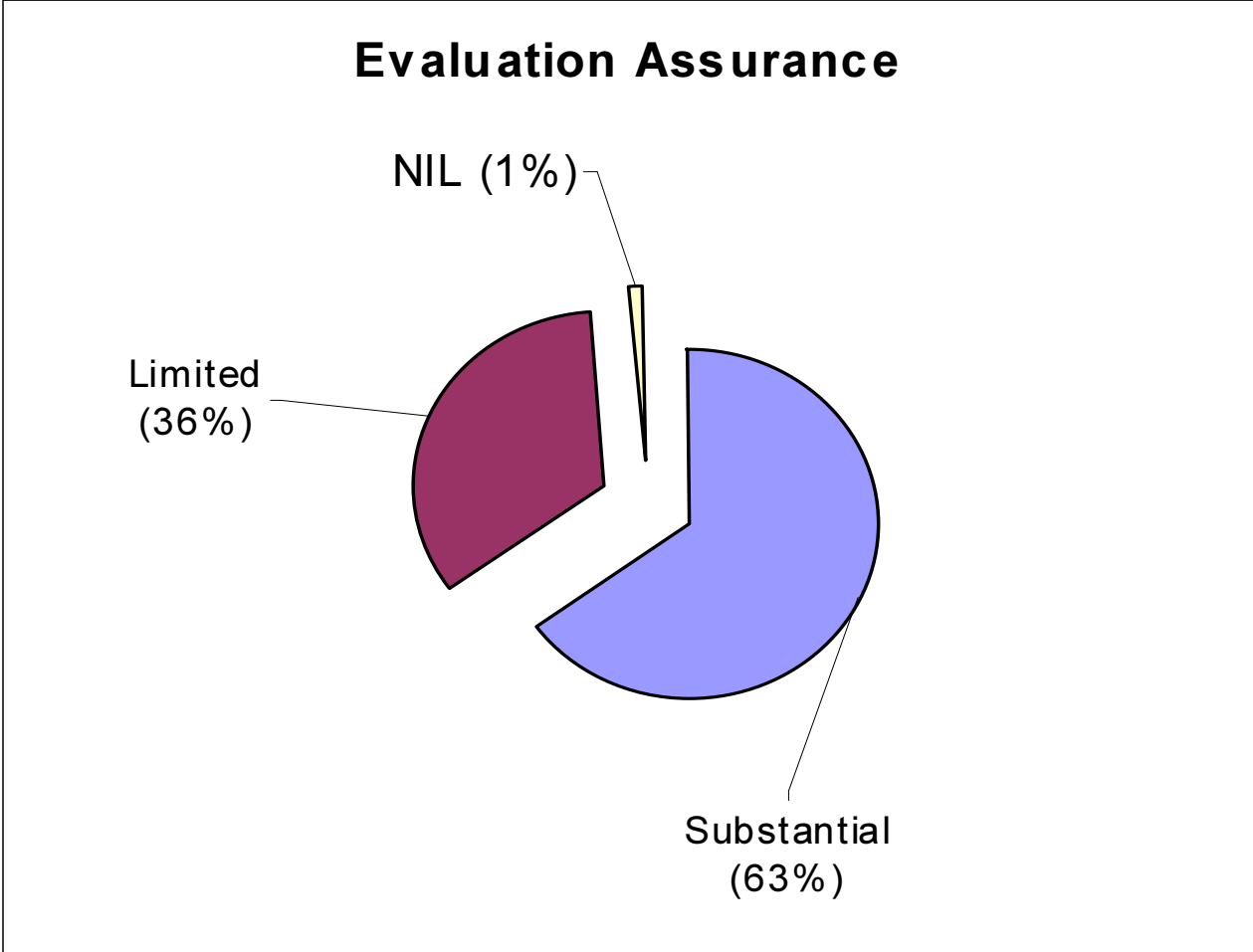
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 3](#).

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.

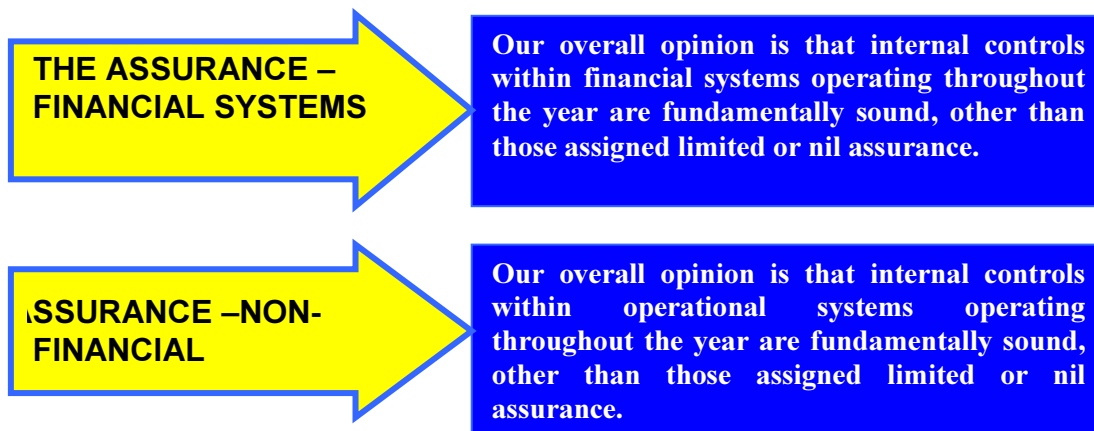
100% of Internal Audit work for the year to 31 March 2009 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the Audit Panel and Audit Committee in 2008/09 are depicted in Graph 1 below. This shows **that 63%** of the systems audited 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 31<sup>st</sup> 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.

<b>REPORT TO:</b> <b>Audit Committee</b>	<b>DATE</b> <b>29<sup>th</sup> September</b> <b>2009</b>	<b>CLASSIFICATION</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director, Resources</b>  <b>ORIGINATING OFFICER(S):</b> <b>Service Head Risk Management</b>		<b>Internal Audit Quarterly Assurance Report</b>  <b>Ward(s) Affected: N/A</b>		

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period April 2009 to August 2009.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

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

---

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

Brief description of "background papers"

*Working Files – Internal Audit*

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

*Bharat Mehta 02073644765*

### 3. Background

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

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

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

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

### 4. Overall Audit Opinion

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



## **5. Overview of finalised audits**

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in June 2009, 33 final reports have been issued. The findings of these audits are presented as follows:
- The chart below summarises the assurance rating assigned by the level of significance of each report.
  - Appendix 1 provides a list of the audits organised by assurance rating and significance.
  - Appendix 2 provides a brief summary of each audit.
- 5.2. **Members are invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
  - The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.
- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

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

**Chart 1 Analysis of Assurance Levels**

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	0	12	3	0	15
	Moderate	0	7	7	0	14
	Low	0	1	3	0	4
Total %		0	61%	39%	0	100%

- 5.4. From the table above it can be seen that of the 15 finalised audits which focused on high risk or high value areas; 12 audits were assigned Substantial Assurance and 3 received Limited Assurance. A further 14 audits were of moderate significance and of these, 7 were assigned Substantial Assurance and 7 received Limited assurance. The remaining 4 audits were of low significance of which 1 was assigned Substantial Assurance and the remaining 3 had Limited assurance.
- 5.5. Overall, 61% of audits resulted in an adequate assurance (substantial or full). The remaining 39% of audits have an inadequate assurance rating (limited or nil). Work in progress is shown in Appendix 3.

## **6. Performance Indicators**

- 6.1. At the start of the year, two performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period April to July 2009.

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to July 2009	32%	32%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	100%
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	82%

- 6.2. The table above shows that the proportion of internal audit work completed to July 2009 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was around 100%, whereas the % of priority 2 recommendations was 82%.

