

Meeting of the

AUDIT COMMITTEE

Tuesday, 15 December 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 M. Shahid Ali, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones)
Councillor Clair Hawkins	Councillor Lutfa Begum, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones)
Councillor Denise Jones	Councillor Rupert Eckhardt, (Designated Deputy representing Councillor David Snowdon)
Councillor Abjol Miah	Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah)
Councillor David Snowdon	Councillor Abdul Munim, (Designated Deputy representing Councillor Abjol Miah)
	Councillor Muhammad Abdullah Salique, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones)

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

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

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 15 December 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 29th September 2009.

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

3 - 10

4. DEPUTATIONS AND PETITIONS

To receive any deputations or petitions.

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

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

Nil items.

6. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

6.1 Quarterly Internal Audit Assurance Report September 2009 - November 2009 (AC/001/09)

11 - 38

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

6 .2 Annual Internal Audit Report for Schools – 2008/09 (AC/002/09) 39 - 50

To note the contents of the report and to take account of the matters raised by audit in each of the 12 areas examined by audit.

6 .3 Annual Governance Statement for the 2008/09 Accounts Update (AC/003/09) 51 - 66

To note the action in dealing with the issues raised on the annual governance contents of the report.

6 .4 Update on Risk Management (AC/004/09) 67 - 76

The Audit Committee is asked to note:

- the contents of the report; and
- the actions planned over the next year to embed risk management in section 8 of this report.

6 .5 Revised Internal Audit Plan 2009/10 (AC/005/09) 77 - 114

To note the contents of this report and to endorse the changes to the 2009/10 internal audit plan.

6 .6 Progress on National Fraud Initiative 2008/09 and Anti Fraud Update (AC/006/09) 115 - 128

To note the contents of the report.

6 .7 Treasury Activity for Period Ending 30th November 2009 (AC/007/09) 129 - 134

To note the contents of the report.

7. ANY URGENT UNRESTRICTED BUSINESS

8. DATE OF NEXT MEETING.

The next meeting of the Audit Committee will be held on Tuesday 30th March 2010 at 7:30pm.

Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.30 P.M. ON TUESDAY, 29 SEPTEMBER 2009

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

Members Present:

Councillor Fazlul Haque (Chair)
Councillor Stephanie Eaton (Leader Liberal Democrat Group)
Councillor Clair Hawkins
Councillor Denise Jones (Scrutiny Lead Member: A Safe and Supportive Community)
Councillor David Snowdon

Other Councillors Present:

Officers Present:

Chris Naylor – (Corporate Director, Resources)
Alan Finch – (Service Head, Corporate Finance, Resources)
Minesh Jani – (Service Head, Risk Management)
Jon Hayes – (District Auditor, Audit Commission)
Sharon Martin – (Senior Audit Manager, Audit Commission)
Tony Qayum – (Head of Audit Services, Internal Audit)
Mike Clarkson – (General Manager, Deloitte and Touche)
David Williams – (Development Manager, Development & Renewal)
Anne-Marie Berni – (Team Leader Development Implementation Team Development and Renewal)
Jamie Blake – (Service Head of Public Realm, Communities Localities and Culture)
Toks Osibogun – (Head of Asset Management, Corporate Property Services)
Kate Bingham – (Acting Service Head (Resources) Children Schools and Families)
Kayren White – (Interim Head of Human Resources Adults Health and Wellbeing)
Claire Symonds – (Service Head, Customer Access, Communities Localities Culture)
Zoe Folley – (Committee Officer, Democratic Services Chief Executive's)

Please note that the order of business was varied by resolution of the Cabinet, however for ease of reference the decisions taken are set out below in the order detailed in the agenda.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Abjol Miah.

2. DECLARATIONS OF INTEREST

Councillor Fazlul Haque (Chair) declared a personal interest in agenda item (7.3) Revised Statement of Accounts 2008-09. The declaration was made on the basis that the report contained references to Tower Hamlets Homes and Councillor Haque was a member of the Tower Hamlets Homes Board.

Councillor Denise Jones declared a personal interest in the agenda item (7.3) Revised Statement of Accounts 2008-09. The declaration was made on the basis that the report 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.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 29th June 2009 be approved.

4. DEPUTATIONS AND PETITIONS

None received.

At this point in the proceedings, Ms Zoe Folley (Committee Officer) read out a statement on behalf of the Council's Monitoring Officer regarding Agenda Item 6.1 (Tower Hamlets Annual Governance Reports 2008/09) as set out below:

"In respect of the Annual Governance Report of the District Auditor and the comments in relation to the departure of the former Chief Executive, I must remind Members that this is a public meeting and therefore discussion around the use of resources and general handling of the affair must be tempered by the obligations of the Code of Conduct and Confidentiality Rules as set out in the Constitution. Officers names must not be mentioned and neither must there be discussion about any payments made to officers or any confidential issues of a personal nature. In addition Members are required to keep confidential information they may have had at other restricted meetings. If the Committee are not minded to do this then they would have to move a resolution to go into a Part 2 meeting and exclude the members of the public and allow the District Auditor to remain for questioning but not for the debate".

5. MATTERS ARISING FROM PREVIOUS MEETINGS

5.1 Feedback Presentations - Nil/Limited Assurance

Mr David Williams (Development Manager, Development and Renewal) presented a feedback report on S. 106 Planning Obligations. Mr Williams reported that during the past 18 months, all of the outstanding recommendations made during the March 2008 Audit of the service had been addressed. The service had been audited again in May 2009 and the findings of this were awaited. Mr Williams reported on the sums currently held in the S. 106 account against a range of headings and projected spend for this year and that officers were working to secure further funding.

In reply to a question from Councillor Eaton regarding the role of the Planning Contributions Overview Panel (PCOP), Mr Williams reported on the steps being taken to strengthen its governance structure. A new Terms of Reference for the Panel had been approved at PCOP. The Panel had also started to receive reports as per the Audit recommendations that clearly linked mitigation with the development proposals. In relation to the Primary Care Trust, the majority of the planning proposals which triggered s106 contributions for the PCT were from residential development and the Council mainly negotiates for capital contributions towards the provision of the infrastructure. There was current funding set aside in the S. 106 account for health infrastructure that was now being allocated to projects.

In reply to further questions from Councillor Eaton and Snowdon about the remit of local S. 106 agreements, Mr Williams clarified that the S. 106 process was a legal process and the money is allocated and spent in accordance with the requirements in the legal agreements. In relation to the Millennium Quarter Agreement, the funding had to be spent in the two local wards it related to. This was a legal obligation.

In relation to agreements specifically on the Isle of Dogs including CrossHarbour developments, these were mainly larger s106 agreements and the funding was mainly but not exclusively restricted to the areas around the development in accordance with the legal agreement. The terms of agreements could be revisited, so long as the principles of mitigation in the original agreement were still met and all parties to the agreements agreed to the deed of variation.

Mr Toks Osibogun (Head of Corporate Property Services) presented a short update on the management of the Commercial Property Portfolio. Mr Osibogun reported that since the Audit of the service last year (January 2009), all the outstanding actions had been addressed and the service had been assigned substantial assurance. Councillor Eaton asked about progress in addressing rent arrears? In response, Mr Osibogun responded that although responsibility for rent areas did not fall under Asset Management, they were working with colleagues in Revenues to instigate a proactive

response by intervening early. Chris Naylor (Corporate, Director Resources) **Agreed** to make available statistics for rent arrears for circulation to Councillor Eaton.

ACTION Chris Naylor (Corporate, Director Resources).

Resolved: That the feedback presentations be noted.

6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

6.1 Tower Hamlets Annual Governance Reports 2008/09 - Council's Accounts and Pension Fund

Reasons for special circumstances and urgency **Agreed.**

Mr Jon Hayes (District Auditor) presented the Annual Governance reports. Mr Hayes anticipated that he would be able to give an unqualified opinion on the accounts on 30th September 2009.

He stated that in completing the audit work, he had identified two material misstatements. The Council undertook an asset verification exercise which identified that £120m of assets were incorrectly included in the previous year's balance sheet. This prior year error was incorrectly accounted for as an in-year adjustment rather than by re-stating the previous year's balance sheet. A long term debtor of £24.4m relating to PFI deferred consideration was incorrectly classified as a short term debtor. Management agreed to adjust the accounts in relation to these matters.

His work also identified non – trivial misstatements regarding Leaseholder Chargers and HMRC creditors that management had decided not to adjust. Details of these matters were set out in the Addendum tabled. Mr Hayes reported that the letter of representation included specific representations to seek assurance that the Committee was satisfied that the accounts were materially correct with regard to these items. A revised version of the letter including the unadjusted misstatements was attached to the Addendum for approval.

In relation to the Pension Fund Accounts, Mr Hayes reported that the audit had identified a number of misstatements as set out in page 8 of the report. He also reported that in considering the Annual Pension Fund Report, he identified a number of inconsistencies between the Pension Fund Annual Report and the accounts. Management had agreed to adjust the accounts and annual report in relation to these matters.

Mr Alan Finch (Service Head, Corporate Finance) reported that in relation to the unadjusted misstatements, the intention was to give further consideration to the amendments following the closure of the accounts and following this make any adjustments necessary in 2009/10.

Resolved: That the Governance Reports on the audit undertaken on the Pension Fund Accounts and the Council's Accounts for 2008/09 be noted.

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

7. UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

7.1 Internal Audit Annual Report 2008/09

Mr Minesh Jani (Service Head Risk Management & Audit) presented the report, drawing attention to the significant issues. The report was deferred at the last meeting of the Committee in June 2009.

The Audit Committee was asked to note the contents of the annual audit report and the summary of the audits undertaken. Overall Mr Jani reported that he was able to award a substantial level of assurance to the systems reviewed over the period.

Mr Jani reported that Audit Services had recently participated in a CIPFA benchmarking exercise and had also participated in a Peer Group Review with the London Borough of Redbridge.

In relation to a question about the Homelessness services audit, Mr Jani reported that this area had been assigned a substantial level of assurance as it was delivering its key objectives. However the issues around the lack of guidance for assessments would be addressed and given further consideration in future audits.

In relation to payroll, the Committee noted the need to ensure the systems of control in payroll were strengthened and that their records were kept up date.

In relation to the schools assigned nil assurance, the Committee questioned whether there were any common problems and whether additional training would help. Mr Jani confirmed that there were a number of generic issues and that a fuller report was being prepared by Audit and Children and Families Services which would capture the key issues and would be brought to the next meeting of the Committee.

Mr Mike Clarkson (Deloitte & Touche) confirmed that the standards for full assurance were very high but the Council's scores compared favourable to those achieved by other Boroughs.

Ms Kayren White (Interim Head of HR Adults Health and Wellbeing) presented a progress report on the sickness management follow audit which had been assigned a nil assurance rating in January 2009. Ms White reported on progress against the recommendations. Following the Audit, the then Corporate Director for Adults Health and Wellbeing wrote to all staff setting out the policy and monthly sickness absence monitoring reports were submitted to the Corporate Management Team. Ms White reported that her

service now implemented a range of new measures including data cleansing exercises to ensure sickness data was accurately recorded on time. Mr Naylor (Corporate, Director Resources) reported that the recommendations were performance managed and were being escalated to the Directors.

Resolved: That the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion be noted.

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

7.2 Quarterly Internal Audit Assurance Report April 2009 - August 2009

Mr Minesh Jani (Service Head Risk Management & Audit) presented the report which summarised the work of Internal Audit for the period April 2009 to August 2009. The Committee was asked to note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.

In relation to the assurances assigned to Children's Services, Councillor Eaton sought assurances on the effectiveness of the measures in place for safeguarding children.

In reply Ms Kate Bingham (Acting Service Head, Resources, Children's and Families Services) reported that OFSTED had assessed the Children Looked After Service and had judged it as outstanding. She expressed certainty that the targets for visits had been met and were communicated to those responsible for carrying out the visits.

Resolved: That the contents of the report and the assurance opinion assigned to the systems reviewed during the period be noted.

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

7.3 Revised Statement of Accounts 2008-09

Reasons for Special Circumstances and Urgency **Agreed.**

Mr Alan Finch (Service Head, Corporate Finance) presented the statement of accounts. He reported that a draft version of the Accounts was approved by the Committee in June 2009. Further minor amendments to Statements of Accounts had been agreed and these would be incorporated into the Final Statement of Accounts. A list of these changes was before the Committee.

Resolved: That the amendments to the draft statement of accounts previously approved, and the revised Statement of Accounts presented be noted and signed by the Chair of the Audit Committee.

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

7.4 Pensions Fund Annual Report 2008-09

Reasons for Special Circumstances and Urgency **Agreed.**

Mr Alan Finch (Service Head, Corporate Finance) presented the Pension Fund Annual Report for 2008/09.

Councillor Eaton considered that the figure for the reduction in fund value of 18% referred to in the introduction should be revised upwards to 19% given the actual figure was 18.9%. Subject to this amendment, it was **Resolved** that the Pension Fund Annual Report for 2008/09 be noted.

