

Meeting of the

AUDIT COMMITTEE

Tuesday, 30 March 2010 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 Councillor Stephanie Eaton Councillor Clair Hawkins Councillor Denise Jones Councillor Abjol Miah, (Leader of the Respect Group) Councillor David Snowdon, (Conservative)	Councillor M. Shahid Ali, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones) Councillor Lutfu Begum, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones) Councillor Rupert Eckhardt, (Designated Deputy representing Councillor David Snowdon) Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah) Councillor Abdul Munim, (Designated Deputy representing Councillor Abjol Miah) Councillor Muhammad Abdullah Salique, (Designated Deputy representing Councillors Fazlul Haque, Helal Abbas, Clair Hawkins and Denise Jones)

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

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Caroline Chalklin, Democratic Services
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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 30 March 2010

7.30 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

	PAGE NUMBER	WARD(S) AFFECTED
3. UNRESTRICTED MINUTES	3 - 12	

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 15 December 2010.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4 .1	Audit Opinion Plan - London Borough of Tower Hamlets 2009-10	13 - 28
4 .2	Audit Opinion Plan - London Borough of Tower Hamlets Pension Fund 2009-10	29 - 42
4 .3	Certification of Claims and Returns - London Borough of Tower Hamlets 2008-09	43 - 58

UNRESTRICTED TOWER HAMLETS ITEMS FOR CONSIDERATION

4 .4	Quarterly Internal Audit Assurance Report December 2009-10 (Pages 59 - 100)	
4 .5	Annual Internal Audit Plan 2010-11 (Pages 101 - 156)	
4 .6	Annual Anti-Fraud Plan 2010-11 (Pages 157 - 170)	
4 .7	Anti--Fraud and Corruption Strategy (Pages 171 - 216)	
4 .8	Treasury Activity for the period ending 28 February 2010	
4 .9	Changes to Local Government Reporting Standards (Pages 217 - 222)	

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Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.30 P.M. ON TUESDAY, 15 DECEMBER 2009

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

Members Present:

Councillor Fazlul Haque (Chair)
Councillor Clair Hawkins
Councillor Denise Jones
Councillor Dr. Emma Jones

Other Councillors Present:

None.

Officers Present:

Chris Naylor	– (Corporate Director, Resources)
Alan Finch	– (Service Head, Corporate Finance, Resources)
Minesh Jani	– (Service Head, Risk Management)
Tony Qayum	– (Head of Audit Services, Internal Audit)
Steve Vinall	– (Service Manager, Deloitte & Touche)
Sayeed Kadir	– (Directors of Tower Hamlets Homes)
Jackie Odunoye	– (Service Head Strategy Regeneration and Sustainability, Development & Renewal)
John Chilton	– (Head of Parking Services, Communities Localities and Culture)
Zoe Folley	– (Committee Officer, Democratic Services Chief Executive's)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillors Abbas, Eaton and Snowdon. It was also reported that Councillor Dr Jones would be deputising for Councillor Snowdon.

Noted.

APPOINTMENT OF VICE CHAIR FOR MEETING

In view of the unavailability of the Vice – Chair Councillor Abbas, the Chair Councillor Haque sought nominations for the appointment of a Vice – Chair for the duration of the meeting.

Accordingly it was **RESOLVED** that Councillor Hawkins be appointed Vice – Chair for the duration of the meeting.

2. DECLARATIONS OF INTEREST

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

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

3. UNRESTRICTED MINUTES

RESOLVED that subject to the amendment below the unrestricted minutes of the meeting held on 29th September 2009 be approved -

Minute 6.1 (Tower Hamlets Annual Governance Reports 2008/09) – Second Paragraph be reworded to state that in relation to the £120m assets incorrectly included in the previous years balance sheet, Councillor Haque queried the reasons for this and asked that it be clarified.

ACTION BY: Zoe Folley (Democratic Services)

4. DEPUTATIONS AND PETITIONS

None received.

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)

Mr Minesh Jani (Service Head Risk Management) introduced the report and explained the four assurance ratings assigned to each area audited for the benefit of the Committee.

Mr Jani reported that the percentage of priority 2 recommendations implemented at the follow stage was 71% but the target was 95% and reaching this was a key aim. Corporate wide action had been taken to improve this score. It was anticipated that this would have the desired effect.

In reply to a question from Councillor Haque, Mr Jani reported that all of the recommendations not implemented were submitted to and discussed with the Corporate Directors and this enabled them to be considered with Audit what needed to be done.

It was **RESOLVED** that a progress report be submitted to the next meeting of the Committee (highlighting progress in reaching the targets). It was also **RESOLVED** that where no progress had been made, the Corporate Director be asked to submit a written response explaining the reasons for the lack of progress.

ACTION BY: Minesh Jani (Service Head Risk Management)

(a) Management of Major Works – Systems Audit - Limited (Extensive Assurance)

Mr Jani reported on the reasons why the above had been assigned a limited assurance. Overall it was considered that the systems of control for recovering outstanding arrears and debt recovery needed to be strengthened. Mr Jani welcomed to the meeting Ms Jackie Odunoye (Service Head Strategy - Innovation & Sustainability) and Sayeed Kadir (Director of Tower Hamlets Homes).