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

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

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

- 8.1. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

**9. Equal Opportunity Considerations**

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

**10 . Anti-Poverty Considerations**

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

**11. Risk Management Implications**

11.1 The 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.

**Summary of Audits Undertaken**

**APPENDIX 1**

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>LIMITED</b>			
	Extensive	Communities Localities Culture	Transport Recharges – Systems Audit
	Extensive	Resources	Creditors Systems Audit
	Extensive	Children, Schools and Families	Fostering – Follow Up audit
	Moderate	Resources	Contract Monitoring of Corporate Photocopying Contract
	Moderate	Children, Schools and Families	St Mary's and St Michael's Primary School
	Moderate	Children, Schools and Families	St Elizabeth Primary School
	Moderate	Children, Schools and Families	Lansbury Lawrence Primary School
	Moderate	Children, Schools and Families	St Saviour's Primary School
	Moderate	Children, Schools and Families	St Peter's Primary School
	Moderate	Children, Schools and Families	Woolmore Primary School
	Low	Communities Localities Culture and all other Directorates	Purchase and Utilisation of Transport Fuel - Systems Audit
	Low	Communities Localities Culture	Management and Control of Street Lighting – Follow Up audit
	Low	Communities Localities Culture	Management of Street Works – Follow Up audit

Assurance level	Significance	Directorate	Audit title
<b>SUBSTANTIAL</b>	Extensive	Communities Localities Culture	Community Safety Projects
	Extensive	Communities Localities Culture	Management of Anti Social Behaviour
	Extensive	Resources	Pensions – Systems Audit
	Extensive	Resources	General Ledger – Systems Audit
	Extensive	Resources	Bank Reconciliation – 2 <sup>nd</sup> Follow Up
	Extensive	Resources	Implementation of International Financial Reporting Standards
	Extensive	Resources	Management of Corporate Complaints – Follow Up
	Extensive	Resources	Disaster Recovery
	Extensive	Resources	Sever Virtualisation
	Extensive	Tower Hamlets Homes	Strategic Management of SLAs
	Extensive	Assistant Chief Executive's	Scheme of Delegation
	Extensive	Assistant Chief Executive's	Communication Strategy – Follow Up
	Moderate	Communities Localities Culture	Canary Wharf Idea Stores Follow Up audit
	Moderate	Communities Localities Culture	Acolaid IT Application Audit
	Moderate	Children, Schools and Families	Contract Services – Welfare contract income control – Follow up

**Summary of Audits Undertaken**

**APPENDIX 1**

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>SUBSTANTIAL</b>	Moderate	Children, Schools and Families	Home to School Transport for Students with Special Educational Needs – Follow Up audit
	Moderate	Children, Schools and Families	Ben Jonson Primary School
	Moderate	Children, Schools and Families	Sir William Burrough Primary School
	Moderate	Children, Schools and Families	Elizabeth Selby School
	Low	Children, Schools and Families	Marners School Refurbishment – Current Contract Audit

**Summary of Audits Undertaken**

**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transport Recharges Systems Audit	Aug 2009	<p>The objective of this audit was to assure management that the systems of controls for the administration, management and control of Transport Recharges were sound, secure and adequate.</p> <p>Our review found that Directorates were being recharged for transport costs. However, there no documented procedures existed which clarified which costs were rechargeable, the basis on which overheads were recharged and how the charges were budgeted and calculated. Moreover, the assumptions made in budgeting and calculating the charges were not recorded on working papers. Budget monitoring information received from the CLC Finance team was not formatted to the requirements of the Transport Services Manager whose management information needs were not met. We noted that Passenger Transport and Fleet Management budget monitoring reports were received broken down in terms of expenditure headings, by cost centre, rather than for each vehicle. As a result, Audit could not carry out any meaningful testing to provide assurance that only relevant direct and indirect costs were being recharged to clients in a transparent manner. The system did not provide a reliable audit trail and in absence of agreed standards and procedures for budgeting and recovering overheads, there was risk of under/over recovery of costs. We have, therefore, recommended that the entire transport recharge system should be reviewed, including the finance systems currently used in terms of the sufficiency of the coding structure to support the TSU's business management needs.</p> <p>All findings and recommendations were agreed with the TSU Manager, Service Head – Public Realm and Head of Finance.</p>	£6.7M	Limited



APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transport Recharges Systems Audit	Aug 2009	<p><b>Management Comments</b></p> <p>Audit recommendations were accepted and a review of the method of recharging costs to clients is underway. However, it needs to be borne in mind that the Transport Services Unit operates an internal Trading Account whose main clients are Adults and Children's Services. The costs of the service are fully recharged on an annual basis and the account regularly makes an operating surplus which is returned to clients.</p> <p>Whilst audit concerns regarding the coding structure and overhead apportionment need to be addressed, the impact is likely to result in adjustments between the costs charged to the major clients, rather than any major system errors.</p>		

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Systems Audit	July 2009	<p>The objective of the Creditors system is to ensure that payments are made accurately and in a timely manner for services and goods received.</p> <p>6 recommendations were raised, including one priority 1 issues, as follows.</p> <ul style="list-style-type: none"> <li>• The controls around setting up new creditors on the JDEdwards systems were found to be inadequate. More than 700 duplicate creditors were identified. There was no evidence of post set-up review to confirm that creditors are accurately set up on the JDE system and to confirm there are no duplicate creditors.</li> <li>• A debit balance of more than £3.3m was identified in the Sundry Creditors Account. Appropriate action needed to be taken to recover any funds outstanding.</li> <li>• The controls around preventing payments without purchase orders or vouchers were found to be inadequate.</li> </ul> <p>All findings and recommendations were agreed with the Service Head and reported to the Director of Resources.</p> <p><b>Management Comments</b></p> <p>The controls around setting up of creditors on JDE system will be addressed by implementing a QAS (address book software) system which should reduce the set up of duplicate creditors in JDE. The system will be implemented by December 2009.</p>	Extensive	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Systems Audit	July 2009	<p><b>Management Comments (cont.)</b></p> <p>To address the issue of debit balances on the creditors system, a number of companies have been identified using the framework supplied by Procurement to undertake this work. Interviews are being held the week commencing 14th September 2009 to discuss the project with two interested companies and it is hoped that one of the interested parties will commence work on this project at the end of September. This work is to identify what is actually owed to the council. Credit against current suppliers would be collected against any new invoices.</p> <p>The controls around preventing payments without a purchase order will be addressed by the Requisition to Pay (R2P) project currently in progress and the promotion of compliance by the procurement team over the coming months.</p>		

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Fostering Follow Up audit	July 2009	<p>This was a follow up audit on the full systems audit reported in August 2008. From our follow up review, we have found that of the two recommendations made in the original audit report, one which related to signing and dating of the Agreements had been progressed, although we have noted that agreements were being signed some time after the children had been placed and that in some cases there were facsimile signatures used. The second recommendation relating to ensuring that documentation existed to support that visits had been undertaken by Social Workers within the first week of placement had not been progressed well. We found cases where visits were not undertaken within the first week of placement and that where visits had been undertaken, these could not be verified as review agendas and minutes of the visits were not consistently recorded on the IT system. We recognise that the circumstances of the children under foster care are sometimes exceptionally complex which may lead to the adherence to timescales challenging. The Service Manager has assured Audit that although procedures were not complied with, the needs and welfare of the children were not compromised. Findings and recommendations were agreed with the Service Head.</p> <p><b>Management Comments</b> Following the audit, the requirements to undertake visits were reinforced with all managers, social workers and Independent Reviewing Officers. Clearly the audit found that in some cases these procedures were not complied with. These cases were investigated and management were satisfied that although procedures had not been followed there were operational reasons for this.</p>	Extensive	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Fostering Follow Up audit	July 2009	<p><b>Management Comments (cont.)</b></p> <p>However, management are satisfied that no child or young person had been left at risk due to the failure to meet procedures. Monitoring requirements by supervising managers and by Independent Reviewing Officers at statutory reviews have been strengthened.</p> <p>With respect to the signing of agreements, this now happens contemporaneously and they are then e-faxed to the agency as confirmation.</p>		

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contract Monitoring of the Corporate Photocopying Contract	July 2009	<p>The contract for provision and management of Multi-Functional Devices (MFDs - copiers, scanners, fax machines and printers) was awarded to Xerox with effect from 1<sup>st</sup> August 2007 for three years with an option to extend for one more year. The contract was procured by utilising the OGC Buying Solutions and was awarded after securing a competitive tender. However, at the time audit, a complete contract file was not available to carry out audit tests and accordingly we have recommended that Corporate Procurement should review their procedures for file maintenance.</p> <p>The successful contractor had identified efficiencies savings of £185,000 p.a. which equated to £555,000 over three years, by offering technological advancements to deliver copy, print, fax and scan functionality from a single device. However, to achieve this level of savings, 'SafeCom' software application needs to be installed to all the machines. Meetings have recently taken place with ICT, Xerox, procurement &amp; FM to investigate the "safecom" issue and a business case will be prepared.</p> <p>The Council's procurement procedures require a contract management regime covering areas such as performance management, relationship management and contract administration to be put in place for contracts over £25,000. Our review showed that these arrangements needed to be strengthened for effective monitoring of the contractor's performance. Moreover, the system for controlling variations and invoice payments to the contractor required to be made robust to manage the risk of error, omission and over payment. All findings and recommendations were agreed with the Service Head- Customer Access.</p>	£570K annual payment	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contract Monitoring of the Corporate Photocopying Contract	July 2009	<p><b>Management Comments</b></p> <p>The contract to Xerox was awarded on a price per page basis. The devices being supplied had far greater functionality than just photocopying and a further option was put forward to exploit this for which possible savings were identified of £185,000 p.a on efficiency savings, which equated to £555,000 over the life of the contract. Following agreement of audit recommendations, a pilot project has been set up. The pilot will be assessed in 2 phases with phase 1 showing how effectively Safecom secure printing to MFD's can phase out the existing HP printers. Phase 2, Paper River will offer consultation on how the system integrates into the LBTH business processes of Civica and Power Trim.</p> <p>Clear roles have been defined for Procurement and FM to monitor this contract, where FM will retain responsibility for invoicing. Procurement will take the role of performance monitoring and reviewing the contract award. The contract file has recently been updated to include a copy of the OGC contract and the OGC SLA.</p> <p>Monthly contract monitoring meetings have replaced the quarterly meetings and these are recorded and copies kept in Procurement &amp; FM</p> <p>All invoices are now checked by the billing specialist before arriving at LBTH and checked again within FM for accuracy. The quarterly updated asset list is used to determine each lease payment on each machine. In addition a list of service users has been provided to Xerox where they are contacted for accurate readings, leaving no estimated reads on the account.</p>		