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

7.5 Annual Anti Fraud Report 2008/09

Mr Tony Qayum (Head of Audit Services) presented the report. The report provided the Committee with the results of reactive and Anti Fraud Work undertaken during 2008/09.

In relation to recent developments, Mr Qayum reported that Audit Services had developed an anti money laundering policy and a staff training programme which would be rolled out over the course of the year. The policy was also available on the Council's internet.

In response to questions, Mr Jani reported on recent discussions with Parking services aimed at improving performance.

Resolved: That the contents of the Annual Fraud Report 2008/09 be noted.

ACTION BY: Chris Naylor (Corporate Director Resources)
Minesh Jani (Service Head Risk Management)
Tony Qayum (Head of Audit Services)

7.6 Anti Fraud and Corruption Strategy Red Book 2

Mr Tony Qayum (Head of Audit Services) presented the report highlighting the key points.

Mr Jani reported that the Council was currently working with Housing Associations and other London Boroughs with the aim of developing a more robust approach to tackling tenancy fraud. An update on this would be provided at the next meeting.

RESOLVED: That the contents of the report be noted.

ACTION BY: **Chris Naylor (Corporate Director Resources)**
 Minesh Jani (Service Head Risk Management)
 Tony Qayum (Head of Audit Services)

8. TREASURY ACTIVITY FOR PERIOD ENDING 31ST MAY 2009

Mr Alan Finch (Service Head, Corporate Finance) presented a report regarding Treasury Activity for the period ending 31st May 2009, highlighting the salient points within.

In reply to questions, Mr Finch reported that the aim of the strategy was to optimise returns whilst taking appropriate account of risks. The majority of the Council's funds were invested in UK institutions. The current position was fully compliant with the investment strategy agreed by the Council in March 2009. It was also **Agreed** that the report for Treasury Activity during the latest quarter be circulated to the Committee.

ACTION: Alan Finch (Service Head Corporate Finance)

RESOLVED: That the contents of the report be noted.

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

The meeting ended at 9.15 p.m.

Chair, Councillor Fazlul Haque
Audit Committee

Agenda Item 61

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Quarterly Internal Audit Assurance Report			
ORIGINATING OFFICER(S): Service Head Risk Management				
		Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period September to November 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"

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

Minesh Jani – 0207 364 0738

3. Background

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

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

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

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

4. Overall Audit Opinion

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

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2009, 14 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. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.
- 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		7	1		8
	Moderate		4	2		6
	Low					
Total Numbers			11	3		14
Total %			79%	21%		100%

- 5.4. From the table above it can be seen that of the eight finalised audits which focused on high risk or high value areas; seven audits were assigned Substantial Assurance and one received Limited Assurance. A further six audits were of moderate significance and of these, four were assigned Substantial Assurance and two received Limited assurance.
- 5.5. Overall, 79% of audits resulted in an adequate assurance (substantial or full). The remaining 21% of audits have an inadequate assurance rating (limited or nil). This is broadly in line with previous reports. Work in progress is shown in Appendix 3.

6. Performance Indicators

- 6.1. At the start of the year, three 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 August to October 2009.

Performance measure	Target	Actual
Percentage of Audit Plan completed up to October 2009	56%	56%
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%	71%

- 6.2. The table above shows that the proportion of internal audit work completed to October 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 percentage of priority 2 recommendations was 71%. In view of the unsatisfactory progress in implementing agreed recommendations, relevant Corporate Directors were recently sent reports highlighting specific performance against the set targets, so that measures can be taken at Directorate level to improve performance in this area.

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

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Tower Hamlets Homes	Management of Major Works
	Moderate	Communities Localities Culture and all other Directorates	Management and Control of Blue Badges
	Moderate	Tower Hamlets Homes	Teesdale Estate – Current Contract Audit
SUBSTANTIAL	Extensive	Communities Localities Culture	Health and Safety at Work
	Extensive	Communities Localities Culture	Waste Disposal Contract Management – Follow Up Audit
	Extensive	Tower Hamlets Homes	Management and Control of Void Dwellings – Follow Up
	Extensive	Resources	Capital Accounting Systems Audit
	Extensive	Resources	Payroll Systems Audit
	Extensive	Resources	Housing Rents Systems Audit
	Extensive	Resources	Housing Benefit Overpayments
	Moderate	Development and Renewal	Management of Commercial Property Portfolio – Follow Up
	Moderate	Development and Renewal	Homelessness Assessment – Follow Up
	Moderate	Communities Localities Culture	Control and Monitoring of On-Street Parking Income
	Moderate	Children's, Schools and Families	Bethnal Green Technical College – Regularity Audit

**Summary of Audits Undertaken
Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Major Works Systems Audit	Sept 09	<p>This audit sought to provide assurance over the soundness and adequacy of systems of control for calculating, allocating, apportioning, and recovering costs of major works.</p> <p>Our review showed that for the previous 18 months, no reminders or chase up letters had been issued to leaseholders in respect of outstanding arrears for major works accounts. This would appear to be primarily due to existing problems with the Northgate (SX3) system and the recent amalgamation of the Revenue and Customer Services section within THH. Therefore, no recovery action has been undertaken since January 2007. Moreover, there appears to be no system to ensure that once a debt is unlikely to be recovered, consideration is given to put a charge on the property. From our review of the recovery procedures, we are concerned about the soundness of the system for debt recovery which increases the risk of loss of income and large write offs.</p> <p>We found that due to a lack of resources within Technical Services, the contractor's final accounts were not being audited in a frequent manner. Failure to audit the contractor's final accounts in a timely manner can add delays to the issue of the leaseholder's final adjusted invoice within the required time period which may result in loss of income where revisions are required to the estimated costs previously notified to the leaseholder.</p>	Extensive	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Major Works</p> <p>Systems Audit</p>	<p>Sept 09</p>	<p>Overall, we have highlighted a risk exposure that income due to the Council may not be received if prompt action is not taken.</p> <p>All findings and recommendations were agreed with the THH Director of Asset Management and Final Report issued to the THH Chief Executive and LBTH Service Head – Housing Strategy.</p> <p>Management Comments</p> <p>Organisationally we have combined the major works consultation team and the major works invoicing team into the Leaseholder Services unit. Previously these teams were located in under different Directorates. Phase 1 of the Leaseholder Services Improvement Project has been completed. The emphasis on this phase was data integrity which has enabled arrears recovery work to take place across the leaseholder debt portfolio. Certain categories of leaseholder debt have been moved to the Resources Directorate of the Council and this added capacity will also assist collections.</p>	<p>Extensive</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Blue Badges Systems Audit</p>	<p>Oct. 2009</p>	<p>This audit sought to assure management that there were sound systems in place for managing and controlling the Blue Badges Scheme.</p> <p>Our review found that there was a policy for screening of applicants which was in line with the legislative requirements. Screened applicants were referred to a contractor for assessment at various clinics within the borough. However, this contract expired in August 2007 and has been extended on an annual basis without further competition.</p> <p>In order to undertake audit testing to provide assurance on the correctness of the contractor's assessments, Audit requested management reports from which a valid sample can be drawn for testing. However, the CRM IT system is controlled by a consultant, who controls writing of reports and skills have not been transferred to any LBTH staff who could access the system to produce management reports they might wish to draw from the IT system. Similarly, as part of their routine management function, the Mobility Team are also unable to produce reports they might wish to examine for quality control and monitoring purposes. We also highlighted that there was no clear system for monitoring complaints and appeals, the results of which can be used by the Team for service improvement and learning. Moreover, the system for controlling and monitoring the stock of Blue Badges required improvements. The system for collecting and banking income required to be made robust. Procedures for managing and monitoring the contractor's performance required to be strengthened and the Mobility Team's own performance management regime needed to be defined.</p> <p>All findings and recommendations were agreed by the Service Head – Environmental Control.</p>	<p>Moderate</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Blue Badges Systems Audit</p>		<p>Management Comments</p> <p>Mobility Assessment Contractor - The last renewal of this contract was made in March 2009 by the CLC corporate director using discretion as per Financial Regulation B8. The Chief Legal Officer raised no objections to the extension but noted that the contract must be subject to competitive tendering next time. In line with this therefore there is currently a procurement process underway with an estimated start date no later than mid 2010.</p> <p>Managing and monitoring of the service is a key part of the tender. The method statement has 20% of the overall marks allocated to the tenderers' approach to service and 15% allocated to service implementation and management. In addition the Service Specification contains detailed requirements re monitoring and review.</p> <p>Section 5 of the Corporate Procurement Toolkit will then be used to assist in the management of the contract. As part of the quarterly review other checks will also be made. For example, the team leader will take a sample of applicants provided to the service provider and check these against the system inputs. They will also take samples of appointments input by the provider and check these back to records held by the mobility team.</p>	<p>Moderate</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Blue Badges Systems Audit</p>		<p>Management Comments (Cont)</p> <p>CRM IT system - There is currently a major procurement process underway to replace the Parking Services IT systems. The new system should be operational in mid 2010. The mobility aspect of the service will either be handled by the new system or, given the very specific nature of the requirements; the service may use the system run by Camden.</p> <p>Control of Blue Badge stock - A new system for controlling blue badges, clocks and permits has been in place since January this year. We now have online spreadsheets accounting for each item and giving the serial number, the product number, the date issued and the amount of stock remaining.</p> <p>Monitoring complaints and appeals - It is often difficult in the service to distinguish between complaints and appeals as the majority of complaints are actually appeals against the person's application being rejected. All complaints and appeals are taken very seriously.</p> <p>Some complaints and appeals come direct to the team. Members' enquiries and Corporate Complaints are passed to the mobility team from the Project and Facilitations Officer. In all cases the team leader will investigate. In those cases relating to an application being rejected this will mean either rejecting the application or the applicant will be asked to attend a second assessment. This will be done by a different occupational therapist. For all other complaints the team leader will investigate and take the appropriate action.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Blue Badges Systems Audit</p>		<p>Management Comments (Cont)</p> <p>The team should have a clear record of the appeal and the result of the second assessment. In the current system this is controlled by the consultant. This will be a user report in the new system.</p> <p>Collecting and Banking income - The system of banking is about to change and should be in place by the end of January 2010. Assistance will be provided by the CLC finance team. As part of the new processes and owing to the small amount of money handled by the team, procedures will put in place for the cheques to go to the main Cashier's office at Bethnal Green.</p> <p>Mobility Team's Performance management routine - The Corporate PDR process is in use but is also acknowledged that SMART targets need to be developed. It is anticipated that following changes arising from the restructure it should be possible to do this. Sickness returns are provided regularly to the Project and Facilitations Officer.</p>	<p>Moderate</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Teesdale Estate Concrete Works and Associated Repairs		<p>This audit reviewed the progress made in implementing the recommendations made at the conclusion of the original audit in June 2008.</p>	Moderate	Limited
Follow Up Contract Audit		<p>Our follow-up review found that out of 6 recommendations agreed at the conclusion of the original report, two recommendations could not be implemented as the Council's Legal Services had advised THH in November 2008 not to use the Framework Contracts due to objections raised by the Leaseholders. Of the remaining 4 recommendations, three were outstanding and one was for Procurement to progress. We reported that the roles and responsibilities of client's QS in respect of cost reports should be clearly specified, that the financial effect of each instruction is shown on the Instruction Document and that omissions and additions instructed on a Variation should be referenced to the contract documents. We recommended that the Director of Asset Management should instruct the LBTH Procurement Service to arrange competitive tendering to be undertaken urgently for the category of works previously covered by Framework Contracts and that an assessment should be made on the effect this might have on the 2009/10 Capital Programme.</p> <p>All findings and recommendations were agreed with the Director of Asset Management and Final Report was sent to the THH Chief Executive and LBTH Service Head – Housing Strategy.</p>		

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Teesdale Estate Concrete Works and Associated Repairs Follow Up Contract Audit		Management Comments In November 2009 Cabinet approved new contracts as recommended in the internal audit report. The capital programme is carefully monitored to ensure that delivery is maximised from available capital resources. A capital programme group has also been recently been established to co-ordinate capital programme activity.	Moderate	Limited