The officers reported the following points:

- Ms Odunoye reported that since the fieldwork had been completed a considerable amount of progress had been made. The Council and Tower Hamlets Homes had implemented a major Leaseholder Improvement Programme and had submitted a report to the Corporate Management Team on leaseholder service charges.
- The contract framework had been re tendered. There was also specific/individual contract tendering to improve performance and progress had been made in bringing the contractors final accounts up to date. The final accounts were updated on a monthly basis.
- As part of the Leaseholder Improvement Plan, consideration would be given to putting fees against properties. The Tower Hamlets Homes Board received regular reports where debt recovery and collection was covered in a significant way.
- Mr Kadir reported that the contacts for major works had been re tendered as a result they were now more cost efficient. Where there was a legal issue that could not be resolved and it was not possible to implement the final certification, time limits would be put on cases to force completion. The key target was to complete work on time and the Staff Performance Development Reviews would focus on this. There was also proactive recovery letters, and action to encourage the use of direct debit. Last month (November 2009) the target for recovery had been exceeded. The sum recovered was £1.4 million representing the services best performance in three years. The target for this month was £1 million as of today (15th December 2009) the service had collected £700,000.

Councillor Hawkins queried the overall level of debt, the number of write offs and the number of charges not being put on properties. Ms Odunoye stated that the collection figures for debt recovery had risen throughout the year. The target for the third quarter was £15,000 and at this point in the year it expected that the third quarter target would only narrowly be missed. The service was looking to half the overall level of major works debt by the end of the year. Tower Hamlets Homes was preparing a schedule for major works write offs to be completed by the end of this year and then subjected to the Council's processes. In cases where leaseholders at risk of losing their properties were unable to pay for the charges, Tower Hamlets Homes was exploring alternative recovery routes.

Councillor Haque queried at which point in the process would a debt be written off and the mortgage company be contacted? Mr Kadir clarified that the service had a qualified in house debt advisor. The mortgage company would only be contacted as a last result option. There was a timescale for major works and they were carried out in accordance with the statutory legislation and the leaseholder contracts.

The service had also starting undertaking up front charges and incremental billing as each section of work was completed to enable customers to pay in stages.

(b) Teesdale Estate Concrete Works and Associated Repairs (Limited, Moderate Assurance)

Sayeed Kadir (Director of Tower Hamlets Homes) reported on progress made in implementing the outstanding recommendations from the original audit in June 2008.

Mr Kadir reported that the contracts for the work previously covered by the Framework Contracts had been re tendered and they also had made the Quantity Surveyors responsible for overseeing the costs of work.

Mr Kadir met with Audit on a regular basis to consider the audit recommendations and they were also submitted reports to the Tower Hamlets Homes Finance Board and the Council's Finance Team on a quarterly basis. It was **RESOLVED** that a progress report be submitted to a future meeting of the Audit Committee.

**ACTION BY: Minesh Jani (Service Head Risk Management)
Democratic Services**

(c) Management and Control of Blue Badges – Systems Audit

Mr John Chilton (Head of Parking Services, Communities Localities and Culture) reported on progress made in implementing the audit recommendations for the management and control of Blue Badges .

He referred to the recommendations regarding the Parking Services (CRM) IT system. There was currently a major procurement process underway to replace the system and it was expected that a new award for the replacement of the system would be made in the new year. Therefore the difficulties with accessing the system, producing management reports for quality control purposes would be addressed. The structural review of the service was underway and it was expected the vacant posts (for Parking Permit Officer and Team Leader Investigations) would be appointed to in the new year. The Mobility Contract had gone out to tender and this process should be completed by the middle of June 2010.

In reply to questions, Mr Chilton reported that in terms of customer feedback the main issues were lack of monitoring, response times to enquiries and the appeals process. Steps were being taken to address all of these issues. The service was using customer feedback to improve performance.

Councillor Haque queried whether the systems for collecting income could be made more robust?

Mr Chilton clarified that the Mobility Team handled less than £10,000 per annum in respect of the Freedom Bus Passes and the Blue Badge Stock. He also reported that the system for collecting income was about to change. Subject to Cabinet approval, the Mobility Team would no longer handle and administer the charges for Freedom Bus passes. The service had decided to allow London Council's to carryout this function. This should address the issues around collection and banking. The Mobility Team would continue to charge for the replacement of the Blue Badge stock (used in conjunction with the Tower Hamlets Parking permit as an anti theft measure), which was a disabled persons badge. It was believed that the Team should continue to charge for this. The issues around the speed of payments had also been resolved.

RESOLVED that the feedback presentations on the limited assurance risks be noted.

6.2 Annual Internal Audit Report for Schools – 2008/09 (AC/002/09)

Mr Steve Vinnel (Deloitte & Touche) presented the findings of the Annual Audit Report for Schools for 2008/09 drawing attention to the common findings and the conclusions.

In reply to a question from Councillor Jones, Mr Vinnel stated that the findings of the Audit were reported to the Head Teachers and the School Governors. The Audit Inspectors also held exit interviews with the school staff. At which they would highlight the key findings and would agree recommendations. Schools were also sent copies of draft reports.

Councillor Haque considered that the systems in place in schools needed to be strengthened given most schools audited only met the minimum standards. He considered that the findings in respect of CRB checks were a particular cause for concern.

In reply to a further question about the Council's role in strengthening the systems of control, Mr Jani reported that the systems of control in place varied between individual Schools. The Council could take steps to ensure the key objectives were met. It was intended that the Corporate Directors and Children's School's and Families would formulate an improvement plan based on the findings and that often school audits were followed up with an intensive level of support from Children's Schools and Families.

Councillor Haque considered that there were inconsistencies between schools and that this needed to be addressed. He commented that the number assigned substantial assurance (eight) was quite low. Members considered that an implementation plan should be produced to show how schools planned to improve. It was **RESOLVED** that this information would be reported back to the Committee in March. Councillor Haque also considered it important to establish which schools were reaching the standards. It was **RESOLVED** that this information be included in the report requested.