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Mary and St Michael Primary School	July 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. The school's 2008/09 budget is £2.26m. The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• The Scheme of Delegations document although approved by the full Governing Body is still not fully adopted to the school. It was identified that the declarations of business interests had not been submitted by two governors.</li> <li>• The school's purchasing procedure required formal tenders to be obtained for all procurement over £5000. This is not deemed to be obtaining best value as tendering is an expensive process, although the school had not actually undergone the tendering procedure as required when selecting contractors/suppliers over £5000.</li> <li>• The school had not raised orders for procurement of services.</li> <li>• There was no evidence that starters and leavers notifications to HR providers were properly authorised as the school did not have copies of starter and leaver forms.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited



**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Elizabeth Catholic Primary School	July 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. The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Whilst minutes were produced for all Governing Body and Committee meetings, they did not adequately record the formal approval of a number of documents such as the Charging Policy, School Improvement Plan and the Pay Policy. The school did not hold signed copies of all committee meetings. Furthermore, discussions with the School's Business Manager confirmed that three high value virements which were initially approved by the Finance Committee were presented to the full Governing Body. However, this had not been minuted.</li> <li>• The declaration of business interest had not been obtained from all current governors.</li> <li>• The school needs to undertake an annual inventory check. Furthermore, improvements are necessary in the maintenance of the equipment loans register.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited

## APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lansbury Lawrence Primary School	June 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>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• The school had not undergone tendering procedures for purchases over £15,000 as specified in the approved Financial Procedures. Discussions with school staff confirmed that the school had used a supplier recommended by another school.</li> <li>• Official orders are not always raised for procurement of goods and services.</li> <li>• There is a difference of £50,647.65 between the school's accounting records and the LEA balance. It was explained that the LEA is aware of this discrepancy due to the school making payments on behalf of EAZ for which the school was not reimbursed. Audit was informed that the Interim Finance Manager from Education Finance Section had assured the school that the discrepancy would be resolved at the end of the financial year. This issue is raised in the Executive Summary of the Final Internal Audit Report although no formal recommendation was made given the action already agreed.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services</p>	Moderate	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Saviours CoE Primary School	July 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>he main findings are summarised below:</p> <ul style="list-style-type: none"> <li>▪ Whilst the Governors had authorised financial limits to the Head Teacher in the Governing Body minutes of 30 September 2008 they are not included in the official Scheme of Delegations. Furthermore, the Scheme of Delegations had delegated authorisation of orders to the Deputy Head Teacher, Finance Officer and Heads of Departments but no maximum limits had been specified.</li> <li>▪ The school's current bank mandate included a staff member who had not been authorised to sign bank documents in the Scheme of Delegations.</li> <li>▪ The school did not have a comprehensive charging policy at the time of the audit.</li> <li>▪ A staff member was identified as having been overpaid. These incorrect payments were not detected as the school did not undertake robust monthly payroll reconciliations.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Peter's Church of England Primary School	July 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>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Whilst the school's financial procedures manual details most roles within the school, it does not include the role of the administration assistant's financial responsibilities.</li> <li>• The current bank mandate included a staff member who had not been authorised to sign bank documents in the Financial Procedures Manual and also included a member of staff no longer employed by the school.</li> <li>• The school had not complied with the procedure for obtaining quotes for purchases over £5,000 as specified in the approved Financial Procedures.</li> <li>• New staff members had already started work in the school prior to receiving CRB clearance.</li> <li>• There was no cash book for recording income and expenditure for the school fund account. Further, there were no reconciliations completed and evidenced for the school fund account or the governors fund account to confirm accuracy of the funds.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services</p>	Moderate	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Woolmore Primary School	July 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>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>▪ The Scheme of Delegations document did not specify the maximum limits for authorisation of orders for the Deputy Head Teacher, Finance Officer and Heads of Departments.</li> <li>▪ The declaration of business interests had not been obtained from all current governors.</li> <li>▪ The school has not undertaken a recent annual inventory check. The current inventory records were only created in November 2008. Furthermore, control around equipment loans was inadequate. Details in the loan book were insufficient, some items loaned as far back as 2007 had not been returned to the school and there was no evidence that all loans of equipment were authorised prior to their removal from school premises.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Purchase and Utilisation of Transport Fuel Systems Audit	August 2009	<p>This audit examined the systems for purchasing and monitoring fuel usage for the Council's transport fleet. The procurement for fuel was undertaken in 2004 and the contract is controlled by the Transport Services Unit (TSU) of the CLC Directorate who has set out the procedural framework within which all Directorate employees should operate. The responsibility to purchase and monitor fuel rests with the individual Directorates. We found that overall, TSU had put some basic systems in place to control and monitor fuel costs and usage across the Council. Written procedures had been issued to all the clients and users. A system of Fuel Cards was in place and the name of each officer responsible for the fuel card together with the fleet number was recorded. Fuel utilisation monitoring reports highlighting vehicles with excess/abnormal fuel consumption were produced by TSU and distributed to line managers for investigation. Overall, there was basically a sound system at the TSU level and we provided an assurance level of 'substantial' at this level.</p> <p>However, we highlighted a number of non-compliance issues at individual Directorate level which can increase the risk of error, omission and irregularity. For example, receipts and vouchers were not checked against the monthly cost statements provided by TSU. The logs kept by line managers to record the issue of fuel cards to individual drivers were not adequately completed. Line managers in the audit sample were not checking the fuel utilisation monitoring reports hence no investigation was carried out of cases where excess/abnormal fuel utilisation was highlighted. We noted that weaknesses in the systems of control at Directorate level put the systems objectives at risk.</p> <p>All findings and recommendations were agreed by the Service Head – Public Realm.</p>	£250K p.a.	Limited

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Purchase and Utilisation of Transport Fuel Systems Audit		<p><b>Management Comments</b></p> <p>Improvements recommended in the audit report have been implemented within TSU. The Supervisor Handbook has been updated, including new fuel management arrangements, and has been circulated to all supervisors in the Council who manage vehicles. This Handbook has also been placed on the Transport Service's web-pages for download as required. A fuel usage register has been developed and has been attached to the Handbook to assist supervisors in reconciling fuel recharges against usage. In addition a new e-mail process has been implemented that provides fuel usage information monthly directly to each service supervisor operating vehicles. Some thirty five services in all Directorates operate Council vehicles in support of their services and therefore the key audit comments relating to non-compliance issues at individual Directorate level is an issue for individual Directorate Managers to deal with.</p>		

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Street Lighting</p> <p>Follow Up audit</p>	<p>Aug 2009</p>	<p>This was a follow up audit to the full audit carried out in September 2008. Our review showed that out of 7 recommendations within the original report, only one recommendation had been partially implemented. Of the remaining 6 outstanding recommendations, one recommendation was priority 1 recommendation and 5 were priority 2 recommendations which should have been implemented by March 2009.</p> <p>Our follow up review showed that the responsibility of scouting for faulty street lights had been passed from the in-house team to the contractor who carries out the repairs and maintenance works. However, a system for monitoring the contractor's scouting duties needed to be clarified to ensure that the arrangement provided good value for money. The system for updating the street lighting inventory was not fully implemented. Recommendations relating to the logging of requests for works by external agencies and members of the public, and for notification of completion of these works had not been implemented. All findings and recommendations were agreed with the Service Head – Public Realm.</p> <p><b>Management Comments</b></p> <p>The transfer of scouting from in-house staff to the contractor produced immediate cost savings in staffing alone and the system of monitoring has been kept under review whilst it was embedded. The changes to the number of faults detected and the speed of repair has continued to be continuously monitored to develop the most cost effective method of managing the scouting process, which once finalised will be documented as the final procedure but officers are not yet satisfied that the best system has been achieved.</p>	<p>Low</p>	<p>Limited</p>



APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Street Lighting</p> <p>Follow Up audit</p>	<p>Aug 2009</p>	<p><b>Management Comments (cont.)</b></p> <p>A web-based Asset Management System was commissioned in March which will provide the basis for continuous updating of the inventory. This system will go live on October 1<sup>st</sup>, following delays which were experienced in checking the base data on site.</p> <p>The notification of works completed is recorded for each task and monitored as part of local indicator (formerly BV ) 215a.</p> <p>An instruction to staff has been issued to log the source of requests for works on orders raised.</p>		