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Health and Safety at Work Systems Audit	Sept. 2009	<p>The objective of this audit was to assure management that the systems in place for managing and controlling Health and Safety in the work place are sound, secure and adequate.</p> <p>The Council has developed a clear Health & Safety policy in compliance with legal requirements placed on it. The policy was approved by the Chief Executive and the Leader of the Council on 24th November 2008. Clear terms of reference and constitution have been established by various Committees and Safety Panel charged with strategic and operational aspects of Health & Safety.</p> <p>Our review found that five of the six Council Directorates had developed their Health & Safety policies to-date. For 09-10 compulsory Health & Safety training will be provided for all Managers. Risk assessments were being undertaken in some instances, but compliance with this requirement was not being monitored. Accident and incidents were being recorded on site as required. However, it was unclear if the detailed Accident and Incident Reports were being submitted to Health & Safety Civil Protection Unit as required. First Aid and Fire Drill provision is being provided in accordance with policy. The responsibility for reporting and monitoring of Health & Safety has been clearly determined. An annual review by the Corporate Joint Health & Safety Civil Protection Unit of the Health & Safety Policy was carried out as required.</p> <p>All findings and recommendations were agreed with the Service Head – Environmental Control.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Waste Disposal Contract Management Follow Up Audit	Oct. 2009	<p>The key objective of this audit was to evaluate the action taken since the original audit review in November 2008.</p> <p>Our follow up review showed that eight out of the fourteen previous audit recommendations had been implemented and two recommendations were in the process of being implemented. Of the four outstanding recommendations, one was high priority. We noted that the Municipal Waste Strategy is currently in the process of being formulated. The performance against revised KPI targets on key aspects of the contractor's performance was being monitored on a regular basis and the contractor's performance was shown to be above the minimum acceptable standards. However, the work on finalising the Contract Management and Monitoring manual was still outstanding and the officer authorising the contractors' invoices for payment needed to have their financial limits revised.</p> <p>All findings and recommendations were agreed with the Service Head-Public Realm.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Void Dwellings</p> <p>Follow Up Audit</p>	<p>Oct. 2009</p>	<p>This was a follow up audit which assessed the progress made in implementing recommendations made at the conclusion of the original audit in January 2009.</p> <p>From our follow up review, we found that of the nine recommendations made in the original report, eight had been progressed and implemented. Procedures for managing voids had been drafted. However, we have noted non-compliance with these procedures which can weaken the level of control. For example, works completion certificates were not being signed by the contractor and Repairs Inspector. The lettings section had to improve the marketing of vacant dwellings so that the void turnaround target is effectively achieved and the reasons for delays in the turnaround needed to be written on SX3 system. The term of reference, membership, frequency of meetings and reporting lines for the Voids Panel needed to be clearly laid down to increase its legitimacy and effectiveness, and the minutes of the meeting needed to be written up. However, THH management was requested to note that although most recommendations were implemented, there were still some non-compliance issues which can put some of the control objectives at risk.</p> <p>All findings and recommendations were agreed with the Area Housing Manager and the Final Report was issued to the THH Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Accounting	Oct. 2009	<p>The objective of the Authority's Capital Accounting system is to ensure that all capital expenditure, capital receipts and financial commitments relating to the capital programme are in accordance with the accepted accounting principles. The following key issues were reported:-</p> <ul style="list-style-type: none"> • The controls around the Capital Budget setting process were found to be adequate. The Capital Budget was prepared in accordance with the timetable prescribed in the Budget Practitioners Guide. Responsibility for budget setting was confirmed to be laid out in the Council's Financial Regulations and Financial Procedures. • The Capital Monitoring Report for quarter 3 states that: "Capital Receipts can only be estimated based on knowledge of the market prevailing at the time, and realisation of receipts is susceptible to a range of factors outside the control of the Council." Subsequently, a more prudent view is now in place where only capital receipts actually received are recognised. • Five recommendations were made in the 2007/08 Capital Accounting Internal Audit of which four recommendations were agreed and action scheduled. It was identified that three out of the agreed four recommendations have been implemented and the remaining issue was partly implemented. <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
Payroll Systems Audit	Oct. 2009	<p>The objective of the Payroll system is to ensure that the correct salaries and other monies payable to staff are paid to the correct employees promptly in accordance with policies and procedures. The following findings were reported:-</p> <ul style="list-style-type: none"> • The control environment was found to be adequate around starters to the system, changes made to standing data, the feeder systems and reconciliations. • More specifically, the control over administration of leavers needed to be improved. From our sample testing, we identified that 30% of leavers in our sample were not brought to the attention of the payroll section in a timely manner. This increases the risk of salary overpayments made to leavers and also removal of privileges such as ICT systems access etc. promptly. • Performance indicators where designed adequately can help to improve payroll practices and ultimately deliver better services. Although the payroll section carries out a benchmarking exercise to compare the Council's payroll activities to that of similar Council's on an annual basis, as at the time of the audit, there were no performance indicators in respect of the Council's payroll service performance. <p>The findings and recommendations were agreed with the Service Head – Human Resources and reported to the Director of Resources.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents Systems Audit	Sept. 2009	<p>The objective of the Housing Rents system is to ensure that the assessment of rent is in accordance with policy and that rent is collected accurately and promptly, so that housing rent revenue is maximised. Four recommendations were raised as a result of this audit although no priority 1 issues were raised. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The report highlighted 'all tenancies created where there is no rent account in place' was reviewed and it was identified that the tenancy agreement for 4/11 new rent accounts had not been sent to the Rent Accounting Team by the Local Service Centre (LSC). In 2/11 cases the rent account was opened after the tenancy start date. • No documentary evidence was found that all members of staff within the rent accounting and arrears recovery teams were appropriately authorised to access the rents system by management. It was also established that there is no process in place where staff access rights are reviewed periodically to confirm that access to the rents system (Northgate) was only available to relevant members of staff and that the level of access is appropriate. • 6 Recommendations were made in the 2007/08 Housing Rents Internal Audit. Five out of the Six recommendations have been implemented. The remaining recommendation was deemed to be partly implemented. <p>All findings and recommendations were agreed with the Director of Housing Management (THH).</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Benefit Overpayments	Oct. 2009	<p>The objective of the system is to ensure that there is an effective process in place for identifying and recovering Housing Benefit overpayments promptly and completely. In general, the control environment was found to be adequate. The main areas of weakness were highlighted as being:-</p> <ul style="list-style-type: none"> • Prior to December 2008, reports were submitted to A.J.S. Recoveries every month for 100 or more claimants to chase up the debts. However, it was confirmed that no recovery of overpayments have progressed beyond the Council's final reminder stage since December 2008. Therefore, overpayments which have reached a final reminder since December 2008 have not been pursued further. • The corporate debtors system is incompatible with the sundry debtors system and therefore once a debt is handed off to the corporate debtors system, any subsequent revisions to benefits entitlement are not detected. Consequently, the Overpayments Team do not have control over the entire overpayment recovery process or access to all the means of recovery which are at the Council's disposal. <p>The findings and recommendations were agreed with the Service Head – Customer Access.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Commercial Property Portfolio – Follow Up Audit	Sept. 2009	<p>This was a follow up audit to assess the progress made in implementing recommendations made at the conclusion of the audit in January 2009.</p> <p>The follow up review has shown that good progress had been made in implementing all the 17 recommendations made in the original report. Documented procedures were in place which reflected the current Asset Management work processes such as lease renewals, rent reviews, valuations, assignments and reconciliation of asset data maintained on CAP'S system and the Authority's Fixed Asset Register. The work on the Directorates Scheme of Management has now been finalised and adequately covers matters such as the sale or acquisition of any property and the authorisation of proceedings for rent arrears or any other breach of leases. KPI targets covering outstanding lease renewals and rent reviews have been established and form part of the services Team Plan for performance monitoring purposes.</p> <p>All findings and recommendations were agreed with the Service Head – Capital Delivery & Property Services.</p>	Moderate	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homelessness Assessment Follow Up Audit	Oct 2009	<p>This follow up audit assessed the progress made in implementing recommendations agreed at the conclusion of the original audit issued in March 2009.</p> <p>Our Follow-up review has found that all four recommendations had been progressed. Written procedures had been developed; a computer interrogation facility now allows an easy Performance Management monitoring tool in addition to Team Leader casework supervision and the signing off of individual cases. Audit testing found that applications were scanned onto the Comino application. Budget surgery meeting notes were typed and found to include action points and responsibility. However, we noted that between April and August 2009, 55% of cases assessed were decided upon within the recommended 33 day target. We have therefore, recommended that a more robust approach should be adopted by management to address any performance issues and that the Monthly Performance Management Report to the Directorate Management Team should include Performance against the 33 day target.</p> <p>All findings and recommendations were agreed with the Head of Homelessness and Housing Advice Services and Final Report issued to Corporate Director Development and Renewal.</p>	Moderate	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of On-Street Parking Income Systems Audit		<p>This audit reviewed the systems in place for the collection, banking, and monitoring of on-street parking income. Our review found that overall, cash income from P&D machines was being collected, counted and banked by the contractor in accordance with contract requirements, and hence substantial assurance was assigned as systems were generally in place. However, we have highlighted the following further improvement:-</p> <ul style="list-style-type: none"> • Parking Services were manually checking and monitoring 100% of income collected from individual P&D machines. We recommended that this intensive manual monitoring system should be reviewed to ensure efficient and effective use staffing resources. • Income received was not disbursed to the parking income account promptly, and an adequate system has yet to be developed for reconciling credit card income received from piloted machines. We recommended that the function for reconciling credit card income and for disbursing all income to the GL system should be transferred to the CLC Finance Section. • Instances of non-collections and incidences where audit tickets were not being produced by P&D machines were being investigated by parking services; however, the timeliness of the subsequent inspections could be improved upon. There were a number of old P&D machines currently in service, some of which did not routinely produce an Audit Ticket and some machines were unable to be fully repaired. We have recommended that an investment be made to replace these machines. <p>All findings and recommendations were reported to the Service Head Environmental Control.</p>	Moderate	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bethnal Green Technology College	Oct. 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the financial management and administration of the school.</p> <p>7 recommendations were made as a result of the audit work, although no Priority one issues were identified. The main issues are summarised below:</p> <ul style="list-style-type: none"> • The Business Manager processes starter leaver forms and they are authorised by the Head Teacher. However there is no evidence of the separation of duties in this process as there is no requirement for the processing officer's signature. • It was established that budget holders initiate the procurement of goods and services by raising a manual order which is sent to the Finance Office to raise a RM order. However, the staff member who raises orders on RM did not have a list of officers who are authorised to order goods and services. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

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

Audit Activity	Audit status
Corporate Systems and Council-wide Reviews	
BV Performance Indicators	Draft Report
Management of Climate Change	Draft Report
Council Wide Debt Management	Draft Report
Contract Management and Monitoring	Field work
Scheme of Delegation – Compliance testing	Field work
Sickness Management	Field work
Assistant Chief Executive's	
Charges on Property	Draft report
Legal Services Planning Meetings	Draft Report
Mainstream Grants – Strategic Commissioning	Field work
Members Allowances	Draft Report
Children's, Schools and Families	
Social Care Commissioning	Draft Report
Management and Control of Surplus Balances	Draft Report
Building Schools for Future – contract audits	Field work
Children's Centres	Draft report

CLC	
Household Recycling Contract Monitoring	Draft Report
Management of Highways Programme	Draft Report
Governance of Local Strategic Partnership	Draft Report
Budgetary Control	Filed work
Development and Renewal	
S 106 planning obligations – FU	Exit meeting
Tower Hamlets Homes	
Kerry House – Central Heating works, Current Contract Audit	Draft report
Grounds Maintenance – Contract Monitoring FU	Draft Report
Installation of Aerials – Contract Audit	Draft Report
Unauthorised Occupants FU Audit	Draft Report
Financial Systems	Field work
Control and Management of Keys – Void Dwellings – Other Housing Areas	Field work
Adult, Health and Wellbeing	
Income control and monitoring	Draft report
Resources	
Parking permits	Draft report
Control and Use of Minicabs by Staff	Draft Report
Council Tax	Field work
Pensions	Field work
Management and control of VAT	Field work

Agenda Item 62

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management		Annual Internal Audit Report for Schools – 2008/09 Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2008/09.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by audit. It is envisaged this assessment will be used by the Local Authority in enhancing the governance framework around schools.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by audit in each of the 12 areas examined by audit.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"

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

Minesh Jani – 0207 364 0738

3. Comments of the Chief Financial Officer

3.1 These are contained within the body of this report.

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

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

5. Equal Opportunity Considerations

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

6. Anti-Poverty Considerations

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

7. Risk Management Implications

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

8. Sustainable Action for a Greener Environment (SAGE)

8.1 There are no specific SAGE implications.

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDRENS SERVICES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS
AUDITED DURING 2008/09**

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2008/09

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2008/09.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring affairs of the Borough's schools.
- 1.3. During the 2008/09 financial year, Internal Audit carried out probity audit visits to 22 primary schools. An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are :-
 - Operation of Governance Processes;
 - Financial Planning and Budgetary Control;
 - Control and Monitoring of Schools Bank Account;
 - Procurement, including large single purchases, tendering and Value for Money;
 - Accounting of Income and Expenditure;
 - Charging Policy, Income Collection and Banking;
 - Personnel and Payroll Management;
 - School Meals;
 - Voluntary Fund and School Journey;
 - Asset Controls and Security of Assets;
 - Security of the IT Infrastructure, Disaster Recovery and Data Protection;
 - Risk Management and Insurance.
- 1.5. Eight schools were assigned a Substantial assurance, and 14 schools assigned a Limited assurance after the 22 probity visits conducted during 2008/09. Two of the Limited assurance schools were followed up within three months and their assurance level improved to substantial assurance.