RESOLVED: That the contents of the report (AC/002/09) be noted and the matters raised by audit in each of the 12 areas examined be taken into account.

ACTION BY: **Mr Steve Vinnel (Deloitte& Tauche)**
 Minesh Jani (Service Head Risk Management)

6.3 Annual Governance Statement for the 2008/09 Accounts Update (AC/003/09)

Mr Minesh Jani (Service Head, Risk Management) introduced the report. The report updated the Audit Committee on the progress made in dealing with the significant issues identified in the annual government statement.

In response to the report, Members discussed the likelihood that Tower Hamlets Homes would achieve Two Star Status and the funding to be generated by this. The Committee indicated that they should keep a watchful eye over this matter given the implications for the Decent Homes Programme.

Following which it was **RESOLVED** That the action in dealing with the issues raised on the annual governance contents of the report be noted.

6.4 Update on Risk Management (AC/004/09)

Mr Minesh Jani (Service Head, Risk Management) presented the report. The report provided an update on the Council's risk management arrangements. The report also captures the risks reported to the Corporate Management Team as part of the recent risk management update.

Mr Jani outlined the key improvements as detailed in the report. Mr Jani reported that the Corporate Risk Register was considered at a Corporate and a Directorate level and at the Finance Strategy Group. A key aim of the improvements was to make the process for managing risk simpler. He referred to the development of an automated system for capturing risk which was JCAD. It was also reported that the Council had appointed a number of Risk Champions. The Risk Champions held quarterly meetings with Audit where they examine pertinent risks for reporting to the Corporate Management Team.

Attention was drawn to the new issues in particular the risks around future budget settlements, not achieving the energy efficiency requirements, the implications of the Laming Report and the failure to deliver Decent Homes by 2016.

In response to questions, it was reported that the Risk Champions received specific training and there was an e-learning tool for staff use at a lower level. There was also a wider risk management forum made up of key bodies such as the Police, the PCT and Fire Services and the aim of this was to gain a holistic picture of risk. All of the Risk Champions were Service Heads or one tier below in every directorate.

It was **RESOLVED** that an update on the Working Neighbourhoods Fund (WNF) be submitted to the Committee at its next meeting in March 2010. It was also noted that the funding for this initiative was due to expire in October 2010. The Committee stressed the need to identify the implications of this risk and to take early action before the funding expired. C Naylor **RESOLVED** to report back to the Committee about this.

It was also reported the WNF monitoring group reviewed progress against spend and were due to produce a report in June 2010.

RESOLVED: That the contents of the report (AC/004/09) and the actions planned over the next year to embed risk in section 8 of the report be noted.

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

6.5 Revised Internal Audit Plan 2009/10 (AC/005/09)

Mr Minesh Jani (Service Head, Risk Management) presented the revised internal Audit Plan drawing attention to the key changes. Following a brief discussion it was **RESOLVED** That the contents of the report (AC/005/09) be noted and the changes to the 2009/10 internal audit plan be endorsed.

6.6 Progress on National Fraud Initiative 2008/09 and Anti Fraud Update (AC/006/09)

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

Mr Qayum reported the following points:

- The Government was encouraging the use of publicity campaigns to prevent housing fraud. Namely the subletting of RSL properties. Posters encouraging people to report suspected cases had been placed in a variety of public places including doctors surgeries.
- Audit were working with all RSLs and services across the Council (such as legal services) to facilitate recovery and prosecution where there was evidence of housing fraud. Progress reports for this particular area of work would be reported to the Audit Committee on a quarterly basis.

In reply to questions, the Committee noted:

- The Government had also awarded the Council £50,000 for recovery and prosecution. The Council was utilising this funding to establish the extend of Housing Fraud within the Authority. At this point it was too early to tell how significant the problem was. However the new processes in place should allow officers to identify the scope of the problem.
- Appendix A indicated that the Audit Commission target of 15% for recovery and prosecution had been met. Further government funding for this area of work may follow.

RESOLVED: That the contents of the report (AC/006/09) be noted.

6.7 Treasury Activity for Period Ending 30th November 2009 (AC/007/09)

Mr Finch (Service Head Corporate Finance) presented the report highlighting the key points. Mr Finch reported that paragraph 5 (Credit Criteria) showed the credit requirements placed on financial institutions. All of which demonstrated the strength of the banks within the Council's lending and investment list. Mr Finch confirmed that the Council had restricted investment to institutions that had support from national governments and had a strong parent body and were approved by the ratings agencies as fit for purpose. At the request of the Chair, Mr Finch clarified the meaning of the credit ratings listed in Table 1 of the report regarding Credit Rating Requirements.

Mr Finch reported that there was a much more stringent policy for overseas investment. All of the institutions within table 3, (the investment strategy list) were UK based institutions. In the event the UK rating decreases and becomes less than that overseas, the policy may need to be reviewed. A key issue was a lot of the banks that met the criteria were not lending in the market due to the current economic climate.

It was planned to restrict the term for investment to a 6-9 month duration as there was a strong possibility that the interest rates would rise in 2010. The

Council was currently making a 1.56% return on its investments which represented a relatively strong performance over the period.

RESOLVED: That the contents of the report (AC/007/09) be noted.

7. ANY URGENT UNRESTRICTED BUSINESS

None reported.

8. DATE OF NEXT MEETING.

Tuesday 30th March 2010 7:30pm.

The meeting ended at 9.25 p.m.