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Street Works</p> <p>Follow Up audit</p>	<p>Aug 2009</p>	<p>The New Roads and Street Works Act 1991 gives Street Authorities like LBTH, the power to inspect, investigate and report on undertakers' (mainly utility companies) works and reinstatements. This was a follow up audit to the full audit carried out in September 2008.</p> <p>Our follow-up review showed that out of 10 recommendations finally agreed for implementation, 3 recommendations were progressed. Of the remaining 7 recommendations still to be implemented, 3 were priority 1 and 4 were priority 2 recommendations. These related to issues like developing clear policy and procedures, having a risk assessment system to identify key areas of work for the Council, developing local performance indicators to assess the efficiency and effectiveness of the service and improving the budget setting for street works income. Overall, we were of the opinion that the control environment had not improved since the full audit. All findings and recommendations were agreed with the Service Head – Public Realm.</p> <p><b>Management Comments</b></p> <p>The majority of these recommendations related to having a clear policy and procedure in place. Officers were of the impression that the National Code of Practice provided that procedure and policy but the follow-up audit insisted that this be re-written to be specific to Tower Hamlets and this has been taken on board and is in hand along with the risk assessment.</p> <p>The budget setting for streetworks has been reviewed in detail but, despite concerted pressure at a London-wide level, the inability of utilities companies to give a robust plan of works more than 3 months ahead means that income cannot be reliably predicted against programmed works and has to take account of historic patterns.</p>	<p>Low</p>	<p>Limited</p>

**APPENDIX 2**

**Substantial Assurance**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Community Safety Projects Systems Audit	July 2009	<p>The main aim of this audit was to assure management that there were sound project management arrangements in place for the efficient and effective delivery of the Safe and Supportive Community themed priority of Tackling and Preventing Crime.</p> <p>The audit review showed that Project Management within the Community Safety Service was generally sound, particularly the Strategic and Management Information arrangements. The maintenance of project records and the payment process was also generally satisfactory. However, the following areas needed addressing:-</p> <ul style="list-style-type: none"> <li>• Updating and finalising the Project Management Framework document to ensure that all projects are managed in a standardised manner.</li> <li>• Ensuring that there are local working procedures throughout each Strategic Partnership group.</li> <li>• Ensuring that there are signed SLA's in place for all Projects.</li> </ul> <p>All findings and recommendations were agreed with the Service Head – Community Safety.</p>	£10.25M	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Anti-Social Behaviour Systems Audit</p>	<p>July 2009</p>	<p>The objective of this audit was to provide assurance that there were efficient and effective processes in place for the delivery of the Safe and Supportive Community themed priority of Tackling and Preventing Crime by employing a multi agency approach to prevent and manage nuisance and anti-social behaviour.</p> <p>The audit review showed that ASB Management within the Community Safety Service was generally sound. There was a robust commitment to address the concerns of local communities around anti-social behaviour and a clear thread running through the strategic and operational to enable effective delivery of the service. The management of ASB complaints were controlled adequately within the 'FLARE' computer system and tenant access for the reporting of complaints was varied and widely available. There was a comprehensive system in place for the monitoring and production of management information and for all stakeholders to be kept fully informed on the performance and management of ASB cases.</p> <p>However, our review showed that in 50% of the sample tested by audit, initial case reviews were not carried out within the stated target of 1 week, which can have an impact on the service's ability to meet their performance target. We also reported that the target completion of cases within 50 days was being achieved in 67% of cases against a target of 75%.</p> <p>All the findings and recommendations were agreed with the Service Head – Community Safety.</p>	<p>Extensive</p>	<p>Substantial</p>

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Systems Audit	July 2009	<p>The objective of the Authority's Pensions system is to ensure accurate pension payments to bone fide recipients through the provision of accurate and timely data to Payroll, enabling collection of contributions and payment of benefits for all Scheme members and complying with all relevant statutory obligations.</p> <p>The main issues are summarised below:</p> <ul style="list-style-type: none"> <li>• The employee contribution rate used to calculate the pension deductions was not in line with the pension scheme banding in 2 cases. i.e the contribution rate of 5.9% instead of 6.5% was applied to an employee earning £19,869. Both these members are <u>currently</u> paying the correct rate of contributions.</li> <li>• A reconciliation takes place between pension records maintained on the Pensions System (AXIS) and the pension transactions on the General Ledger (One World). Whilst it is the responsibility of the Principal Pensions Officer to undertake this reconciliation on a monthly basis, there was no evidence to confirm that this is signed off and independently reviewed.</li> </ul> <p>The findings and recommendations were agreed with the Pensions Manager, the Service Head and reported to the Director of Resources.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger Systems Audit	July 2009	<p>The objective of the Authority's General Ledger system is to ensure there are sound arrangements for the proper administration of the Authority's financial affairs and to ensure the accuracy of the General Ledger to ultimately present its financial accounts. Overall, we have found that adequate controls were in place. However, the following issues were highlighted:</p> <ul style="list-style-type: none"> <li>• There were a number of unidentified cash receipts that have not been cleared in a timely manner (since May 2005) to promote good systems management; in particular, there was an unidentified cash receipt of £95,000 that has not been cleared since June 2006.</li> <li>• Two journal entries were identified however without any narrative, and a further two journal entries that did not contain sufficient information (i.e. date, contact details of officer and/or purpose of journal).</li> </ul> <p>The findings and recommendations were agreed with the Service Head – Corporate Finance and reported to the Director of Resources</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation Follow Up Audit	Nov 2008	<p>This was a second follow up audit on the systems and controls for Bank Account Reconciliation. The original audit report was issued in March 2008 and the first follow up report was issued in December 2008 which reported that five of the six recommendations made in the original review had not yet been implemented.</p> <p>The second follow up audit reported the implementation of all the outstanding recommendations. Procedure notes for the reconciliation process had been prepared. A complete review of all the Council's subsidiary bank accounts and responsibility for bank account management had commenced. A system was put in place to ensure that all bank accounts were reconciled by Directorate Finance Managers and reported to the Corporate Director of Resources. Finally, the fidelity guarantee insurance cover had been reviewed and based on a clearly documented risk assessment system.</p> <p>All findings were agreed with the Head of Corporate Finance.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Implementation of the International Financial Reporting Standards	July 2009	<p>The objective of this audit was to assure management that there were adequate systems in place for the planning and implementation of the IFRS in order to fully capture the requirements of a future IFRS code of practice.</p> <p>Our review found that in preparation for the implementation of IFRS, a preliminary study was commissioned from Price Waterhouse Coopers. This study identified seven areas that would have most impact and put forward an action plan for conversion of the financial statements. Following this study, a Project was set up to steer the implementation of IFRS. A Project Initiation Document was prepared and approved. A project plan was prepared and clear reporting and governance structure was put in place.</p> <p>Our review has found that the Council is well placed through its structured and phased approach to implement IFRS, although the project is still at an early stage of its life cycle. We have noted that the progress in respect of Financial Instruments, Leases and PFI has been classified as high risk and hence these areas would have to be managed and monitored accordingly. We have recommended that in order to engage those charged with governance in the process more effectively, the IFRS timetable, approach and progress should be reported to Audit Committee on a regular basis.</p> <p>All findings and recommendations were agreed with the Head of Corporate Finance.</p>	Extensive	Substantial



**APPENDIX 2**

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Management of Corporate Complaints Follow Up	July 2009	<p>This was a follow up audit on the full systems audit reported in August 2008. From our follow up review, we have found that of the two recommendations made in the original audit report, one has been implemented and the second has been partially implemented. One recommendation relating to the importance of recording and issuing of acknowledgement letters to all complainants has been progressed. The second recommendation, relating to a system being established to report significant control failures and redressing actions to the relevant Directorate Management Teams and Service Heads has been progressed more recently. The link with Internal Audit to inform them of major service failures so that these risks can be programmed for full audit reviews has now been established.</p> <p>Findings and recommendations have been agreed with the Service Head – Customer Access.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Disaster Recovery Provisions	June 2009	<p>The objective of this audit was to identify the controls in place over Disaster Recovery Provisions. The Council has a contract for the provision of disaster recovery with ICM who provides off site recovery solutions in the event of failure within LBTH IT environment. Following issues were raised:</p> <ul style="list-style-type: none"> <li>▪ Communication regarding the Disaster Recovery Plan and arrangements is performed to all key staff. Consistent escalation procedures are documented within the DR documentation, the Emergency procedures and the Out of Hours contact list. Results of disaster recovery tests are formally documented, indicating issues encountered and the actions taken to resolve these. These results should then be reported to all pertinent stakeholders.</li> <li>▪ Consistent system recovery time objectives are documented within the Disaster Recovery and Business Continuity Plans and that these objectives meet the requirements of the business.</li> <li>▪ Procedures and solutions are in place for the continuity and recovery of the voice communication networks.</li> <li>▪ The backup tape rotation cycle documented within the Disaster Recovery Plan is accurate and up-to-date. The WAN connection between ICM and the Council is tested on a periodic basis.</li> <li>▪ Contact details are obtained and documented for all ICT third parties and that these are maintained up to date within the Disaster Recovery plan and Emergency Procedures.</li> <li>▪ The Disaster Recovery Plan is reviewed and updated on a periodic basis and that evidence of these reviews is maintained. The updated plan is distributed to all relevant staff on a timely basis. Any outdated plans should be deleted or destroyed or if maintained clearly marked as out dated. Furthermore, the latest version of the plan should be available offsite.</li> </ul> <p>All Findings and recommendations were agreed with the Service Head ICT.</p>	Extensive	Substantial