2. Most Common Findings

- 2.1. All schools visited during the year had governing bodies collectively responsible for the overall direction and strategic management. There is a general improvement in Governance as required by the Financial Management Standards in Schools, and this was observed during the probity audits this year.
- 2.2. However, the effectiveness of school governance could be improved to ensure that the Governing Body have properly set appropriate sub-committees and that clear terms of references have been compiled for these sub-committees.
- 2.3. Schools have not always produced and approved a School Improvement Plan which clearly documents the period to which the Plan relates. The update of the School Improvement Plan is not always timetabled to ensure that the Plan remains a live and current document.
- 2.4. Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in several cases.
- 2.5. Formal tendering processes were not undertaken as required in some cases and there was no evidence of best value being achieved for some high value purchases. Official orders were not raised by all schools as required to support purchases and there was a lack of documentary evidence that the goods received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 2.6. Governors have not always approved a documented charging policy. Where in place, the policy was not always up to date. Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.
- 2.7. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date.
- 2.8. Evidence of pre-recruitment checks were not always maintained, such as CRB checks, identity checks, references, medical checks, qualifications checks etc.
- 2.9. Inventory records were not consistently maintained and where such processes were in place the format and level of information recorded was often inadequate. Stock checks are not performed consistently across all schools, and where performed, the results of these stock checks are not always reported to the Governing Body. Equipment loan

registers were generally not maintained to track movement of school assets off the premises.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

- 3.1.1 All schools had in place a Scheme of Delegation and this was generally up to date with evidence of regular review. The full Governing Body meetings are generally termly and the minutes have usually been approved and signed off by the Chair of the Committee.
- 3.1.2 Decisions made and papers laid in the full Governing Body meetings are clearly documented within the minutes and the minutes usually made reference to budget monitoring.
- 3.1.3 Where the Governing Body has set up sub committees the Terms of Reference have not been compiled for these sub-committees in all cases.
- 3.1.4 Minutes are not always being produced to support all sub-committee meetings and the adequacy of the frequency of the meetings could not be evaluated due to the lack of Terms of Reference in some cases.
- 3.1.5 The Governing Body have put in place a Register of Business Interests of Governors. The control over this process has improved significantly since the inception of the Financial Management Standards in Schools process. The opportunity to declare interests is a standing item on most agendas of the Governing Body meetings. Instances were found where the Register was not up-to-date at the time of the audit with missing declarations, but schools were prompt to implement this recommendation when highlighted.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

- 3.2.1 The Chair of Governors and the full Governing Body approved the budget plans and are kept informed of budget monitoring outcomes.
- 3.2.2 Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance Sub Committee. Budget monitoring is usually undertaken monthly or as a minimum on a quarterly basis and generally material variances are usually investigated and corrective action identified.
- 3.2.3 Any virements are generally agreed and approved within the schools framework for delegated authority and are approved or reported to the Governing Body. Approved virements are mostly updated on the

schools financial accounting system and notified to the LEA. Virements are not always recorded in a sequential manner however.

- 3.2.4 Schools have not always produced and approved a School Improvement Plan documenting the period to which it relates. This developing and updating of the School Improvement Plan is not always timetabled to ensure it remains a live document. Where produced, the School Improvement Plan did not always properly include estimated resource requirements where applicable (Staffing and Financial) and target and success criteria.

3.3. Control and Monitoring over School Bank Accounts

- 3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a significant number of cases.
- 3.3.2 Adequate arrangements have been established to support separation of duties over cheque production and cashing cheques. Safe security and printed cheque security procedures were adequate in most cases.
- 3.3.3 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy.

3.4. Procurement (including large single purchases, tendering & VFM)

- 3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified above which prior approval from the Governing Body is required. In practice however, formal tendering processes were not undertaken as required in some cases. There was no evidence of best value being achieved for some high value purchases.
- 3.4.2 Official orders were not raised by all schools as required to support purchases therefore it was unclear that the availability of budget was checked prior to purchasing. There was a lack of documentary evidence that the goods received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 3.4.3 In the majority of cases, invoices sampled were arithmetically correct and had been certified as approved for payment by an officer with delegated financial authority. The level of segregation of duties for procurement was generally adequate.

3.5. Accounting of Income and Expenditure

- 3.5.1 In the majority of cases, direct credits and debits are posted in a timely manner and journal entries on the financial accounting system were reasonable.
- 3.5.2 There were several instances where weaknesses in the petty cash process were identified. These related to the cash in hand each month not being regularly reconciled to the cash book and vouchers not being completed fully or being supported by valid receipts.

3.6. Charging Policy and Income Collection and Banking

- 3.6.1 Governors have not always approved a documented charging policy. Where in place, the policy was not always up to date.
- 3.6.2 Official receipts were used where appropriate and where receipts were not being issued, compensatory records were generally adequate and reliable.
- 3.6.3 Most schools had a documented lettings policy, which includes the terms and conditions for hiring the premises. Agreements were signed between the school and persons / groups hiring the use of the premises and lettings were authorised by the Head Teacher; charges are made in compliance with an approved rate.
- 3.6.4 In the majority of cases income was regularly and fully banked and bankings are periodically reconciled to the cash-book within the schools financial accounting system.
- 3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

- 3.7.1 Where the Governing Body has approved a pay policy, these were not maintained up-to-date in several schools.
- 3.7.2 Evidence of pre-recruitment checks are not always maintained, such as CRB checks, identity checks, references, medical checks, and qualifications checks.
- 3.7.3 Payroll reconciliations are undertaken and authorised for most schools. Independent Assurance regarding payroll provision for external

providers was not obtained for two schools. Adequate remuneration authorisation evidence was not maintained in two schools.

3.7.4 Timesheet and supply claim forms were not always appropriately authorised and checked against corresponding invoices.

3.8. School Meals

3.8.1 Systems were in place for the majority of schools to ensure that only pupils entitled to free meals receive them, and to the appropriate value. Income due from pupils for school meals is generally properly recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

3.9.1 The Governing Body has not always approved the Objectives of the Voluntary Fund account. Adequate records are not always maintained to document income and expenditure through the unofficial fund. The accounts for the school fund were not independently audited for six schools by a person who is not involved in the day to day administration of the account.

3.9.2 Schools do not always maintain adequate records of income due and collected, in a format which allows outstanding amounts to be identified for school trips. Not all schools produced certified summary accounts for each school journey.

3.9.3 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent finding in audit reports. Inventory records are not always maintained and where in place the format and level of information recorded was inadequate in several cases.

3.10.2 Stock checks are not always performed and the results of the stock check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools.

3.11. Security of the IT Infrastructure, Disaster Recovery, Data Protection

3.11.1 Most schools had proper registration under the Data Protection Act. Anti-virus software had been installed on financial and administration

systems and most schools had adequate computer back up procedures.

3.12. Risk Management and Insurance

3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety was appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

4.1. Most schools audited during the financial year, in general, met the minimum standard of financial control and management. Financial management standards have improved since the inception of the FMSiS assessments. However, improvements were required in the areas of operation of governance processes; financial planning; accounting for income and expenditure; procurement; personnel and payroll management; and asset control including security of assets. Addressing of the issues within the first two of these areas will minimise the number of issues flagged up within the FMSiS visits.

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Agenda Item 63

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Annual Governance Statement for the 2008/09 Accounts Update			
ORIGINATING OFFICER(S): Service Head Risk Management	Ward(s) Affected: N/A			

1. Summary

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

2. Recommendation

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

3. Background

- 3.1 The Accounts and Audit Regulations 2003 and its subsequent amendment by regulation 4(2) in 2006 require the Council to conduct an review, at least annually of the effectiveness of its governance arrangements and to publish an Annual Governance Statement (AGS) with the annual financial statements. The Statement of Recommended Practice 2008 required that the AGS be approved by the committee approving the accounts, which at Tower Hamlets is the Audit Committee.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"

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

Minesh Jani – 0207 364 0738

3.2 The statement for the year ending 30 June 2009 was presented at the CMT on 16 June 2009 and subsequently to the Audit Committee on 29 June 2009. The statement was signed by the Chief Executive and the Leader following completion of the external audit of the annual financial statement.

3.3 The table appended to this report outlines the governance issue raised on the AGS, the agreed action and progress to date. The table also refers to directorate or corporate plans to link the actions with the Council's performance management framework.

4. Comments of the Chief Financial Officer

4.1 These are contained within the body of this report.

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

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

6. Equal Opportunity Considerations

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

7. Anti-Poverty Considerations

7.1 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.

10. Progress Update on Significant Issues from the Annual Governance Statement 2008/09

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>In February 2009 Cabinet approved an approach to the development of a cross-public sector asset strategy and phase 1 will commence on Summer 2009. This will involve a gap analysis of all public sector property requirements and the generation of options to address these requirements. This work will be undertaken in parallel with the development of the Infrastructure Delivery Plan for the Core Strategy and it is expected the Asset Strategy will be a significant part of the Delivery Plan.</p> <p>The Council has broadened membership of its Capital and Asset Management Board to include the Metropolitan Police and NHS Trusts and representatives attend meetings quarterly to focus on long term asset strategy and other issues of mutual interest {Priority 1.2 (6) – Strategic Plan}.</p>	<p>Staff and consultant resources have been applied to the development of the Asset Strategy. Work has commenced on gathering data in the pilot area.</p> <p>The recommendations from the pilot study are expected in June 2010.</p> <p>Partners are attending meetings which has led to an improved understanding of both strategic and operational property requirements. Partners will also be involved in the pilot study for the asset strategy development</p>	<p>Corporate Directors, Resources and Development and Renewal</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery.</p>	<p>The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to any disaster around testing resilience at directorate level and scenario testing in case of a pandemic {Priority 1.2 - Communities Localities and Culture's Directorate Plan}.</p>	<p>The Council has had a BC plan in place since 2006, the plan is reviewed, tested and exercised annually. The Plan is published in two separate but inter-related parts: Part A: Impact risk assessments and Contingency Action Plans (updated annually in June each year) and Part B: Critical Incident Management Action Plan which is updated and refreshed on a 6-monthly basis (June and December). Part B of the plan contains Directorate specific plans which identify their key essential services, minimum staffing numbers and key contacts. Both parts of the plan are exercised as part of the Council's annual Civil Protection and Business Continuity exercise. With the next exercise (Exercise Sentinel) planned to take place in February 2010. It should be noted that the plans were independently audited in July 2009 (Deloitte and Touche audit) and were rated as of 'substantial assurance' – the second highest rating.</p> <p>Since April 2009, the Corporate Health and Safety and Civil Protection Unit have been actively involved in the Multi-Agency Pandemic Flu arrangements. The team attend meetings</p>	<p>Corporate Director, Communities Localities and Culture</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
		<p>of the Multi – agency Influenza Planning Committee Meetings held each week and have also been instrumental in drafting a Council specific procedure for managing the impacts on Directorate services (during the pandemic) as a result of substantial staff absence.</p>	

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.</p>	<p>A mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) is planned for mid June 2009. This will allow the ALMO to focus key areas.</p> <p>From discussions that have taken place with the Homes and Community Agency and the Department of Local Communities and Local Government, funding for this scheme is programmed within their financial projections although the funding is not fully committed at this stage. The authority is also progressing other opportunities around regeneration {Priority 2.1 (15) – Strategic Plan}.</p>	<p>Following the indicative inspection a full report of the service improvement plan has been undertaken by THH. This has been reviewed by D & R client and discussions about its effectiveness are ongoing. In addition progress has been made on identifying and implementing services provided to THH by the Council under SLA's which will both improve performance and reduce costs; this work is ongoing under the direction of D & R client at the Quarterly Strategic Meetings with THH. The arrangements for preparing the 2010/11 delivery plan under the terms of the management agreement are also being reviewed such that the annual agreement will be fit for purpose and capable of being monitored effectively by the Council. The HRA stocktake undertaken as part of the 2010/11 budget process has identified areas for cost reduction and additional financial improvement which will also be driven forward via the QSM. The Government has recently decided to defer decent homes funding for all those ALMO's which have not yet reached 2* which include THH.</p> <p>The Council is part of a London wide Decent Homes Task Force charged with finding ways to fund the programme in the future although this is currently suspended by government. The Council has agreed funding for decent homes pilots in 2009/10 and 2010/11 from its own capital resources. These pilots will also provide important data for planning the ongoing</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
		programme. A Capital Board has been established which will monitor progress on the decent homes and regeneration programmes to ensure they are properly managed.	