Chair, Councillor Fazlul Haque
Audit Committee

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Audit Opinion Plan

London Borough of Tower Hamlets

Audit 2009/10

March 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

- 1 This plan sets out the audit work that we propose to undertake for the audit of the 2009/10 financial statements. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

Audit fee

- 2 The audit fee for the financial statements is £310,000 and we do not propose to change it at this stage. This fee assumes good quality accounts and working papers are provided in line with agreed timescales and that we can place reliance on Internal Audit work.

The audit strategy

- 3 Specific risks are highlighted where we will focus our audit work. The risks highlighted are:
 - changes to accounting for Private Finance Initiatives and early adoption of IFRIC 12;
 - other accounting changes required by CIPFA's Statement of Recommended Practice, including changes to accounting for local taxation;
 - additional disclosures required for senior officers' remuneration;
 - changes in the valuation of fixed assets, and
 - poor quality assurance review of the financial statements prior to submission for audit.
- 4 We intend to adopt a mix of system control testing and substantive testing of year-end balances to gain assurance on the financial statements.

Key milestones and deadlines

- 5 The deadline for receipt of the financial statements and working papers is 30 June. We will report the results of our audit to the Audit Committee in September to enable an audit opinion to be issued by 30 September.

The audit team

- 6 Sally-Anne Eldridge has taken over from Sharon Martin as the engagement manager. The rest of the team remains largely unchanged. We have outlined the Audit Commission's arrangements for ensuring the independence of the audit team, quality of services and further information on the respective roles of auditors and audited bodies in this plan.

Fee for the audit of financial statements

- 7 The total fee for the 2009/10 audit is £480,000 and, as indicative in my letter of 27 April 2009, the financial statements element is £310,000.
- 8 We are committed to targeting our work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 9 The risk assessment process starts with the identification of the significant financial operational risks applying to the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers, and
 - liaison with Internal Audit.
- 10 In setting the fee, we have assumed that:
 - the risk in relation to the audit of the financial statements is consistent with that for 2008/09;
 - you inform us of any significant development impacting on the audit;
 - good quality working papers are supplied at the start of the audit to support the entries in the financial statements;
 - audit queries are dealt with in a timely fashion; and
 - Internal Audit undertakes appropriate work on all material systems, work meets professional standards, we are able to rely on this work for gaining assurance on the accounts.
- 11 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance.

Specific actions the Council could take to reduce its audit fees

- 12 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. The scale fee for the Council is £527,400. The agreed fee is 9 per cent below the scale fee and hence there are limited opportunities to reduce the fees further. We will, however, continue to work with officers to identify any specific actions that the Council could take and to provide ongoing audit support.

The audit strategy

- 13 We will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 14 We are required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 15 As part of our audit risk identification process, we need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Council, including assessing its risk management arrangements;
 - considering the financial performance of the Council;
 - assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Council information systems.
- 16 Table 1 details the risks we have identified as relevant to the current opinion audit.

Table 1 **Specific risks**

Risk area	Audit response
Although International Financial Reporting Standards do not take effect in Local Government until 2010/11, the CIPFA Statement of Recommended Practice (SoRP) does adopt one standard (IFRIC12) for 2009/10. The scope of this is wider than just Private Finance Initiative transactions. There is a risk that the Council does not consider all relevant contracts and that its accounts are materially misstated as a result.	We will review the Council's process for identifying and accounting for transactions that need to be considered under IFRIC 12. We will review the Council's assessment of whether the schemes should be on- or off-balance sheet under IFRIC12. Where the schemes are assessed as on-balance sheet, we will review the model developed to calculate the correct accounting treatment.

Risk area	Audit response
<p>The SoRP includes other changes to the format of the accounts:</p> <ul style="list-style-type: none"> ● Changes to accounting for local taxation; and ● Deletion of some notes and other minor changes. 	<p>We will review the accounts for compliance with the SoRP paying particular attention to accounting for local taxation.</p>
<p>Amendments to the accounts and audit regulations require more disclosures about senior officers' pay.</p>	<p>We will review the disclosures to ensure they are consistent with the regulations.</p>
<p>The current economic climate suggests property values are still volatile and the valuer's advice will be critical to ensuring the balance sheet is materially accurate.</p>	<p>We will review the advice provided by the Council's valuers, and compare it to trends reported by the Audit Commission valuers.</p>
<p>Interim work completed prior to this plan indicates the need for substantive testing in areas where we would normally seek to place reliance on internal controls. At present this includes payroll and housing benefits.</p>	<p>We will substantively test payroll, housing benefits and other accounts balances in the accounts, as appropriate as determined by the findings from our interim work.</p>
<p>The 2008/09 financial statements contained significant errors which could have been identified by a robust quality assurance process.</p>	<p>We will undertake analytical review and substantive testing procedures to gain assurance over the entries in the accounts.</p>

17 The Council should provide working papers in respect of these risks.

Testing strategy

- 18 For 2009/10 we plan to gain assurance over the financial statements through a mix of controls and substantive testing, with controls testing specifically targeted at the following areas:
- accounts receivable;
 - accounts payable;
 - council tax; and
 - national non-domestic rates.

The audit strategy

- 19 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas for early work:
- review of implementation of IFRIC 12 and PFI accounting;
 - review of the accounting policies;
 - review of the valuer's advice where available;
 - confirmation of ownership and existence of fixed assets;
 - testing of fixed asset additions and disposals in-year; and,
 - payroll substantive testing.
- 20 Where other early testing is identified, this will be discussed with officers.