**APPENDIX 2**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Server Virtualisation	June 2009	<p>The objective of this audit was to assess the procedures and controls in place and applied within the Internal ICT virtual server consolidation initiative. The audit work evaluated Project and Risk Management Controls, Server Topology Design and Resilience and Server Availability and Management Monitoring. At the time of the audit the Council was in the process of expanding the virtual server environment to address the increasing capacity demands for virtual server resources across the Council's existing server environment.</p> <p>The Audit report made 5 recommendations which were all agreed with the ICT Departmental Management Team.</p> <p>Recommendations were made to establish a clearly defined system risk register that assigns owners to risks within the Server Virtualisation process and carry out a formal Post Implementation Review (PIR) to assess the extent to which success criteria and benefits have been realised by the server consolidation initiative. The PIR should also assess the extent to which the initiative should be expanded and monitored for return on investment for future developments. Furthermore, future developments in the Virtual Server are managed according to a defined project structure.</p> <p>Recommendations were also made to ensure the virtual server system documentation is updated to reflect the changes made in the recent system upgrade, server capacity requirements are defined and both existing and future capacity capability measured against them for management of the Virtual Server environment and the virtual network security monitoring arrangements should be established in relation to the best practice guidance.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Strategic Management of SLAs Systems Audit	Aug 2009	<p>The objective of this audit was to provide assurance that systems put in place by THH for reviewing and managing SLAs with LBTH are sound and secure, so that these arrangements assist THH in the effective achievement of its policies</p> <p>Our review found that THH have developed a methodology for reviewing SLAs in a strategic manner. In addition, THH have developed their own Performance Management Framework Policy that covers SLAs. The policy includes performance monitoring arrangements and the criteria for prioritising SLA's for review. However, at the time of audit, there was an absence of detailed procedural manual to guide officers through the SLA review process. We also noted that in a number of SLAs, performance standards and performance indicators had not been clearly established. We have recommended that THH management should ensure that there are sufficient resources made available to enable the current programme of in-depth service reviews to be completed on schedule.</p> <p>All findings and recommendations were agreed with the Director of Resources.</p>	£9M	Substantial

**APPENDIX 2**

Title	Date of Report	Comment Comments / Findings	Scale of Service	Assurance Level
Scheme of Delegation Systems Audit	June 2009	<p>This audit established that all the Directorates of the Council maintain a directorate scheme of delegation setting out all such delegations and have supplied the Council's Monitoring Officer with a copy of such delegations. The main objective of the audit was to assure management that statutory requirements were being met and that there was a clear documented base for the necessary discharge of Council functions.</p> <p>Our review found that the majority of the Directorates had submitted their Schemes of Delegation to the Monitoring Officer for approval and were ready for inclusion into the Council's Constitution. The Scheme for Communities, Localities Culture (CLC) Directorate was nearing completion stage apart from a small number of insertions. Our examination of the completed Schemes of Delegation showed that each had a clearly laid out list of officers, officer responsibilities and Council functions which were being delegated. However, the Scheme of Delegation for Adults Health &amp; Wellbeing (AHW) Directorate was still not in place. From the correspondence examined by audit, it appeared that work had been progressing on producing a new Scheme since October 2008 and that a target date for submission was given as May/June 2009 which will be monitored by the Assistant Chief Executive – Legal Services.</p> <p>All findings and recommendations were agreed with the Assistant Chief Executive – Legal Services.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Communication Strategy Follow Up audit	Aug 2009	<p>This was a follow up audit to the full audit reported in January 2009. The review found that of the seven recommendations made in the original audit report, 6 had been progressed. Communications protocol had been updated and issued to Directorate staff when necessary. The 2009/10 Team Plan had been drafted, but needed to be finalised and signed off by the Assistance Chief Executive (ACE). An action plan had been agreed for internal communications. A proposal was developed to address the budgetary shortfall in the staffing budget and a growth bid was proposed so that the budgetary position can be regularised from 2010/2011. We have also noted that Resources Directorate (Revenue Services) was requested by Communications to arrange Direct Debit payments for securing timely payments by external commercial advertisers, but this has still not been progressed. The one outstanding recommendation relating to basic training being provided to all budget holders.</p> <p>All findings and recommendations were agreed with the Service Head – Communications Services and reported to the Assistant Chief Executive.</p>	Extensive	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Canary Wharf Idea Stores Follow Up audit	June 2009	<p>This was a follow up audit to the full audit carried out in November 2008. Our review showed that out of 21 recommendations made within the original report 17 had been implemented. Overall, it appeared that progress had been made by IDEA Stores Officers in addressing the weaknesses identified in the Audit reports. However, we recommended the IDEA Store Manager should continue to monitor the collection and banking of cash income. There were other minor issues that still require to be addressed, for example Finance / Budget surgery meetings needed to have minutes that were agreed and actions followed up at the next meeting. The IDEA Stores needed to have in place an acceptable User Policy for Public Access to ICT resources, and inventory control required to be made more robust.</p> <p>All findings and recommendations were agreed with the Head of Idea Stores.</p>	Moderate	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Acolaid Application Audit	May 2009	<p>The objective of this audit was to identify the controls that the Council has put in place for the management of the Acolaid Application. The Acolaid application comprises of a suite of fully integrated modules that cover core property based services such as Environmental Health, Planning, Land Charges and Building Control and is managed within the Development and Resource Directorate of the Council.</p> <p>The Audit report made 10 recommendations which were all agreed with the ICT Departmental Management Team.</p> <p>Access Controls - Recommendations were made to establish procedures to ensure leaver accounts are deactivated from the Acolaid system in a timely manner, user accounts are assigned to named individuals, strong logical access controls are implemented, security violations are reported &amp; monitored on a regular basis and unsuccessful logon attempts are restricted, requiring the System Administrator to re-enable the account prior to system access being obtained.</p> <p>Recommendations were also raised in relation to data input controls being in place to ensure that data input is complete, accurate and reliable and data input being checked regularly to ensure data quality is maintained.</p> <p>Audit trails that include the username and date/time stamp for the creation, amendment, deletion and viewing of key data within the system should also be available.</p> <p>Recommendations were also raised to ensure disaster recovery planning and testing is undertaken and that Patches and Updates from the supplier are implemented in a timely manner to ensure the latest version of the application is running.</p>	Moderate	Substantial



**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Welfare Catering Follow Up audit	May 2009	<p>This was a follow up audit to the full audit carried out in November 2008. Our review showed that out of 15 recommendations made within the original report 13 had been implemented. Our review showed that good progress had been made by Contract Services in addressing the weaknesses identified in the original Audit work. Further work is in progress to ensure that responsible officers involved in the collection of income are given suitable training and provided with an operational procedure guidance note tailored to the services needs. However, we have reported that the outstanding income from the CLC Directorate amounting to some £12k needed to be recovered promptly.</p> <p>All findings and recommendations were agreed with the Head of Contract Services and Service Head Resources.</p>	Moderate	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Home to School Transport for Students with Special Educational Needs</p> <p>Follow up audit</p>		<p>This was a follow up audit to the full audit carried out in November 2008. Our review showed that 2 of the 5 previous recommendations had been implemented both by Children's Services and By the Transport Services Unit. The remaining 3 recommendations had been delayed due to the Transport Service Review now being proposed for September 2009, and the resultant appointment of a dedicated officer to progress these recommendations. In view of this, we have assigned an assurance level of Substantial to this audit, subject to a second Follow Up being undertaken in December 2009.</p> <p>All findings were agreed with the Service Head – Public Realm</p>	Moderate	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ben Jonson School	June 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. The school's 2008/09 budget is £2.6m.</p> <p>Eight recommendations were made as a result of the audit including one priority 1 recommendation. The main issues are summarised below:</p> <ul style="list-style-type: none"> <li>• There are some orders placed by members of staff by-passing the Business Manager who is responsible for issuing official orders.</li> <li>• Whilst the school has formulated a Pay Policy there was no evidence that the Governing Body had reviewed and approved this.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sir William Burrough Primary School	June 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>The main issues are summarised below:</p> <ul style="list-style-type: none"> <li>• Sound controls have been established to control and monitor the school's disbursement account. However, it was established that banking of income into the school bank accounts was not always undertaken in a timely manner which resulted in having large amounts of cash on school property.</li> <li>• The school's income collection procedures for breakfast and tea time clubs were found to be inadequate.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services</p>	Moderate	Substantial

**APPENDIX 2**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Elizabeth Selby Infant School	July 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>The main issues are summarised below:</p> <ul style="list-style-type: none"> <li>• A new staff member had already started work in the school prior to receiving CRB clearance</li> <li>• Asset control is weakened by not undertaking an annual check of inventory items.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Substantial