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>To improve the management for sickness absence.</p>	<p>Compliance to ensure that managers are taking responsibility for managing sickness cases, reducing absence and effective reporting and monitoring is in place at corporate, directorate and service levels to reduce sickness absence (both long-term and short-term) is taking place. Over 2008/09, further arrangements are planned to reduce sickness by ensuring compliance.</p> <p>The authority also plans to adopt a health and wellbeing strategy, in partnership with NHS Tower Hamlets to promote positive health and self-awareness of individual levels of health and risks attributed to the workplace, home and lifestyle {Priority 1.2 (3) – Strategic Plan}.</p>	<p>Directorate Human Resource Teams routinely ask managers to confirm they have held meetings under the Sickness Management Procedure once records show one of their employees has reached a trigger point.</p> <p>Corporate Human Resources carried an audit of a random sample of the management of 10 employees absence during 2008/9. This confirmed that in all cases examined managers had applied the Sickness Procedure and were keeping appropriate records.</p> <p>Monitoring reports are produced for PRG and CMT on a quarterly basis with PRG identifying Service Heads with the highest levels of sickness in their team and requiring them to attend to explain how they are managing absence in their service. Names of managers who fail to complete their absence returns are circulated to CMT to instruct managers in their Directorate to complete it. The Chief Executive raises any concerns with members of CMT during their 1-1s.</p> <p>Occupation Health has also been restructured to ensure a good level of service, staffed by permanent employees, is available to support managers. A Healthy Workplace Manager has been recruited to work across the Council and NHS tower Hamlets.</p>	<p>Corporate Management Team</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders.</p>	<p>A number of systems related issues arising from the implementation of SX3 to account for leaseholder charges have been identified. A project team created to deal with the issue has developed an action plan and is working to cleanse data, provide user training, and improve systems and control around the software {Priority 2.1.4.1 – Development and Renewal's Directorate Plan}.</p>	<p>More than 99% of accounts have now achieved Level 1. Cleanliness i.e. the transactions within the accounts are balanced. However, there are still cash misallocations within some accounts. The IT solutions to this problem are being scoped and the solution monitored by the Joint IT Board which is overseeing the IT developments, agreeing the prioritisation of the work and ensuring that both Corporate IT and THH IT client work together effectively. There is also cross accountability to the Joint Leasehold Service Charge Debt Board established to provide a more focussed approach to reducing leaseholder debt. Both work streams report into the overall D & R client monitoring process to ensure actions are captured, prioritised and reviewed and agreed outcomes are achieved to time.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>To review and ensure the arrangements for safeguarding children.</p>	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council is reviewing referral and safeguarding arrangements with social care and where necessary strengthening current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework 1, the Council's case management system {Priority 1, Stay Safe, CYPP}.</p>	<p>Children schools and families service continue to focus and respond to the emerging requirements of the Laming review.</p> <p>There are very significant financial implications for the council emerging, as for all local authorities initially</p> <p>Focus of our early work remains on going, the initial audit work has been completed and appropriate action taken. We are developing a Tower Hamlets well being model to capture in one place our multi-agency assessment, threshold, and intervention regime. Both the LSCB and the Children's Trust are working on specific components in light of guidance which is in the process of being produced by central government.</p>	<p>Corporate Director, Children, Schools and Families</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>Improve information governance across the authority.</p>	<p>Following loss of personal data by an employee, a number of steps are being taken to mitigate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords and the development of projects that look to encrypt data and information {Priority 1.7, point 7 – Chief Executive's Directorate Plan}.</p>	<p>The Council, following extensive analysis and discussion with industry experts, has prepared a solution which will ensure that all portable media such as laptops and data sticks, are encrypted. The procurement of the product has just been completed and the solution is being rolled out.</p>	<p>Assistant Chief Executive</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.</p>	<p>The authority's medium term financial strategy has been refreshed and sets out the funding needs to deliver the Council's priorities for three years from 2009/10 to 2011/12. The strategy recognises the need to make efficiency savings in coming years and sets out the level of savings for each of the three years. The authority is taking active steps to continue to provide its services with reduced funding {Priority 1.2 (5) Strategic Plan and priority 8 – Resource's Directorate Plan}.</p>	<p>Efficiency measures for 2011/12 which need to be delivered through project or programme management have been identified and incorporated in the efficiency programme. The current budget process is identifying similar proposals for 2012/13. Individual projects and programmes are being monitored through the relevant Board and an overall dashboard approach to monitoring the efficiency programme is also being developed, which will also ensure that progress towards the financial deliverables of projects are monitored.</p>	<p>Corporate Management Team</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>Enhance the benefits derived from contract management of key contracts with the private sector.</p>	<p>The council delivers a number of its services in partnership with the private sector. The authority has recognised the scope to enhance current arrangements to improve the value it attains from its legal agreements and as such, is developing a contract management toolkit to achieve enhanced outcomes {Priority 9 – Resource’s Directorate Plan}.</p>	<p>The Contracting Toolkit is now available on the intranet. Additionally, contract management is included as a core module of the internal procurement training programme, and the tollgate project assurance process provides a scrutiny of contract management proposals.</p>	<p>Corporate Management Team</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
<p>To review and ensure the delivery of additional housing to reduce overcrowding.</p>	<p>The council is committed to providing high quality housing in line with the needs of the community. To achieve this, a programme is being developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}.</p>	<p>The council aims to reduce overcrowding through a programme of new build and acquisitions. This is being done principally through 5 routes. 1) New build negotiated from private developers, 2) Building Council Housing itself, 3) Building family housing on infill developments with a preferred partner, 4) Buying back ex-council RTB 3 bed plus properties 5) Reviewing the sub-regional nominations agreement.</p> <p>Progress:</p> <p>1) In 2008/9 2,839 net additional units were built of which 1,076 were affordable and 159 were socially rented family housing. In 2009/10 so far we have built 661 new units of which 476 were affordable of which 176 were large family sized socially rented housing.</p> <p>2) The council has secured funding to start building council housing itself from the HCA. We will build 17 units, housing 86 persons over 5 sites. The Council have put in a bid for a second wave of funding for 88 units housing 464 people. Outcome of the second wave funding bid will be announced in December 2010.</p> <p>3) The Council wish to carry out an initial pilot to build 31 units of family sized housing with a preferred development partner on small plots of council land. They will be a mixture of 3 bed, 4 bed and 5 beds. Sites have been identified, a preferred pilot partner is on board and the sites are now going through planning.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps	Progress Made To Date	CMT Lead
		<p>4) Buying back ex-council 3 bed plus Right to Buys properties. So far this year we have completed 25 sales which will benefit 50 overcrowded households. We have another 52 offers accepted. This will benefit a further 104 overcrowded households.</p> <p>We are actively pushing for a review of the sub-regional nominations agreement to maximise housing for local residents.</p>	

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Agenda Item 64

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Update on Risk Management			
ORIGINATING OFFICER(S): Service Head Risk Management	Ward(s) Affected: N/A			

1. Summary

- 1.1 This report gives an update on the Council's risk management arrangements. The purpose of this report is to give members of the committee an oversight of the authority's processes to facilitate the identification and management of significant business risks. The report also captures the risks reported to the CMT as part of risk management update on 3 November 2009.

2. Recommendation

- 2.1 The Audit Committee is asked to note:
- the contents of this report; and
 - the actions planned over the next year to embed risk management in section 8 of this report.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"

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

3. Background

- 3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is “..... the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it”.
- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control. The Use of Resources assessments have also focused on risk management as an integral part of sound systems of internal control.
- 3.3 At its inception, risk management came into being from failures in the private sector where seemingly sound organisations failed spectacularly. The focus was initially on the financial viability of such organisations and how financial risk was being managed. Increasingly however, the proactive approach to dealing with issues afforded by the risk management technique is acknowledged. Risk management is thus applied not just the financial consideration, but equally if not more so to non financial considerations including the management of all resources, reputational management, promoting innovation, supporting decision making and developing effective performance management.

4. Corporate Risk Register

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

5. Risk Champions Meeting

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

- Update and maintain directorate risks on JCAD Risk every quarter;
- Facilitate the embedding of risk management within the directorate;
- Maintain close liaison on risk and risk dynamics with individual service heads and DMT collectively
- Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
- Build a risk-aware culture within their directorate and disseminate good risk management practices;
- Provide advice and assistance as required;
- Obtain an update on planned actions from appropriate service heads for reporting to CMT; and
- Bring significant risks to the attention of the CMT.

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

5.3 The CMT last received an update on current risks on 3 November 2009. The main changes to risks and new and emerging risks identified in the report are summarised below.

Two emergent risks were identified and reported to at the last CMT, these being:

The “Southwark Judgement”

Identified at the last quarter, the status of this risk continues to be monitored. Its main aspects are that the recent “Southwark Judgement”, placing statutory responsibility on to local authorities to house homeless children (particularly 16-17 year olds), is identified as an emergent and significant financial risk and one which could become both corporate and directorate in its nature.

The Working Neighbourhood Fund

Also identified in the previous quarter and likewise continues to be monitored. The key aspect of this risk from the Working Neighbourhood Fund (WNF) is whether it can fund as intended up to 4,000 sustainable jobs in the borough and also whether its programmes and projects can be effectively administrated and managed to evidence performance against agreed funding outcomes.

The main corporate changes to risks identified in the CMT report are summarised below. :-

DRD0002 - Financial penalties for not achieving the CRC Energy Efficiency Scheme. This risk was emergent in the previous quarter and has now crystallized. It threatens financial levies for authorities that do not meet the desired target, fail to maintain the evidence pack or miss statutory deadlines.

CEBD0001 – Failure to deliver a credible public awareness campaign and also within budget for Tower Hamlets Together. It is foreseen that questions in the media, Whitehall about the Council, its probity and integrity as an authority able to properly manage public funds in an accountable and open manner could arise. Ultimately there could be damage to reputation impacting upon the ability to apply for and receive government aid/funding.

Swine Flu – A number of directorates have identified the risks arising from swine flu, in particular, services with social care. This is also a prominent risk for the Communications team. In this report, the nature of risk affecting each directorate has been shown to allow members to form a holistic view of the interdependencies of the risks.

Strategic Risk Register

The strategic risk register captures significant risks within directorates and is a key part of the corporate planning process. Over the last quarter, the main changes in risks deemed to be significant and/or to be newly-reported to the Audit Committee are as follows:-

At Development and Renewal

DRA0001 – Failure to deliver Decent Homes by 2016. The consequences of this risk impacting are seen as an adverse impact on the Council's CAA, loss of some £200M in funding, failure to improve stock and also damaged and downgraded reputation.

DRC0002 - Resources required by the Directorate to deliver its priorities are not available or not sustainable. The impacts of this risk are

identified as the requirement to make compensatory savings to balance budget, low staff morale, failure to deliver community, strategic and directorate priorities. Additionally, a failure to recruit/retain key staff, to develop and maintain systems as well as a negative impact on wider performance frameworks (CAA) is also foreseen.

At Resources

RSB0010 – Future settlement will be much lower than the current level. The current level of funding (in real terms) is seen as unsustainable requiring planning to meet the expected shortfalls. Consequences of this risk include inability to fund key priorities and service plans, revision of existing growth and savings plans and also revision of the MTFP.

RSC0001 - ICT service model for the ALMO not achieved. The impacts of this risk are envisaged to be reputation loss, loss of future budget and business and loss of economies of scale.

RSE0002 - The cost of administrative buildings may increase substantially from 2010/11 with any shortfall having to be made up from other sources of funding.

RSB0014 - Failure to deliver Financial Management Review Programme. The main consequence of this risk is seen as an inability to develop a financial management response to public sector spending cuts

Communities, Localities and Culture

CL002 – The Procurement Project for the Waste Strategy does not deliver a solution that is within budget. This is a financial risk wherein significant growth is required in future waste disposal budgets to cover the rising cost of waste disposal services.

CL0013 – Council IT infrastructure and externally provided IT services. The key aspect of this risk is seen as an inability of the Council to meet performance targets on public internet access and resultant/causal low customer satisfaction ratings.

At Adult Health & Wellbeing

AHC0001 – Insufficient capacity to manage sickness levels and other HR tasks is seen as potentially creating an adverse impact on the ability to deliver services.

AH0009 – Personalisation – Targets are not met in giving clients choice and control. The main consequences of this risk are seen as criticism from external inspectors, reputational downgrading, potential implications for attracting government funding and depressed staff moral

AH0010 – Personalisation – New resource allocation system leads to AHWB budget being overspent. Enforced financial cutbacks, possible redundancies and depressed staff morale are seen as potential consequences of this risk.

AH0012 – The expected swine flu pandemic impacts on AHWB capacity to maintain essential services.

At Children Families and Schools

CSD0006 –Implementation of actions arising from the Laming report into Baby P may require additional financial resource. Identified as an emergent risk in the previous quarter, this risk has now formed. Children Schools and Families, like all other local authority children's services departments, are waiting for the detailed response to the Laming recommendations to be made by the DCFF, which has yet to come, and which may require/necessitate further increases in resource levels in order for the recommendations to be implemented.

CSF0003 - There may be a failure to maintain the performance rating under the new Comprehensive Area Assessment (CAA). Consequences believed to impact in relation to this risk are loss of reputation, depressed staff morale, loss of funding and loss of flexibilities.