Key milestones and deadlines

- 21 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. Table 2 details the key stages in producing and auditing the financial statements.
- 22 We will agree with officers a schedule of working papers required to support the entries in the financial statements.
- 23 Every week, the audit team will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 Proposed timetable

Task	Deadline
Controls and early substantive testing	January – June 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to us	30 June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	September 2010
Issue opinion	By 30 September 2010

The audit team

24 Table 3 details the key members of the audit team for the 2009/10 audit.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and value for money conclusion, and liaison with the Chief Executive and Director of Resources.
Sally-Anne Eldridge Senior Audit Manager	s-eldridge@audit-commission.gov.uk 0844 798 2287	Manages and coordinates the different elements of audit work. Key point of contact for the Director of Finance.
Shona Milton Audit Manager	s-milton@audit-commission.gov.uk 0207 364 4784	Manages day to day audit work. Key point of contact for corporate finance team.
Grant Slessor Team Leader	g-slessor@audit-commission.gov.uk 0207 364 4784	Manages the detailed audit work. Key point of contact for the finance team.

Independence and objectivity

- 25 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 26 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 1.

Quality of service

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

Responsibilities

- 29 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body. Copies are available from the audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

- 30 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 31 We comply with the statutory requirements governing our audit work, in particular:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Planned outputs

- 32 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	November 2010

Appendix 1 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

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

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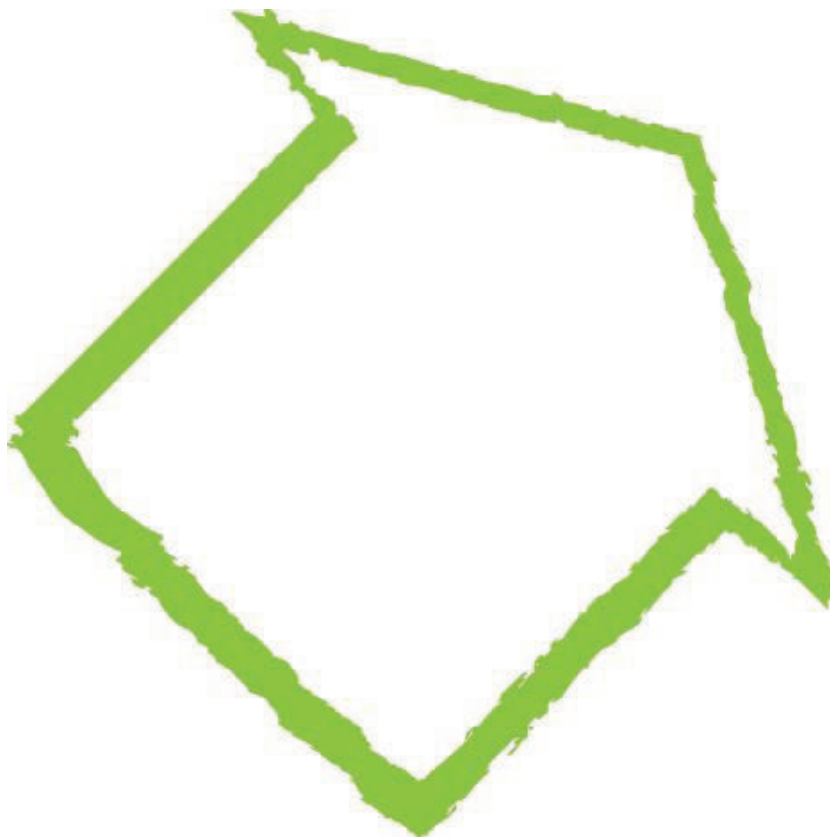
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Audit Opinion Plan

London Borough of Tower Hamlets Pension Fund

Audit 2009/10

March 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

- 1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements for Tower Hamlets Pension Fund 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
 - current national risks relevant to the Pension Fund's local circumstances; and
 - the Pension Fund's local risks.

Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 5 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board Practice Note 15 on the audit of pension fund accounts.

Fee for the audit of financial statements

- 6 The indicative fee for the audit is £38,500, as indicated in my letter of 27 April 2009.
- 7 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the Pension Fund accounts is consistent with that for 2008/09;
 - officers will inform us of significant developments impacting on the audit
 - requested information will be provided within agreed timescales; and
 - good quality working papers will be supplied to support the entries in the financial statements.
- 8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

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

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

Auditors report on the financial statements

- 10 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 11 I am required to issue an audit report giving my opinion on whether the Pension Fund accounts give a true and fair view of the financial position of the Authority as at 31 March 2010.
- 12 I am also required to review the pension fund annual report as per the Local Government Pension Scheme (Administration) Regulations 2008.

Identifying opinion audit risks

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

Identification of specific risks

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

Table 1 Specific risks
Specific opinion risks identified

Risk area	Audit response
<p>SORP Compliance</p> <p>The 2008/09 Pension Fund accounts did not comply with the SORP.</p> <p>In particular:</p> <ul style="list-style-type: none"> • there was no reconciliation between the opening and closing value of investments; • the level of funding and commentary on the deficit was not disclosed; and • management expenses were not analysed. 	<p>Review the entries in the accounts against the SORP compliance checklist</p>
<p>Bank accounts</p> <p>In previous years the Pension Fund has not had a separate bank account from the Council. We have recommended that holding funds in a dedicated account would improve transparency and governance. Following new Pension Fund regulations coming into force on 1 January 2010, this will be a requirement from 1 April 2011.</p>	<p>Review progress in introducing a separate bank account and review Pension Fund bank reconciliation</p>
<p>Quality Assurance of accounts</p> <p>The 2008/09 financial statements contained significant errors which could have been identified by a robust quality assurance process.</p>	<p>Undertake analytical review and substantive testing procedures to gain assurance over the entries in the accounts.</p>

Testing strategy

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

Where other early testing is identified, this will be discussed with officers.