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marnier School Current Contract Audit	June 2009	<p>The objective of this contract audit was to assure management that the systems in place for making interim payments; for controlling and issuing variation orders; for receiving and evaluating claims; and for monitoring cost and work programmes for the contract are sound and secure.</p> <p>Generally the controls in place for procuring works, managing the works programme, making payments and controlling variations were sound. The contract estimate was within 10% of the tender sum. Health &amp; Safety requirements were in accordance with Construction Design and Management Regulations. However, the review highlighted weaknesses in cost reporting and securing the contract bond and deed.</p> <p>All findings and recommendations were agreed with the Service Head – Resources.</p>	£500K	Substantial

**Audit Plan 2009/10****Work in progress**

<b>Audit Activity</b>	<b>Audit status</b>
<b>Corporate Systems and Council-wide Reviews</b>	
Procurement of Mobile Phones	Draft Report
BV Performance Indicators	Draft Report
Management of Climate Change	Audit brief
Council Wide Debt Management	Audit brief
<b>Assistant Chief Executive's</b>	
Charges of Property	Draft report
Legal Services Planning Meetings	Draft Report
Communication Strategy - FU	Draft report
<b>Children's, Schools and Families</b>	
Child Protection	Field work
Social Care Commissioning	Exit meeting
Management and control of surplus balances	Field work
<b>CLC</b>	
Control and Monitoring of on-street parking income	Draft Report
Management and control of Blue Badges systems audit	Draft Report
Waste Disposal – Contract Monitoring FU	Draft Report
Household Recycling Contract Monitoring	Exit meeting
Management of Highways Programme	Field work
Governance of Local Strategic Partnership	Field work
<b>Development and Renewal</b>	
S 106 planning obligations – FU	Field work

<b>Audit Activity</b>	<b>Audit status</b>
Management of Commercial Property portfolio - FU	Draft Report
Client Monitoring of THH	Draft Report
<b>Tower Hamlets Homes</b>	
Major Works	Draft report
Management of Voids - FU	Draft report
Kerry House – Central Heating works, Current Contract Audit	Draft report
Gas repairs and maintenance – FU audit	Draft Report
RTB – FU audit	Field work
Grounds Maintenance – Contract Monitoring FU	Field work
Installation of Aerials – Contract Audit	Field work
Unauthorised Occupants	Field Works
Financial Systems	Field work
<b>Adult, Health and Wellbeing</b>	
Income control and monitoring	Draft report
<b>Resources</b>	
Parking permits	Draft report
Control and use of minicabs by staff	Field work



<b>COMMITTEE</b> <b>AUDIT COMMITTEE</b>	<b>DATE</b> 29 <sup>th</sup> September 2009	<b>CLASSIFICATION</b> Unrestricted	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>CORPORATE DIRECTOR, RESOURCES</b>  ORIGINATING OFFICER(S): Gary Moss – Interim Chief Accountant Alan Finch – Service Head, Corporate Finance		<b>TITLE:</b> <b>Revised Statement of Accounts 2008-09</b>  Ward(s) affected:           N/A		

## 1. SUMMARY

- 1.1 This report presents amendments to the Authority’s draft Statement of Accounts for the financial year ended 31<sup>st</sup> March 2009, following audit.

## 2. RECOMMENDATIONS

- 2.1 Audit Committee is recommended to note the amendments to the draft Statement of Accounts previously approved, and the revised Statement of Accounts presented.

## 3. BACKGROUND

- 3.1 The Committee approved the draft Statement of Accounts on 29<sup>th</sup> June 2009, subject to audit.
- 3.2 Legislation requires that any material amendment to the approved draft Statement of Accounts must be reported to the Committee as soon as reasonably practical.

## 4. AMENDMENTS TO THE DRAFT STATEMENT OF ACCOUNTS

- 4.1 Although there have only been three material amendments to the draft Statement of Accounts since Committee approval, the opportunity has been taken to revise the Statement of Accounts to reflect other changes agreed with the auditors. These include some presentational issues and additional disclosures, by way of notes, in the Pension Fund accounts.
- 4.2 It should be noted that all of the amendments are of a technical nature and that none of the amendments affect the Council’s financial position nor its financial plans. The amendment to the Pension Fund accounts does not affect the assets nor liabilities of the fund.

- 4.3 A schedule of the significant amendments is attached to the report as Appendix 1 (to follow). A revised Statement of Accounts is attached as Appendix 2 (to follow).

## **5. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 5.1 The comments of the Chief Financial Officer are incorporated within this report of which he is the author.

## **6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)**

- 6.1 The Committee is asked to note changes made to the statement of accounts.
- 6.2 The Council is required under the Accounts and Audit Regulations 2003 to prepare a statement of accounts.
- 6.3 Where any material amendment is made to the statement of accounts, the responsible financial officer is required, as soon as reasonably practical, to report such amendment to the Committee which approved the accounts. This is the function of the Audit Committee under the Council's Constitution.

## **7. ONE TOWER HAMLETS**

- 7.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 7.2 The statements are published on the Council's website both in draft and in audited form. Interested parties had the right to inspect the accounts during the audit and local electors the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

## **8. RISK MANAGEMENT IMPLICATIONS**

- 8.1 There are no specific risk management implications.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 9.1 There are no SAGE implications arising out of this report.

## **10. ANTI-POVERTY CONSIDERATIONS**

- 10.1 There are no specific anti-poverty implications arising out of this report.

## **11. APPENDICES**

- 11.1 **Appendix 1** – Schedule of amendments to the draft Statement of Accounts.
- 11.2 **Appendix 2** – Revised Statement of Accounts

---

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

---

*Brief description of "background papers"*

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

*Closure of Accounts working papers  
Accounts & Audit Regulations 2003 as  
amended  
Capital working papers*

*Gary Moss Ext. 4223*

*Gary Moss Ext. 4223  
Ekbal Hussain Ext. 4737*

This page is intentionally left blank

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	<b>29 June 2009</b>			
REPORT OF:		Annual Fraud Report 2008/09		
ORIGINATING OFFICER(S):		<b><i>Ward(s) Affected: N/A</i></b>		
<b><i>Service Head Risk Management</i></b>				

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

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	
<b><u>110</u></b>		

<b>LBTH Re-active</b>		
<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
<b>369</b>		
<b>479</b>	<b>Total days</b>	

<b><u>APPENDIX B</u></b>		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>

# Agenda Item 76

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

## 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

<b>1. ADOPTING THE RIGHT STRATEGY</b>					
Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to enhance compliance	
1.1	<b>Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the organisation's overall strategic objectives?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy with links to overall governance arrangements</li> <li>• Annual Fraud Plan which is also reported to the Audit Committee</li> <li>• Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> <li>• Monthly meetings between the Monitoring Officer and Head of Audit Services</li> <li>• Anti Fraud and Corruption Strategy</li> </ul>	Y	Revisions to be made to the Strategy and updated on Intranet and Internet by September 2009.	
1.2	<b>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?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> </ul>	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	<b>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)?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> <li>• Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> <li>• Anti fraud and corruption clause in Council contracts</li> <li>• Ethical Governance Protocol for Council contracts</li> <li>• Financial Regulation CR6 Preventing Fraud and Corruption</li> <li>• Sanctions Policy</li> </ul>	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	<b>Is the full range of integrated action being taken forward or does the organisation 'pick and choose'?</b>	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	<b>Does the organisation focus on outcomes (i.e. reduced losses and not just activity (i.e. the number of investigations, prosecutions, etc.)?</b>	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	<b>Has the strategy been directly agreed by those with political and executive authority for the organisation?</b>	The revised Anti Fraud and Corruption Strategy was approved by the Audit Committee on 30 <sup>th</sup> 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"> <li>Corporate Fraud Risk Register (TQ to provide)</li> <li>Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> </ul>	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"> <li>Anti Fraud and Corruption Strategy which includes a definition of fraud</li> <li>Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> <li>Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> </ul>	Partial	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.	
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"> <li>Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> <li>Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> </ul>	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. Corporate Anti Fraud should consider setting up a system to record losses to fraud and corruption	