CSG0005 - The financial risk around the BSF programme and the existing PFI scheme with a linked and consequential delay in implementing capital investment works into schools. The primary potential impact of this risk is seen as the cost of coming out of the PFI scheme or amending the existing scheme having to be met from council funds. Additionally there could be a delay in funding being delivered into BSF schools (5 schools @ £70m).

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

6. Embedding Risk Management

6.1 Over recent months, a number activities have been initiated to further embed risk management, including:

- Half day training courses for risk management as part of the corporate Learning and Development programme;
- Induction to risk management for new starters;
- Risk management workshops for services to develop their risk management practices;
- Implementation and roll-out council-wide of the JCAD Risk Management database ;
- Migration of all risk data previously held on ad hoc spreadsheets to the JCAD database;
- JCAD Risk presentations to all DMTS;
- JCAD Risk training to all risk champions and also to date to over 90% of all service-heads council-wide;
- On-going discussions with officers to extend the JCAD Risk system to capture major project risks;
- Improved functionality and reporting capability (speed, accuracy, efficiency and quality) in risk management via the JCAD database ;
- On going assistance and advice to senior officers across the authority;
- A review and update of the risk management guidance used by staff and managers;
- Development of an e-learning tool capturing risk management, money laundering, and anti fraud;
- A simplification of the corporate and strategic risks and the accompanying procedures;
- A review of a number of electronic solutions to assist in the management and reporting of risks with a view to procuring a practical software;
- Creation of a Terms of Reference for the Tower Hamlets Partnership Risk Management Group which has been proposed to the Group, this arising from two meeting of the Group that took place over recent months with a third meeting to take in December 2009;
- Creation of a web portal to share best practice around partnership risks with key stakeholders within Tower Hamlets, such as the police, pct etc; and
- On-going discussions around the development of a risk management policy protocol with the Interim Director of Tower Hamlets Partnerships for Tower Hamlets Partnerships to link in with a review of the governance arrangements at the Partnership.

7. Use of Resources

- 7.1 Under the Use of Resources assessment, the Audit Commission assessed risk management as an element of Internal Control. For 2008/09, their assessment scored risk management 3 out of 4, which means that this area is performing well. To try and improve on this score under the Comprehensive Area Agreement, a number of actions are proposed, as detailed below.

8. Next Steps

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

- Further developing and consolidating use of the JCAD Risk Management database at the Council, specifically, extending use of JCAD to capture and report key project risks;
- Enhancing key performance indicators for monitoring the effectiveness of the risk management process;
- Undertaking further risk awareness and influencing briefings focused at member-level;
- Enhance risk management processes around project management;
- Continuing to lead, develop and embed the role of the Partnership Risk Management Group as a means of increasing the effectiveness of the risk management process;
- Continuing to strengthen the Council's operational and professional links with community and national risk register processes as established by the Civil Contingencies Act (2004), and to utilise these to inform and constructively challenge the Council's existing risk management arrangements and assumptions;
- Producing a Risk Management policy protocol for the Tower Hamlets Partnership (THP) that is owned and complies with best practice in the public sector whilst recognising the unique role of the Partnership in this arena;
- Capturing sustainability impact appraisals to support strategic policy decisions;
- Developing an effective e-learning tool further, which will facilitate a more flexible learning and provide a robust arrangement for training, particularly new starters; and
- Continuing to provide a relationship of effective training and support to the Council and its key partners, including third sector organisations where appropriate.

9. National Risk Register

- 9.1 The Audit Committee may be aware that the Cabinet Office published the National Risk Register in November 2008, which was reported to CMT on 16 December 2008 and subsequently to the Audit Committee in January 2009. The register was intended to capture the range of emergencies that might have a major impact on all, or significant parts of the UK. The register provides an assessment that the UK and its citizens could face over the next five years and is categories into three parts; accidents, natural events (collectively known as hazards) and malicious attacks (threats).
- 9.2 The Cabinet Office is updating the national risk register and plans to publish updates in the new year.

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. Equal Opportunity Considerations

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

13. Anti-Poverty Considerations

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

14. Risk Management Implications

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

15. Sustainable Action for a Greener Environment (SAGE)

- 15.1 There are no specific SAGE implications.

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Agenda Item 65

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Revised Internal Audit Plan 2009/10			
ORIGINATING OFFICER(S): Service Head Risk Management				
		Ward(s) Affected: N/A		

1. SUMMARY

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

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the contents of this report and to endorse the changes to the 2009/10 internal audit plan.

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

Brief description of "background papers"

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

3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2009. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology and the Audit Strategy are attached at Appendix 3. The audit plan also made provision for review of key financial systems, proactive fraud work and reactive fraud work.
- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:
- Requests from officers to perform audits that were not originally planned;
 - Changes made to existing systems and the need to allow a period of bedding in;
 - Make use of days provided in the original plan that had not been allocated to specific audits;
 - To avoid duplication of work with either the external auditor or other assurance provider; and
 - Additional commitment to unplanned work.
 - Provide a vacancy allowance for a post which is currently vacant and to be filled in by April 2010.

4. Updated Internal Audit Plan for 2009/10

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

Number of days originally planned	1,882
Plus: Additional audits added to the plan (Please refer to Appendix 1)	120
Less: Allocation of days to specific audits	75
Number of days per the amended plan	1,927

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. Equal Opportunity Considerations

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

8. Anti-Poverty Considerations

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

9. Risk Management Implications

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

10. Sustainable Action for a Greener Environment (SAGE)

10.1 There are no specific SAGE implications.

A Summary of Changes to the Internal Audit Plan – 2009/10

Auditable Area	Directorate	No. of days
<i>Audits Added / Amendments to the Original Plan</i>		
Legal Planning Meetings for Child Protection Cases	Assistant Chief Executive	15
Control and Monitoring of Void Dwellings – Stepney/Wapping	THH	10
Control and Monitoring of Void Dwelling Keys – Other Housing Areas	THH	15
Management and control over garages, sheds etc.	THH	15
Service Charges - Recovery	Resources	10
Directorate Based Budgetary Control	CLC, D&R and CSF	30
Pension Fund Investment	Resources	10
Translation Service	CSF	15
Sub Total		120
Management and Monitoring of Local Public Service Agreements	Chief Executive's	20
Caretaking Services	THH	15
Use of Unallocated days	CLC	20
Use of Unallocated days	CSF	5
Use of Unallocated days	AHW	15
Sub Total		75

Revised Audit Plan for 2009/10

Appendix 2

	Original Audit Days	Revised Audit Days	Pages
Corporate Systems and Council-wide reviews	150	130	2-4
Assistant Chief Executive's	30	105	5-6
Children's Services	387	407	6-9
Communities, Localities & Culture	120	90	10-11
Tower Hamlets Homes	150	170	12-15
Development & Renewal	90	70	15-16
Adult, Health and Wellbeing	75	40	17
Resources & core financial systems	260	295	18-20
Contract audit	50	50	21
Information Technology audits	130	130	21
VFM and Pro-active fraud	70	70	22
Follow up, management and reactive fraud provision	370	370	22
Total Provision	1,882	1927	-

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Management of Climate Change	This audit will review the Council's arrangements for managing climate change and carbon reduction initiatives.	M	20	From Audit Needs Analysis and Risk Register	A Great Place to Live Improve the environment and tackle climate change.
Health and Safety	Following recent changes in the legislative requirements, this audit will seek to provide assurance over the soundness and adequacy of Health and Safety issues at work place.	H	20	From Audit Needs Analysis and Risk Register	One Tower Hamlets Working efficiently and effectively as One Council.
Establishment Controls	This audit will examine the systems for controlling and managing establishment levels within the Corporate Directorates.	H	20	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Debt Management (Council Wide)	This review will examine the arrangements in place for the management of debt holistically across the authority.	H	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council.
Core Management Processes	This review will look to assess how the Council's core processes relating to people are applied in practice such as induction, PDRs, training and development.	H	15	Management request	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems</u>					
Risk Management	The Council's risk management arrangements are an important part of its Assurance Framework. This audit will review and report upon the soundness of arrangements in place for identifying, assessing and managing key risks to the Council at Strategic, Directorate and also at Service level.	H	20	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Contract management and monitoring	This review will examine the Council's arrangements for ensuring sound contract management and monitoring across all Directorates.	H	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u><i>Assistant Chief Executive's</i></u>					
Members Allowances	This audit will examine systems for managing and controlling allowances to the members of the Council.	M	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Legal Planning Meetings	This review will examine systems and controls in place for legal planning meetings for child protection cases	M	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Charges on Property	This audit will review the Council's arrangements for putting charges on property to ensure that where debt recovery or other enforcement actions have failed, the income due to the Council is appropriately secured. We will review the systems and procedures for commissioning services from the third sector organisations using the Council's	M	15	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Commissioning Approach to Mainstream Grants		M	20	From Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Working Neighbourhood Fund	The scope of this audit will be to review systems in place for managing and monitoring the WN funding.	H	20	Audit Needs Analysis and Management request	One Tower Hamlets Working efficiently and effectively as One Council
Local Area Agreements	This audit will review the arrangements for ensuring that arrangements for delivering the key targets and outcomes of LAA are sound and secure.	H	20	Audit Needs 6-Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
<u>Children, Schools and Family</u>	The scope of this audit would be to review the procurement arrangements for the wave 5 of secondary schools BSF initiative and primary Schools Capital programme. A current contract audit will be carried out on the building works at the two sample schools in the BSF programme.	H	25	Risk registers CS17 and CS18 and Audit Needs analysis.	One Tower Hamlets Working efficiently and effectively as One Council. A Prosperous Community Support lifelong learning opportunities for all.

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Common Assessment Framework	The objective of this audit will be to examine systems for managing and controlling the implementation of the CAF.	H	20	Risk registers CS20 and Audit Needs analysis.	A Safe and Supportive Community. Empower vulnerable people and support families.
ContactPoint Implementation and Accreditation	The implementation and use of the ContactPoint system requires accreditation checks by Internal Audit. This audit will provide assurance to the national CP team and the DCFS that arrangements made by LBTH are sound and secure.	H	15	Risk register and Audit Needs analysis.	A Safe and Supportive Community. Empower people and support vulnerable families.
Social Care Commissioning and Client Monitoring	This audit will review the systems in place for commissioning and monitoring social care services for children managed by the Strategy, Policy and Partnerships service of the Directorate.	H	20	Management request and Audit Needs analysis.	A Safe and Supportive Community. Empower vulnerable people and support families. One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Schools' Regularity Audit	School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management.	H	224	From Audit Needs Assessment	<p>A Prosperous Community Support lifelong learning opportunities for all.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council</p>
Financial Management Standards for Primary and Secondary Schools	The DCFS's guidance requires bigger primary schools to demonstrate good financial management arrangements by 31/03/2010. The S151 officer will need to show that the standards set by the DCFS have been met, or an action plan is in place to meet the standards. We plan to visit the respective number of primary schools during the year and integrate the DCFS's financial management standards into our audit programme for schools.	H	68	DCFS regulation on financial management standards at schools in line with the DCFS toolkit.	<p>A Prosperous Community Support lifelong learning opportunities for all.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council.</p>

INTERNAL AUDIT PLAN – 2009/10

Auditable System	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Management and control of surplus balances	This audit will seek to provide assurance on the systems and procedures for managing, controlling and monitoring schools surplus balances.	H	10	Management request and audit needs analysis	<p>A Prosperous Community Support lifelong learning opportunities for all.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council.</p>
Translation service	This audit will examine the management of translation service	M	15	Management Request	<p>A Prosperous Community Support lifelong learning opportunities for all.</p>
Budgetary Control	This audit will review systems for budget setting and budgetary control	M	10	Audit Needs Analysis and External Audit requirement as key financial system	<p>One Tower Hamlets Working efficiently and effectively as One Council.</p>

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

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Highways works	The systems and procedures for managing and controlling repairs and maintenance works to highways and footways will be examined during this audit.	M	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Budgetary Control	This audit will review systems for budget setting and budgetary control	M	10	Audit Needs Analysis and External Audit requirement as key financial system	One Tower Hamlets Working efficiently and effectively as One Council.

Tower Hamlets Homes

	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Financial Systems	H This review will provide assurance on the soundness and adequacy of the company's financial systems and procedures. This will include systems for treasury management, VAT, accounting, Bank Reconciliation, Creditors, Payroll etc.	20	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Performance Management	H This audit will seek to provide assurance that systems and procedures in place for performance management are sound, secure and are complied with.	15	Audit analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Budgetary Control	H Systems for planning controlling and monitoring budgets will be examined in this audit.	15	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.

Tower Hamlets Homes

	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Management and control of Keys to void dwellings – Stepney Wapping	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Management and control of Keys to void dwellings – other Housing Areas	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council.
Management of garages, sheds etc.	H	15	Management request	One Tower Hamlets Working efficiently and effectively as One Council.
Strategic Management of SLAs	M	10	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.

Tower Hamlets Homes

	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Systems Development work	H	10	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council.
Contract Audits	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.
Housing Repairs	H	20	Audit Needs analysis risk register.	A Great Place to Live. Provide affordable housing and strong neighbourhoods.