Key milestones and deadlines

- 18 The Council is required to prepare the Pension Fund financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 19 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 20 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	30 June 2010
Start of detailed testing	July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	September 2010
Issue opinion	By 30 September 2010

The audit team

21 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Sally-Anne Eldridge Senior Audit Manager	s-eldridge@audit-commission.gov.uk 0844 798 2287	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and the Head of Pensions.
Shona Milton Audit Manager	s-milton@audit-commission.gov.uk 0207 364 4784	Manages day to day audit work. Key point of contact for corporate finance and pension fund team.
Grant Slessor Team Leader	g-slessor@audit-commission.gov.uk 0207 364 4784	Manages the detailed audit work. Key point of contact for corporate finance and pension fund team.

Independence and objectivity

- 22 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff
- 23 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 1.

Meetings

- 24 The audit team will maintain knowledge of the issues affecting the audit of the Pension Fund financial statements through regular liaison with key officers.

Quality of service

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

The audit team

- 26 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

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

Table 4 **Planned outputs**

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Auditor's report giving an opinion on the financial statements	September 2010
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- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

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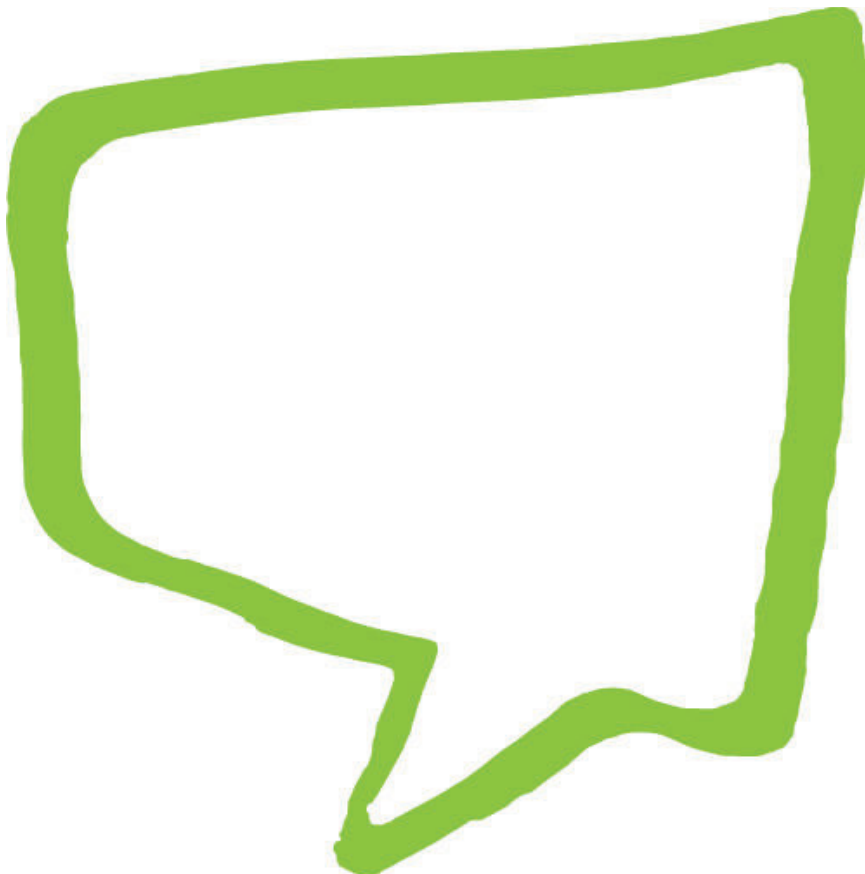
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Certification of claims and returns - annual report

London Borough of Tower Hamlets

Audit 2008/09

March 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1** The London Borough of Tower Hamlets receives funding from various grant-paying departments. The grant-paying departments attach conditions to these grants and the Council must show it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate that the relevant conditions have been met.
- 2** In 2008/09, eleven claims with a total value of £563 million were subject to certification. Of these, we performed a limited review of two claims and a full review of nine claims. Paragraph eight explains the difference between a limited and full review. Seven claims required amendment to correct errors prior to certification. For three claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. One of these qualification issues was subsequently resolved following a request from the grant paying body for the Council to conduct further work. The certification of one of the eleven claims is currently outstanding. Appendix 1 provides a summary of the eleven claims subject to certification.
- 3** The fee I charged for grant certification work in 2008/09 was £114,746. A further charge will be made for the work that is to be completed on the claim that has not yet been certified. I do not expect this charge to be significant.

Actions

- 4** An action plan which has been agreed with officers is attached in Appendix 2.

Background

- 5 For 2008/09 we have been required to certify returns totalling £563m for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 6 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the London Borough of Tower Hamlets. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 7 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 8 The key features of the current arrangements are as follows:
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Cross-cutting findings

- 9 The control environment of every claim over £500,000 was subject to a risk assessment. In nine cases, it was concluded that reliance could not be placed in the control environment and detailed testing was carried out. There is scope for the Council to improve the control environment and significantly reduce the subsequent audit work. Working papers should include a full analytical review with explanations for significant variances. There is evidence of quality review on the majority of files submitted for certification, however errors identified indicate that this is not always sufficiently robust.
- 10 Overall the speed of response to audit queries has declined and delays were encountered in receiving adequate audit evidence for some grants. In some cases delays between requests for information and the response were up to two weeks. It is recommended that wherever possible queries should be responded to within three working days.
- 11 In some cases delays were experienced where the main contact was reliant on information from a number of sources within the Council. Where an officer has been identified as the claim contact they should have a full understanding of the entries within the claim and their source. If information is required from another officer this will be requested through our contact for the claim.
- 12 The number of amendments required suggests that the Council's internal quality control procedures are not as robust as they should be. A reduction in the number of amendments will reduce the required time input from both Council and Audit Commission staff and the fee for certification work.
- 13 The appointment of a specific grant claims co-ordinator was helpful in resolving general queries and escalating issues arising on individual grants. However this officer was changed in year and the audit team was not informed promptly which meant that problems were not resolved as quickly as they could have been.