### 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	<b>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?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Constitution</li> <li>• Scheme of Management</li> <li>• Financial Regulation CR6 - Preventing Fraud and Corruption</li> </ul>	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	<b>Is there strong political and executive support for work to counter fraud and corruption?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> <li>• Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> <li>• Statements by the Lead Member Resources &amp; Performance (ELA Article 02/10/08)</li> </ul>	Y	Consider issuing a joint statement from the Leader of the Council and the Chief Executive.
3.3	<b>Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?</b>	<ul style="list-style-type: none"> <li>• Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee</li> </ul>	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	<b>Are all those working to counter fraud and corruption professionally trained and accredited for their role?</b>	<ul style="list-style-type: none"> <li>• Benefits, and Parking Services officers PINS accredited</li> <li>• Qualified Trading Standards Officers</li> <li>• Head of Audit Services is a certified fraud examiner</li> <li>• Ad hoc other training – e.g. witness training for those giving evidence in criminal proceedings</li> </ul>	N	The Head of Audit Services to identify services with profession skills gaps and recommend and develop relevant training.
3.5	<b>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?</b>	<ul style="list-style-type: none"> <li>• PDR Process</li> <li>• Fraud circulars</li> <li>• Refresher courses</li> <li>• London Borough Fraud Investigation Group</li> </ul>	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	<b>Are all those working to counter fraud and corruption undertaking this work in accordance with a clear ethical framework and standards of personal conduct?</b>	<ul style="list-style-type: none"> <li>• Employees' Code of Conduct</li> <li>• Audit Manual</li> <li>• Fraud investigation policy code of conduct</li> </ul>	Y	
3.7	<b>Is there an effective propriety checking process?</b>	<ul style="list-style-type: none"> <li>• At present CRB checks only are obtained for specific services and corporate anti fraud staff</li> </ul>	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	<p><b>Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented?</b></p> <p><b>Are framework agreements in place to work with other organisations and agencies?</b></p>	<ul style="list-style-type: none"> <li>• See compliance and recommendations for 3.7 above</li> <li>• 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.</li> </ul>	Partial	Agreements should be developed with the police and NHS as a minimum and approved by the Forum as soon as possible.
3.10	<p><b>Are the framework agreements focused on the practicalities of common work?</b></p> <p><b>Are there regular meetings to implement and update these arrangements?</b></p>	<ul style="list-style-type: none"> <li>• See compliance and recommendations for 3.9 above</li> </ul>	Partial	
3.11	<p><b>Are there regular meetings to implement and update these arrangements?</b></p>	<ul style="list-style-type: none"> <li>• See compliance and recommendations for 3.9 above.</li> </ul>	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"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Annual Fraud Plan which is also reported to the Audit Committee</li> <li>• Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> <li>• Ethical Governance Protocol for Council contracts</li> <li>• Financial Regulation CR6 - Preventing Fraud and Corruption</li> <li>• Sanctions Policy</li> <li>• Audit Manual (TQ to provide relevant extract)</li> <li>• Anti Fraud Forum</li> <li>• CRB Checks</li> <li>• Constitution</li> <li>• Scheme of Management</li> </ul>	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"> <li>• Anti Fraud and Corruption Strategy including whistle blowing arrangements</li> <li>• Confidential Whistle Blowing hotline</li> <li>• Annual Fraud Plan which is also reported to the Audit Committee</li> <li>• Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> <li>• Statements by the Lead Member Resources &amp; Performance (ELA Article 02/10/08)</li> <li>• In your best interests! Pulling Together Article – October 2008</li> <li>• Beat the cheats adverts (TQ to confirm publication details)</li> <li>• E-Learning</li> </ul>	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	<b>Does the organisation have a clear programme of publicity to counter fraud and corruption?</b>	<ul style="list-style-type: none"> <li>• Statements by the Lead Member Resources &amp; Performance (ELA Article 02/10/08)</li> <li>• In your best interests! Pulling Together Article – October 2008</li> <li>• Beat the cheats adverts (TQ to confirm publication details)</li> <li>• Intranet postings</li> <li>• Pay slip notifications</li> </ul>	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	<b>Has the organisation successfully published work in this area?</b>	See compliance and recommendations for 4.9 above.	Partial	
4.11	<b>Has the publicity been targeted at the greatest fraud losses?</b>	See compliance and recommendations for 4.9 above.	Partial	
4.12	<b>Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?</b>	Review of key projects in advance of contract award: <ul style="list-style-type: none"> <li>➢ Purchase Cards</li> <li>➢ Commensura</li> <li>➢ SX3</li> </ul>	Y	
4.13	<b>Do concluding reports on investigations include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place?</b>	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	<b>Is there a system in place for considering and prioritising action to remove identified weaknesses?</b>	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	<b>there effective whistle blowing arrangements in place?</b>	<p>Anti Fraud and Corruption Strategy including whistle blowing arrangements Telephone survey on awareness of strategy – March 2008</p> <ul style="list-style-type: none"> <li>• Confidential Whistle Blowing hotline</li> <li>• Beat the cheats adverts joint publication with Benefits Fraud</li> <li>• Intranet postings</li> <li>• Pay slip notifications</li> <li>• Benefits and Parking officers PINS accredited</li> <li>• Head of Audit Services is a certified fraud examiner</li> <li>• Ad hoc other training – e.g. witness training for those giving evidence in criminal proceedings</li> </ul>	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	<b>Are analytical intelligence techniques used to identify potential fraud and corruption?</b>	National Fraud Initiatives and reactive/proactive IDEA data matching	Y	
4.17	<b>Are there effective arrangements for collating, sharing and analysing intelligence?</b>	<ul style="list-style-type: none"> <li>• Each Fraud Service has it's own data case handling systems</li> <li>• 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</li> </ul>	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	<b>Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Financial Regulations</li> <li>• Internal information exchange</li> <li>• Employee Code of Conduct</li> <li>• NFI notifications and consultation</li> </ul>	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	<b>Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated?</b>	<ul style="list-style-type: none"> <li>• Audit Manual</li> <li>• NFI targets</li> <li>• Whistle-blowing time frames</li> <li>• Benefits time frames within key work objectives</li> </ul>	Y	
4.20	<b>Are proactive exercises undertaken in key areas of risk or known system weaknesses?</b>	<ul style="list-style-type: none"> <li>• Fraud Risk Register</li> <li>• Annual Fraud Plan</li> </ul>	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	<b>Is the organisation's investigation work effective?</b>	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"> <li>• Audit Manual</li> <li>• Fraud investigation policy code of conduct</li> </ul>	N	These arrangements should be implemented and the outcome reported to the Audit Committee and relevant stakeholders.
4.22	<b>Is it carried out in accordance with clear guidance?</b>	<ul style="list-style-type: none"> <li>• Anti Fraud and Corruption Strategy</li> <li>• Constitution</li> <li>• Scheme of Management</li> <li>• Financial Regulation CR6 - Preventing Fraud and Corruption</li> <li>• RIPA and PACE authorised officers (TQ to confirm)</li> </ul>	Partial	Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes.
4.23	<b>Do those undertaking investigations have the necessary powers, both in law and where necessary, within the organisation?</b>	<ul style="list-style-type: none"> <li>• NFI Monitoring by the audit commission</li> <li>• Benefits time frames within key work objectives</li> <li>• Whistle blowing reporting</li> <li>• Reporting to Audit Committee</li> </ul>	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	<b>Are referrals handled and investigations undertaken in a timely manner?</b>	<ul style="list-style-type: none"> <li>• Deloitte's periodic external audits</li> </ul>	Partial	Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes.
4.25	<b>Does the organisation have arrangements in place for assessing the effectiveness of investigations?</b>	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	<b>Does the organisation have a clear and consistent policy on the application of sanctions where fraud and corruption is proven to be present?</b>		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	<b>Are all possible sanctions disciplinary/regulatory, civil and criminal considered?</b>	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	<b>Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available?</b>	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	<b>Does the organisation monitor the extent to which the application of sanctions is successful?</b>	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	<b>Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?</b>	There is no current policy.	N	Revisions to the Sanctions Policy should include the addition of a recovery of losses policy.
4.31	<b>Is the organisation effective in recovering any losses incurred by fraud and corruption?</b>	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	<b>Does the organisation use the criminal and civil law to the full in recovering losses?</b>	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	<b>Does the organisation monitor proceedings for the recovery of losses?</b>	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	<b>What is the organisation's successful recovery rate?</b>	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	<b>Are there clear outcomes described for work to counter fraud and corruption?</b>	<ul style="list-style-type: none"> <li>Red Book Review</li> <li>Annual Fraud Plan which is also reported to the Audit Committee</li> <li>Annual Anti Fraud Report to the Audit Committee and Standards Committee</li> </ul>	Partial
5.2	<b>Do the desired outcomes relate to the actual sums lost to and harm caused by fraud and corruption?</b>	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.



# Agenda Item 77

COMMITTEE: <b>Audit Committee</b>	DATE: <b>29<sup>th</sup> September 2009</b>	CLASSIFICATION: <b>Unrestricted</b>	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director of Resources</b>	TITLE: <b>Treasury Activity for Period Ending 31<sup>st</sup> May 2009</b>			
ORIGINATING OFFICER(S): <b>Alan Finch</b>	Ward(s) affected: N/A			

## **1. SUMMARY**

- 1.1 The Audit Commission have issued a report on Local Authorities investments in Icelandic Banks and made a number of recommendations to prevent a recurrence of the situation.
- 1.2 This Council did not at any time have any direct exposure to Icelandic Banks and a high proportion of the recommendations which principally relate to ensuring that existing best practices are applied are not relevant for this Council.
- 1.3 The report does however recommend that elected Members should be involved in the risk assessment process, to scrutinise the treasury policy and to receive regular updates on the risk profile of the treasury portfolio.
- 1.4 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

## **2. RECOMMENDATIONS**

- 2.1 Members are recommended to note the contents of this report.