The objective of this work will be to advise management on procedures and controls during the systems development stages.

A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control.

This audit will examine systems for managing and controlling repairs to housing dwellings managed by THH. Arrangements for monitoring the performance of the repairs contractors will also be reviewed.

Tower Hamlets Homes

Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	Audit Days 20	Source of Audit	Link with Corporate Priorities
				One Tower Hamlets Working efficiently and effectively as One Council.	

Development and Renewal

Asset Management	This audit will examine systems for managing the assets of the Council to ensure that its strategic objectives and priorities are achieved.	H	20	Audit Needs analysis risk register DR9.	One Tower Hamlets Working efficiently and effectively as One Council.
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Management and control of Planning Permissions

This audit will examine systems for managing and controlling planning permissions.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council.
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Homelessness and Temporary Accommodation

This audit will examine systems in place for capturing homelessness cases and the arrangements placing them in temporary accommodation.	M	20	Audit Needs analysis risk register	A Safe and Supportive Community. Empower vulnerable people and support families.
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	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Budgetary Control	M	10	Audit Needs Analysis and External Audit requirement as key financial system	One Tower Hamlets Working efficiently and effectively as One Council.
This audit will review systems for budget setting and budgetary control				

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Governance of Pooled Agreements and Partnerships	This review will examine governance systems and procedures for partnership working with other organisations to provide adult services.	H	20	Audit Needs analysis risk register AS5	A Safe and Supportive Community. Empower people and support vulnerable families.
Integrated Commissioning of Mental Health	This audit will review the systems and controls for commissioning mental health services for adults using the integrated commissioning approach.	M	20	Risk register AS11	A Safe and Supportive Community. Empower vulnerable people and support families.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Housing and Council Tax Benefit		H	20	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One.
General Ledger incl. Budgetary Control		H	20		
Cashiers / Cash income		H	10		
Council Tax		H	15		
Sundry Debtors including Recovery and Write offs	Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach.	H	15		
Creditors		H	20		
Capital Accounting		H	10		
Pensions		H	10		
N.N.D.R.		H	10		
Personnel/Payroll		H	20		

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Housing Rents Investments /Loans/Prudential Borrowing		H H	10 10		
Support the work of External Audit by Mapping Key Financial Systems	Following the requirement of the International Auditing Standards to map all material financial systems, we have agreed with External Audit to complete this process over three years.	H	35	To identify key controls that facilitates good financial governance.	
Competitive tendering	This review will seek to provide assurance over the soundness and adequacy of the Council's competitive tendering arrangements for procuring works, goods and services.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One.
Parking Permits	Systems and procedures for issuing various parking permits by the Council's Chief Cashiers Office and by One Stop Shops will be reviewed.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
Service Charges - Recovery	This review will examine the system in place for ensuring that service charges debts are recovered in accordance with procedures	H	15	Audit needs analysis and management request	One Tower Hamlets Working efficiently and effectively as One.
VAT Management	This audit will review the arrangements for managing and administering VAT across the Council.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One.
Pension Fund Investment Management	- This audit will review the arrangements for managing the investment of its Pension Fund to ensure that key regulatory and legislative requirements are complied with.	M	10	Audit needs analysis and Audit Commission requirement	One Tower Hamlets Working efficiently and effectively as One.
Grant Claim - Teachers Pensions Return	This is an annual audit which examined the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	H	15	Audit Commission requirement	One Tower Hamlets Working efficiently and effectively as One.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Contract Audit</u>					
Contract Audit Reviews	These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations.	H	50	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One.
<u>Information Technology Audits</u>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	-	130	Risk Registers CO5 and management request	One Tower Hamlets Working efficiently and effectively as One.

INTERNAL AUDIT PLAN – 2009/10

Audit Name	Broad Scope	Risk Assessment	Audit Days	Source of Audit	Link with Corporate Priorities
<p><u>Value for Money Audits</u> Procurement of Temporary Accommodation</p>	<p>This audit will provides assurance over the soundness and adequacy of the Council's arrangements for procuring temporary accommodation for homeless families.</p>	<p>H</p>	<p>20</p>	<p>Audit Needs analysis and risk register AS10</p>	<p>One Tower Hamlets Working efficiently and effectively as One.</p>
<p>Proactive Fraud Work</p>	<p>A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised.</p>	<p>H</p>	<p>50</p>	<p>Part of the contract</p>	<p>One Tower Hamlets Working efficiently and effectively as One.</p>
<p><u>Follow Ups</u></p>	<p>Follow-up of reviews carried out in 08/09 to ensure implementation of audit recommendations.</p>	<p>H</p>	<p>110</p>		<p>One Tower Hamlets Working efficiently and effectively as One.</p>

Governance-based Audit Assessment Methodology

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Strategy

Introduction

What is Internal Audit?

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

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

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

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

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

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

Why do we need an Internal Audit Strategy?

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

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

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

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

The Role and Purpose of Internal Audit

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

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

Strategic Aims

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

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

Internal Audit & Risk Management

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

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

Identifying Audit Coverage

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

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

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

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

Delivering the Strategy

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

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

Audit Reporting

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

Quality

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

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

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Agenda Item 66

REPORT TO: Audit Committee	DATE 15 December 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Progress on National Fraud Initiative 2008-09 and Anti Fraud Update		
ORIGINATING OFFICER(S): Head of Audit Services				
		Ward(s) Affected: N/A		

1. SUMMARY

- 1.1 This report updates Audit Committee of the current progress of the National Fraud Initiative 2008 -09 and provides an overview of anti fraud work undertaken during the past six months by Audit Services.

2. RECOMMENDATIONS

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

3. INTRODUCTION

- 3.1 This report updates the Audit Committee of the current progress of the National Fraud Initiative 2008 -09 and provides an overview of anti fraud work undertaken during the past six months by Audit Services.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"

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

Minesh Jani – 0207 364 0738

4. NATIONAL FRAUD INITIATIVE 2008-09

4.1 The National Fraud Initiative 2008-09 was launched by the Audit Commission in July 2008 and spans over a two year period from July 2008 to December 2009. The NFI data was supplied to the Audit Commission in October 2008 with the resultant output reports being issued to the Council in February 2009. The coverage of this year's NFI was extended to include new mandatory data sets with the objectives of identifying fraud or error on the following key areas :-

- Benefits fraud (housing and Council Tax)
- Employee fraud (employees with Border Agency issues and rights to work and employees failing to declare other employment which may have a conflict)
- Pension fraud/overpayments to deceased pensioners
- In appropriate Right - to - Buy
- Illegal tenancies and temporary accommodation
- Multiple insurance claims
- Creditors address book
- Potential duplicate payments
- In-appropriate issue/abuse of parking permits, blue badge or freedom passes

4.2 For the current NFI, since the reports issued in February 2009 there has been a second NFI data match run, which generally concerned matches where data had either been submitted late or had to be resubmitted (LBTH data was submitted on time). Additionally in May 2009 LBTH participated in a pilot run of homelessness data. As a result of this the Authority has received over 18,000 matches from the Audit Commission for examination/investigation.

4.3 In acknowledgement by the Audit Commission that all outputs may not be actual frauds or errors, the Commission has developed its own risk assessment for each output report and formulated a recommended filter to be applied to the output identifying the cases most likely to be of concern. The application of the recommended filter has reduced the circa 18,000 output to 2,242 (2,176 plus 66 from second run).

4.4 To manage the NFI the Internal Audit Service has set its own targets in order to achieve the objectives set out by the Audit Commission, these are :-

- 30th June 2009 - All recommended filter matches to be open and reviewed

- 30th September 2009 - All recommended filter matches to be examined and close all cases that are not required for further investigation
 - 31st December 2009 – All cases not being pursued for fraud/recovery to be closed
- 4.5 From the attached Appendix A it is confirmed that the targets for June and September have been met. It should also be noted that the Authority has not only looked at the recommended filter matches, it is also reviewing all other reports and applying its own filter or local knowledge for the additional test and following up individual cases. In appendix A shows that over 4,000 matches have already been examined and closed, open for investigation or designated as fraud or error.
- 4.6 So far, the NFI 2008-10 exercise has identified 28 cases of error and 6 cases of fraud which account for overpayments totalling some £98K.
- 4.7 In early 2008 a second NFI run had been also carried out matching single person's discounts to the electoral role, the work on this to date has resulted in 1,618 single persons discounts being ended with a total annual saving of circa £370K.
- 4.8 In October 2009 the Audit Commission was asked to support the RH John Healey MP action on identifying illegal and unauthorised tenants to stamp out tenancy fraud. All local authorities and the larger RSL's nationwide have been approached and participated in the release of tenancy data to support this action. The results of this is due within the next two months.

5. AUDIT COMMISSION EXAMINATION

- 5.1 The Audit Commission are able to view the progress of each authority in managing the NFI as the Commission have remote access to all sites via a web link. In September 2009 a site visit was undertaken on a number of Local Authorities to evaluate progress and resolve any queries and Tower Hamlets was inspected. The inspection confirmed that the Council was on target to meet the prescribed deadlines for managing the data and that there were no concerns resulting from the inspection that required follow up.
- 5.2 The deadlines for completing the exercise are being met and the remaining key dates for making the returns to the Audit Commission are 31 December 2009 with all outstanding investigations to be resolved or evidence of being investigated met by 31 March 2010.

6. ANTI FRAUD AND RISK AWARENESS TRAINING

- 6.1 Audit Services have undertaken two training initiatives during 2009-10, with further training exercises planned for the second half of the financial year.
- 6.2 These were in regard to Anti Money Laundering training for key Finance staff across the authority and formed part of our e-learning package which was developed in partnership with Legal Services, Organisational Development and an outside Solicitor's covering Anti Money Laundering and Anti Fraud and Corruption arrangements, Governance Standards and Risk Management including Code of Conduct for Employees and Members.
- 6.3 The training was delivered to the Resources Directorate and presented as a joint presentation between Legal and Audit Services and covered Ethical Standards to prevent Fraud and Corruption.

7. OTHER KEY ACTIVITIES UNDERTAKEN DURING THE YEAR TO DATE

- 7.1 Audit Services has also worked closely with the Police on two specific matters which have been recently finalised. One involved the prosecution of a former temporary employee for defrauding the Council of £22,000 coming from a range of deceptions. The matter has been successfully prosecuted with the culprit pleading guilty and being handed down a fifty two week sentence suspended for two years, a curfew for four months between the hours of 9 .00 pm and 7.00 am each day for four months, 200 hours unpaid work and electronic tagging.
- 7.2 The deterrent value of this case is considered considerable with press coverage being reported in the local press as well as the Councils own free newspaper, East End Life.
- 7.3 The system of control within the service area has been improved following this inquiry and revised operational arrangements have been introduced to manage risks more effectively.
- 7.4 The other matter involved a former School Governor who had stolen a sum of money from a Governor's group facilitated by the School. The School Governor has admitted to the theft and the Police have issued her with a formal Caution.
- 7.5 The Audit Service has also provided support to Directorates upon request.

- 7.6 The Audit Service has also worked jointly with the Procurement Team to minimise fraud and loss on the use of the corporate purchase cards.
- 7.7 We have also continued to develop closer working arrangements with the Parking Service and Legal Services with regard to Blue Badge irregularity and worked corporately where instances of Blue Badge irregularity has involved members of staff.
- 7.8 We have challenged ourselves against the requirements of the CIPFA Red Book 2 publication ‘ Managing the Risk of Fraud’ which was evaluated by an independent legal advisor and a detailed action plan is in place to ensure the Council achieves full compliance of the enhanced standards by the end of this financial year.
- 7.9 To this end the Head of Audit Services is leading on this to ensure that other parts of the Council make the necessary enhancements to processes and procedures and to ensure joined up working is developed further.
- 7.10 We have also developed a protocol for joint working between the PCT and Audit Services and Housing Benefits and are utilising Government funding to establish the extent of Housing Fraud within the authority by developing pro active drives to identify savings. This is being developed in conjunction with four other Local Authorities within the North East London area.
- 7.11 We are also undertaking an “in house” exercise looking at debts from a corporate perspective. It is proposed to examine a range of the authority’s debtors, with a view to profiling debts to provide information to support whether a corporate approach to recovery would be more effective and economical.

8. Comments of the Chief Financial Officer

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

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

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

10. Equal Opportunity Considerations

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

11. Anti-Poverty Considerations

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

12. Risk Management Implications

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

13. Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications.