Recommendations	
R1	Respond to all audit queries within three working days wherever possible.
R2	Strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files.
R3	Include a full and detailed analytical review consideration of all significant variances as part of working paper files.
R4	Inform the audit team of any changes to key grants contracts during the course of certification work.

Findings relating to specific grant claims and returns

Housing Benefits Subsidy (BEN01)

- 14** During the audit errors were identified with individual claims which resulted in the need for additional testing. These related to incorrect information or dates being used in income calculations, mis-classification of overpayments and mis-classification of backdated payments.
- 15** When fails which could not be shown to be isolated errors are identified in the primary sample, an additional sample of 40 cases is tested from the cells affected by the errors. Our initial testing identified that eight additional samples of 40 cases were required.
- Cell 11: Rent Rebates (Tenants of Non-HRA Properties) - Total Expenditure
 - Cells 16 & 17: Homeless People in Licensed Accommodation - Expenditure above the cap and Expenditure between the threshold and up to and including the cap
 - Cell 28: Rent Rebates (Tenants of Non-HRA Properties) - Eligible Overpayments
 - Cell 38: Rent Rebates (Tenants of Non-HRA Properties) - Backdated Payments
 - Cell 55: Rent Rebates (Tenants of HRA Properties) - Total Expenditure
 - Cell 94: Rent Allowances - Total Expenditure
 - Cell 142: Council Tax Benefit - Total Expenditure
 - Cell 148: Council Tax Benefit - Eligible Excess Benefit
- 16** Where the results of the testing allowed us to conclude that an adjustment to a cell would result in it being fairly stated, the claim was amended. In all other cases, we reported our results in a qualification letter. As a result of the amendments, the subsidy payable to the Council was reduced by £109,426.
- 17** The additional sample testing was undertaken by the Council. Work has been undertaken to reduce the error rates and thus reduce the amount of additional testing that is required. This has reduced the amount of extra work that is required by both the Council and the audit team - in 2007/08 ten further samples of 40 cases were required. The Council should continue this work to reduce the volume of errors in the claim
- 18** While the total number of qualification issues has decreased from the previous year there is a need for more detailed checking of ongoing work to ensure that benefits are awarded at the correct rate.

Recommendation

- R5** Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and support to the Housing Benefit claim.

Findings

Pooling of Housing Capital Receipts (CFB06)

- 19 The deadline for submission to audit was missed as a result of late resolution of final accounts audit queries. During the audit of the return issues were identified relating to both transposition errors and excel formula errors which could have been avoided with a more rigorous quality checking process prior to submission to audit.
- 20 Testing of administration costs found invalid items of expenditure which were removed prior to certification. The Council should ensure that only eligible items of expenditure are included by referring to the guidance and CI.
- 21 Evidence could not be provided to support an entry in the claim relating to repayments of RTB principal. This figure was adjusted to only include the items which could be evidenced. Supporting evidence should be maintained for all figures.
- 22 There were a number of delays in the resolution of queries due to the claim preparer pursuing explanations from officers in other departments. The claim preparer should ensure that where figures are provided by other officers that they fully understand the basis of these and that further information can be obtained in a timely manner.
- 23 Delays were experienced because evidence had to be retrieved from archiving. To avoid similar delays in future, evidence to support claims should be held locally until certification work is complete.
- 24 Due to the issues above the amount due to CLG was understated and a small penalty payment was incurred by the Council.

Recommendation

- R6** Strengthen arrangements to provide evidence to audit to support claims and returns such as the housing capital receipts return.

Housing Subsidy Base Data Return (HOU02)

- 25 During the audit of the Base Data return issues were identified relating to transposition and data entry errors which could have been avoided with a more rigorous quality checking process prior to submission for audit.
- 26 There were a number of delays in responding to queries on this audit and this resulted in the October return deadline being missed.
- 27 Testing identified a number of properties where there were inconsistencies in the property management system between the property description and the subsidy classification for subsidy purposes. This issue could have been resolved with further work from the Council but as the deadline for the return had already been missed it was agreed that this would be reported as a qualification issue. On CLG's request further work was conducted by the Authority to resolve this issue. Following individual analysis of each property the return was amended and subsequently re-certified without qualification.

- 28 Having obtained CLG permission to reopen the LOGASNET system to allow the Council to make amendments for a set period of time, the Council failed to action the amendments by this deadline which further delayed submission and required a second request to be made to CLG.

Recommendations

- R7** Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.
- R8** Make arrangements to amend and certify base data returns on the electronic data collection system within the window set by the awarding body.

Housing Subsidy Return (HOU01)

- 29 As with the housing subsidy base data return there were delays in the resolution of queries. Additionally the claim preparer was in part reliant on the working papers of a finance officer no longer employed by the Council which further delayed responses.
- 30 Amendments were required to the return due to inconsistencies with the audited financial statements. In one case this was due to an amendment made during the accounts audit not having been communicated to the claim preparer by the finance department.
- 31 As with the previous year, this claim has been qualified due to adjustments in cell F001cm which are not permitted by the certification instructions. The claim preparer has briefed us on the background to these adjustments and considers that they are necessary to ensure that the correct subsidy is awarded. These adjustments are not expected to recur in 2009/10.