### **3. BACKGROUND**

- 3.1 The Audit Commission have issued a report on Local Authorities investments in Icelandic Banks which makes a number of recommendations to prevent a recurrence.
- 3.2 The recommendations principally relate to ensuring that existing best practice is adhered to and this Council already complies with the majority of these.
- 3.3 The Commission have however recommended a strengthening of the reporting arrangements for elected members and in particular the need for them to be involved in the risk assessment process, to scrutinise the treasury policy and to receive regular updates on the risk profile of the treasury portfolio.
- 3.4 This report addresses these issues and details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

### **4 THE AUDIT COMMISSION REPORT**

- 4.1 The Audit Commission have issued a report on the investments by English local authorities in failed Icelandic banks.
- 4.2 The report indicated that 127 Councils had deposits in failed Icelandic banks with a total value of £954 million. In addition there were a number of other public sector bodies which had exposure to the failed banks.
- 4.3 The Commission concluded that the situation had a number of implications for the participants in Councils treasury activities which may be summarised as follows:
  - **Central Government:** Provide a secure deposit facility for public bodies and review the provisions relating to early repayment of debt.
  - **The Chartered Institute of Public Finance and Accountancy (CIPFA):** revise and strengthen the Code of Practice on Treasury Management to address the Icelandic situation and develop training and information sharing for Councils.
  - **Local Authorities:** Set explicit risk parameters for treasury policy, establish adequate monitoring arrangements to involve elected members in risk assessment, ensure members and officers receive appropriate training and that treasury is adequately resourced, consider shared services for treasury activities, control external advisors and use the fullest range of information when depositing funds.
  - **Audit Commission:** Work with CIPFA to strengthen treasury control framework and follow up report as part of use of resources work for 2008/09 and future years.
- 4.4 A preliminary assessment of the implications of the immediate proposals for this Council are that they have limited applicability apart from recommendation to involve Members directly in risk assessment. This is however subject to any detailed proposals resulting from the CIPFA review of the Treasury Code of Practice.

- 4.5 Currently member involvement in the treasury process is limited to approving the statutory Investment Strategy as part of the annual budget setting process and considering the treasury outturn report at the end of the financial year.
- 4.6 To comply with the Audit Commission proposals it is necessary to provide a regular monitoring report which “ensures that treasury management policies follow the revised CIPFA code of practice, are scrutinised in detail by a specialist committee, usually the audit committee and are monitored regularly”.
- 4.7 CIPFA and the Audit Commission have not yet completed the review of the Treasury Code and proposals for the format of the monitoring report may emanate from this exercise. Any such proposals will be incorporated into subsequent reports.

## **5. TREASURY ACTIVITY FOR PERIOD 1<sup>ST</sup> APRIL to 31<sup>ST</sup> MAY 2009.**

- 5.1 This section of the report sets out:
- The current credit criteria being operated by the Council.
  - The treasury strategy for the current financial year and the progress in implementing this.
  - The transactions undertaken in the period and the investment portfolio outstanding as at 31<sup>st</sup> May 2009.

## **5 CREDIT CRITERIA**

- 6.1 The credit criteria for investment counterparties were established by the Council in February 2009 as part of the budget setting exercise.

Table 1: Credit Rating Requirements

	UK Institutions Up to £25 Million	UK Institutions Up to £10 Million	Overseas Institutions Up to £10 million
Short term	F1+	F1+	F1+
Long term	AA-	AA-	AA-
Individual	B	BC	AB
Support	2	3	2

- 6.2 In response to the current instability in capital markets and the banking sector the Corporate Director of Resources has restricted the approved investment list to institutions which have guaranteed support from

national governments who are assessed by the rating agencies as having the financial capacity to provide such support.

Table 2: Lending List

Institution	Country of Incorporation	Active in Market
Australia and New Zealand Banking Group Ltd	Australia	N
Commonwealth Bank of Australia	Australia	N
National Australia Bank Ltd	Australia	Y
Westpac Banking Corporation	Australia	N
Dexia Bank Belgium	Belgium	Y
Oversea-Chinese Banking Corporation Ltd	China	N
United Overseas Bank Ltd	China	N
DBS Bank Ltd	Singapore	N
Abbey National plc	UK	Y
Bank of Scotland plc	UK	Y
Barclays Bank plc	UK	Y
HSBC Bank plc	UK	N
Lloyds TSB Bank plc	UK	Y
National Westminster Bank	UK	Y
Nationwide BS	UK	Y
Royal Bank of Scotland	UK	Y

- 6.3 A number of governments had introduced similar measures notably Ireland but the rating agencies are not satisfied that the national government has the financial capacity to provide the necessary support.

## **6 INVESTMENT STRATEGY**

- 7.1 Sector were appointed on a trial basis in February 2009 to provide a Cash Management Service for the Council. This encompassed developing and implementing an investment strategy within risk parameters specified by the Council and negotiating terms with counterparties for the short term deposits of funds.
- 7.2 These functions were previously undertaken in-house but the Corporate Director of Resources considered it to be appropriate to trial external provision for the following reasons:
- To determine if there was scope to obtain higher returns on cash balances without increasing the associated risk.
  - To establish if the information flows on credit risk improve as a result of Sectors higher level of involvement in the market.
  - To provide a more structured approach to treasury strategy and risk assessment.
  - To achieve efficiency savings.
- 7.3 It should be emphasised that the Council retains control of the credit criteria and the investments. Sector's role is purely advisory.
- 7.4 Sector's interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until an

increase of 0.5% in September 2010. Against this macro-economic perspective Sector have developed a strategy which delivers enhanced performance through maximising the investment term of the portfolio. This will enable the portfolio to obtain exposure to the higher rates associated with investment in the longer terms. Restricting the maximum term to one year will also enable investments to mature before the anticipated increase in rates in 2010.

- 7.5 Sector have calculated that the Council on the basis of cashflow projections will have an effective investment balance of £100million for 2009/10. The investment strategy within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Table 3 Investment Strategy

Term	Projection		Actual Deal			
	Amount	Rate	Counterparty	Maturity Date	Amount	Rate
	£M	%			£M	%
Overnight	15	0.75%	Abbey National plc	Call	10	
			National Australia Bank Ltd	Call	5	
			Alliance & Leicester	Call	10	
			Bank of Scotland plc	Call	5	
1 month	5	0.70%				
2 months	10	1.30%	Dexia Bank Belgium - London Branch	15 Jul 2009	10	1.10%
3 Months	30	1.30%	The Royal Bank of Scotland PLC	15 Jul 2009	10	1.40%
			Nationwide	21 Aug 2009	10	1.30%
			Dexia Bank Belgium - London Branch	27 Jul 2009	10	1.40%
6 Months	5	1.60%				
9 Months	10	1.70%	Barclays Bank PLC	11 Feb 2010	5	1.80%
12 Months	25	2.00%	Barclays Bank PLC	27 Apr 2010	10	2.15%
			Cater Allen (Abbey)	14 May 2010	5	3.00%
	<hr/>				<hr/>	
	£100				£90	

- 7.6 The full implementation of the strategy will be determined by the Council's actual cash profile during the year and Sector's assessment of when the market is offering the best returns for term deposits. This is exemplified by the current £10M difference between the projected effective investment balance and actual and the high level of funds held on call pending term investment.

- 7.7 The deals effected in the period are as set out in appendix 1. These comply with the counterparty credit criteria as set out in table 1. The actual deals include deals effected in periods prior to the introduction of the revised criteria.

- 7.8 The Council's bankers the Co-operative Bank plc are used as depositors of the last resort for investment of additional funds received after the treasury transactions have been completed and the money markets closed. The alternative would be to have the funds effectively deposited with the Co-operative Bank but with nil interest.

## **8. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

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

## **9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 9.1 The Committee is asked to note the information in the report concerning the Council's treasury transactions undertaken by the Corporate Director of resources under delegated powers.

## **10. ONE TOWER HAMLETS CONSIDERATIONS**

- 10.1 Interest on the Council's cash flow has historically contributed significantly towards funding the Council's budget.

## **12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 12.1 There are no Sustainable Action for A Greener Environment implications.

## **13. RISK MANAGEMENT IMPLICATIONS**

- 13.1 Any form of investment inevitably involves a degree of risk.
- 13.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. This diversification relates to both asset classes and management styles.

---

### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

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

***Brief description of "background papers"***

*Directorate Submissions*

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

*Ian Talbot Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*

## Appendix 1: Investment Transactions

	Investments made before 1 Apr 2009 £M	Raised £M	Realised £M	Investments Outstanding 31 May 2009 £M
Australia and New Zealand Banking Group Ltd				
Commonwealth Bank of Australia				
National Australia Bank Ltd	12	65	-73	4
Westpac Banking Corporation				
Alliance & Leicester	5	10	-5	10
Abbey National plc	25		-15	10
Bank of Scotland plc	17	60	-71	6
Barclays Bank plc		15		15
HSBC Bank plc				
Lloyds TSB Bank plc				
National Westminster Bank				
Royal Bank of Scotland		10		10
Nationwide	5	35	-30	10
DBS Bank Ltd				
Oversea-Chinese Banking Corporation Ltd				
United Overseas Bank Ltd				
Dexia Bank Belgium - London Branch	10	65	-55	20
Co-Operative Bank		1	-1	
Cater Allen (Abbey)		5		5
	£74	£266	-£250	£90

This page is intentionally left blank