APPENDIX A

13-Nov-2009

NATIONAL FRAUD INITIATIVE 2008/2009
AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
1	Housing Benefit Claimants to Student Loans, high quality, within bodies	100	0	Opened	65	140	5	1	£69217.93
2	Housing Benefit Claimants to Student Loans, high quality, between bodies	32	0	Opened	27	26	0	0	£0.00
3	Housing Benefit Claimants to Student Loans, medium quality, within bodies	1	0	Opened	1	1	0	0	£0.00
4	Housing Benefit Claimants to Student Loans, medium quality, between bodies	3	0	Opened	2	7	0	0	£0.00
13	Housing Benefit Claimants to Payroll, high quality, within bodies	4	0	Opened	131	4	0	2	£0.00
13.1	Housing Benefit Claimants to Payroll Pensions, high quality, within bodies	1	0	Opened	42	3	0	0	£0.00
14	Housing Benefit Claimants to Payroll, high quality, between bodies	4	0	Opened	35	2	0	8	£0.00
14.1	Housing Benefit Claimants to Payroll Pensions, high quality, between bodies	15	0	Opened	7	8	0	3	£31235.42
17	Housing Benefit Claimants to Payroll, address quality, within bodies	83	0	Opened	439	276	0	0	£1668.05
17.1	Housing Benefit Claimants to Payroll Pensions, address quality, within bodies	8	0	Opened	8	0	0	0	£0.00
18	Housing Benefit Claimants to Payroll, address quality, between bodies	82	3	Opened	22	72	0	0	£0.00
18.1	Housing Benefit Claimants to Payroll Pensions, address quality, between bodies	137	0	Opened	45	92	0	1	£0.00

IMPORTANT! : This summary includes matches that occurred in previous years.

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NATIONAL FRAUD INITIATIVE 2008/2009
 AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
20	Housing Benefit Claimants to Asylum Seekers, high quality, between bodies	3	0	Opened	6	3	0	0	£0.00
21	Housing Benefit Claimants to Asylum Seekers, medium quality, between bodies	5	0	Opened	5	3	0	0	£0.00
23	Housing Benefit Claimants to UK Visas, high quality, between bodies	3	1	Opened	3	1	0	1	£9892.05
24	Housing Benefit Claimants to UK Visas, medium quality, between bodies	29	25	Opened	16	97	0	0	£0.00
26	Housing Benefit Claimants to Housing Benefit Claimants, high quality, within bodies	20	0	Opened	5	23	0	1	£0.00
27	Housing Benefit Claimants to Housing Benefit Claimants, high quality, between bodies	35	0	Opened	32	6	0	11	£0.00
28	Housing Benefit Claimants to Housing Benefit Claimants, medium quality, within bodies	4	0	Closed	5	0	0	0	£0.00
29	Housing Benefit Claimants to Housing Benefit Claimants, medium quality, between bodies	13	0	Closed	14	0	0	0	£0.00
31	Housing Benefit Claimants to Housing Rents, high quality, between bodies	1	1	Closed	2	0	0	0	£0.00
32	Housing Benefit Claimants to Housing Rents, medium quality, within bodies	42	0	Opened	38	4	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2008/2009
 AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
33	Housing Benefit Claimants to Housing Rents, medium quality, between bodies	35	2	Closed	38	0	0	0	£0.00
37	Housing Benefit Claimants to Right to Buy, medium quality, between bodies	15	0	Opened	15	1	0	0	£0.00
45.1	Housing Benefit Claimants to Insurance Claimants, high quality, within bodies	7	0	Opened	4	21	0	0	£0.00
45.3	Housing Benefit Claimants to Insurance Claimants, medium quality, within bodies	1	0	Opened	2	2	0	0	£0.00
45.5	Housing Benefit Claimants to Insurance Claimants, address quality, within bodies	4	0	Opened	11	17	0	0	£0.00
46.1	Housing Benefit Claimants to Market Traders, high quality, within bodies	21	0	Opened	7	67	0	0	£0.00
46.2	Housing Benefit Claimants to Market Traders, high quality, between bodies	1	0	Opened	0	3	0	0	£0.00
46.3	Housing Benefit Claimants to Market Traders, medium quality, within bodies	1	0	Opened	0	1	0	0	£0.00
46.5	Housing Benefit Claimants to Market Traders, address quality, within bodies	31	0	Opened	8	133	0	0	£0.00
46.6	Housing Benefit Claimants to Market Traders, address quality, between bodies	2	0	Opened	1	13	0	0	£0.00
47.2	Housing Benefit Claimants to Taxi Drivers, high quality, between bodies	75	1	Opened	4	74	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2008/2009

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
47.4 Medium	Housing Benefit Claimants to Taxi Drivers, medium quality, between bodies	3	0	Opened	0	3	0	0	£0.00
47.6 Low	Housing Benefit Claimants to Taxi Drivers, address quality, between bodies	54	0	Opened	11	43	0	0	£0.00
48.3 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, within bodies	2	0	Opened	0	4	0	0	£0.00
48.4 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, between bodies	1	1	Opened	0	4	0	0	£0.00
48.5 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, within bodies	30	0	Opened	7	122	0	0	£0.00
48.6 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, between bodies	1	0	Opened	0	8	0	0	£0.00
52 High	Payroll Pensions and Pension Gratuity to Benefits Agency Deceased Persons, high quality, within bodies	26	0	Opened	66	27	0	0	£15675.08
54 High	Payroll Pensions to Payroll, high quality, within bodies	26	0	Opened	38	0	0	0	£0.00
55 High	Payroll Pensions to Payroll, high quality, between bodies	29	1	Opened	24	1	0	0	£0.00
65 High	Payroll to Payroll, high quality, within bodies	1	0	Opened	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

13-Nov-2009

NATIONAL FRAUD INITIATIVE 2008/2009

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
66	Payroll to Payroll, high quality, High	11	1	Opened	168	8	0	0	£0.00
69	Payroll to Asylum Seekers, high quality, between bodies	2	0	Closed	2	0	0	0	£0.00
70	Payroll to Asylum Seekers, medium quality, between bodies	1	0	Opened	0	1	0	0	£0.00
72	Payroll to UK Visas, high quality, between bodies	3	0	Opened	1	2	0	0	£0.00
73	Payroll to UK Visas, medium quality, between bodies	38	28	Opened	67	3	1	0	£13319.52
75	Payroll to Housing Benefit Claimants, high quality, between bodies	1	0	Opened	2	3	0	0	£0.00
102	Housing Rents to Housing Rents, medium quality, within bodies	233	0	Closed	245	0	0	0	£0.00
103	Housing Rents to Housing Rents, medium quality, between bodies	29	0	Opened	19	12	0	0	£0.00
111	Housing Rents to Housing Benefit Claimants, high quality, between bodies	2	0	Opened	1	1	0	0	£0.00
113	Housing Rents to Housing Benefit Claimants, medium quality, between bodies	40	0	Opened	3	0	0	0	£0.00
144	Right to Buy to UK Visas, medium quality, between bodies	2	2	Opened	21	0	0	0	£0.00
150	Right to Buy to Housing Rents, medium quality, within bodies	33	0	Closed	44	0	0	0	£0.00

IMPORTANT - This summary includes matches that occurred in previous years.

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NATIONAL FRAUD INITIATIVE 2008/2009
 AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
151	Right to Buy to Housing Rents, medium quality, between bodies	4	0	Opened	6	2	0	0	£0.00
154	Right to Buy to Right to Buy, medium quality, within bodies	2	0	Opened	16	0	0	0	£0.00
156	Right to Buy to Housing Benefit Claimants, high quality, within bodies	263	0	Opened	278	10	0	0	£0.00
158	Right to Buy to Housing Benefit Claimants, medium quality, within bodies	6	0	Closed	12	0	0	0	£0.00
159	Right to Buy to Housing Benefit Claimants, medium quality, between bodies	1	0	Closed	29	0	0	0	£0.00
172.1	Blue Badge Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	252	0	Opened	150	102	0	0	£0.00
172.2	Concessionary Travel Passes to Benefits Agency Deceased Persons, high quality, within bodies	97	0	Closed	97	0	0	0	£0.00
172.3	Resident Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	15	0	Closed	35	0	0	0	£0.00
173	Private Residential Care Homes to Benefits Agency Deceased Persons, high quality, within bodies	14	0	Opened	0	14	0	0	£0.00
180.1	Insurance Claimants to Insurance Claimants, high quality, within bodies	17	0	Opened	17	2	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

13-Nov-2009

NATIONAL FRAUD INITIATIVE 2008/2009
 AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Run1	Total Run2	Status	Processed	In Progress	Frauds	Errors	Savings
180.2 High	Insurance Claimants to Insurance Claimants, high quality, between bodies	2	0	Opened	2	1	0	0	£750.00
180.3 Medium	Insurance Claimants to Insurance Claimants, medium quality, within bodies	7	0	Opened	7	2	0	0	£0.00
180.4 Medium	Insurance Claimants to Insurance Claimants, medium quality, between bodies	1	0	Opened	1	0	0	0	£0.00
180.5 Low	Insurance Claimants to Insurance Claimants, address quality, within bodies	95	0	Opened	95	0	0	0	£0.00
180.6 Low	Insurance Claimants to Insurance Claimants, address quality, between bodies	14	0	Opened	14	0	0	0	£0.00
TOTAL		2176	66		2519	1475	6	28	£141758.05

IMPORTANT : This summary includes matches that occurred in previous years.

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Agenda Item 67

COMMITTEE: Audit Committee	DATE: 15th December 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources	TITLE: Treasury Activity for Period Ending 30th November 2009			
ORIGINATING OFFICER(S): Alan Finch	Ward(s) affected: N/A			

1. SUMMARY

- 1.1 This report advises the Committee of Treasury Management activity for the year up to 30th November 2009.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year.

2. RECOMMENDATIONS

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

3. BACKGROUND

3.1 This report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year.

4. TREASURY ACTIVITY FOR PERIOD 1ST APRIL to 30th November 2009.

4.1 The following sections of the report set 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 30th November 2009.

5 CREDIT CRITERIA

5.1 The following 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 £25m	UK Institutions up to £10m	Overseas Institutions up to £10m
Short Term	F1+	F1+	F1+
Long Term	AA-	AA-	AA-
Individual	B	BC	AB
Support	2	3	2

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings are monitored on a monthly basis and the Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service.

5.2 In response to the recent instability in capital markets and the banking sector the Corporate Director of Resources has restricted the 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	County 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 (Santander)	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 Building Society	UK	Y
Royal Bank of Scotland	UK	Y

6. INVESTMENT STRATEGY

6.4 The Council's treasury management advisor, 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 has 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.

6.5 Sector has calculated that the Council 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

Projection			Actual Deal			
Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	15	0.75%	Abbey National plc	Call	5.045	
			Clydesdale Bank plc	Call	0.488	
			Alliance & Leicester	Call	5.109	
			Bank of Scotland plc	Call	6.463	

			SUB TOTAL		17.105	
1 Month	5	0.70%				
2 Months	10	1.30%				
3 Months	30	1.30%				
6 Months	5	1.60%	Nationwide	1 st Dec 2009	5.0	1.45%
			The Royal Bank of Scotland	15 th Dec 2009	5.0	1.26%
			Cater Allen (Santander)	29 th Dec 2009	5.0	2.30%
			Nationwide	15 th Jan 2010	5.0	1.21%
			Lloyds TSB	17 th Feb 2010	5.0	1.25%
			Nationwide	15 th Apr 2010	5.0	0.80%
9 Months	10	1.70%	Cater Allen (Santander)	1 st Mar 2010	5.0	2.60%
			Barclays Bank plc	11 th Feb 2010	5.0	1.80%
			Nationwide	30 th July 2010	5.0	0.99%
12 Months	25	2.00%	Cater Allen (Santander)	14 th May 2010	5.0	3.00%
			Barclays Bank plc	27 th Apr 2010	10.0	2.15%
			SUB TOTAL		60.0	
	£ 100		TOTAL		£ 77.105	

6.6 The deals effected in the period and those brought forward from 2008-9 are as set out in appendix 1. These deals comply with the counterparty credit criteria as set out in table 2.

6.7 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.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

8 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

8.1 The Committee is asked to note the information in the report concerning the Councils treasury transactions undertaken by the Corporate Director of resources under delegated powers.

9. ONE TOWER HAMLETS CONSIDERATIONS

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

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 Any form of investment inevitably involves a degree of risk.
- 11.2 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, 4th Floor.*

Investment Transactions 2009-10

	Investments made before 1 April 2009 £m	Raised £m	Realised £m	Investments Outstanding 30th November 2009 £m
Australia and New Zealand Banking Group Ltd				
Commonwealth Bank of Australia				
National Australia Bank Ltd	12	65	(77)	
National Australia Bank Ltd				
Westpac Banking Corporation				
Alliance & Leicester	5		(5)	
Abbey National plc	25		(25)	
Bank of Scotland plc	17		(17)	
Barclays Bank plc		25	(10)	15
HSBC Bank plc				
Lloyds TSB Bank plc		5		5
National Westminster Bank				
Royal Bank of Scotland		20	(15)	5
Nationwide	5	60	(45)	20
DBS Bank Ltd				
Oversea-Chinese Banking Corporation Ltd				
United Overseas Bank Ltd				
Dexia Bank Belgium - London Branch	10	75	(85)	
Co-Operative Bank		5	(5)	
Cater Allen (Santander)		15		(15)
Total	74	270	(284)	60