Recommendations

- R9** Communicate adjustments to the financial statements to relevant officers to ensure that housing subsidy grant claims are fairly stated.
- R10** Implement detailed handovers when officers leave to ensure that adequate knowledge is retained in-house.

Disabled Facilities Grant (HOU21)

- 32 As with the CFB06 return, delays were experienced because evidence had to be retrieved from archiving. This led to the certification deadline being missed. To avoid similar delays in future, evidence to support claims should be held locally until audit work is complete.

Findings

Teachers' Pension Return (PEN05)

- 33 The Teachers' Pension return at Tower Hamlets requires input from both in-house and outsourced schools payroll systems. Wherever it is possible we place reliance on the work of Internal Audit in order to make the most efficient use of officer time. We placed reliance on work conducted by Internal Audit to gain assurance over the data from the outsourced payroll systems.
- 34 Internal Audit identified minor errors totalling £41 in the £284k sample of payroll data tested. We extrapolated these errors to determine the total amendment required to the claim. The resultant amendment increased the amount payable to the Teacher's Pensions Agency from £-19.91 to £658.82.
- 35 Prior to our extrapolation the claim preparer was unaware that errors had been identified during Internal Audit testing which created minor delays in the approval of the amendment by the Council.

Recommendation

R11 Fully cascade findings from internal audit work to officers to ensure they are aware of all relevant findings.

New Deal for Communities (RG03)

- 36 The work on this claim is currently in progress. We have experienced delays in receiving explanations and supporting evidence from officers and as a result, the certification deadline has been missed.
- 37 We will continue to discuss this work with senior officers until the certification work is complete.

Appendix 1 – Summary of 2008/09 certified claims

Claim / Return	CI Reference	Value (£)	Deadline	Date Certified	Amended (A) / Qualified (Q)
Housing Benefit Subsidy	BEN01	220,190,058	30/11/2009	30/11/2009	AQ
Pooling of Housing Capital Receipts	CFB06	7,537,754	30/09/2009	06/11/2009	A
Sure Start Early Years and Childcare Grant	EYC02	10,308,686	31/10/2009	28/10/2009	No issues arising
Housing Subsidy Return	HOU01	19,437,343	31/12/2009	23/12/2009	AQ
Housing Subsidy Base Data Return	HOU02	See HOU01 above	09/10/2009	06/11/2009 (re-certified 23/12/2009 following further work)	AQ (qualification issue subsequently resolved following further work and recertification)
Disabled Facilities Grant	HOU21	588,000	31/10/2009	20/11/2009	No issues arising
National Non Domestic Rates Return	LA01	282,565,371	25/09/2009	25/09/2009	No issues arising

Appendix 2 – Action plan

Claim / Return	CI Reference	Value (£)	Deadline	Date Certified	Amended (A) / Qualified (Q)
Teacher's Pension Return	PEN05	19,687,170	30/11/2009	16/11/2009	A
New Deal for Communities	RG03	2,325,288	31/12/2009	TBC	TBC
London Development Agency	RG31	101,165	31/07/2009	27/07/2009	No issues arising
London Development Agency	RG31	362,130	31/07/2009	31/07/2009	A
		563,102,965			

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Respond to all audit queries within three working days wherever possible.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Grant compilers and Finance Managers to be reminded of 3 working day deadline by Chief Accountant's Team. After 3 working days, escalate to relevant Finance Manager.	Reminder email to be sent out by 31/3/10
5	R2 Strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Directors have the specialist knowledge relating to each audited claim. Finance managers to carry out detailed review of claims prior to submission and sign off working papers. Central grants co-ordinator to review completeness of working papers and evidence of checks within directorates. Guidance/procedure note to be sent out to finance managers and claim preparers by Chief Accountant's Team.	Reviews ongoing. Guidance to be sent out by 31/3/10.
5	R3 Include a full and detailed analytical review consideration of all significant variances as part of working paper files.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Updated guidance/procedure note to be sent out to directorates by Chief Accountant's Team highlighting the need for this.	31/3/10
5	R4 Inform the Audit Commission of any changes to key grants contracts during the course of certification work.	2	Alison Gebbett (Chief Accountant's Team)	Yes	Audit Commission will be informed by Chief Accountant's Team of any changes to contacts (in particular the central grants co-ordinator)	Ongoing

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R5 Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and support to the Housing Benefit claim.	3	Martin McGrath	Yes	Martin McGrath arranged for training to be provided to his team. This was carried out by Zebra Training on 22nd January 2010. Housing benefits subsidy claim currently checked by 3 staff before submitting for final checks by Chief Accountant's Team	22/1/10 (Completed)
7	R6 Strengthen arrangements to provide evidence to audit to support claims and returns such as the housing capital receipts return.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Grant compilers to be reminded of need for gathering evidence and working papers prior to audit. This will be covered in the revised guidance/procedure note to be sent out by Chief Accountant's Team.	Revised guidance to be sent out by 31/3/10
8	R7 Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.	2	Paul Leeson (D&R Finance Manager)	Yes	Housing subsidy claim preparer to address, and to be reviewed by D&R finance manager.	31/8/2010 (Deadline for HSBD claim)
8	R8 Make arrangements to amend and certify returns on the electronic data collection system within the window set by the awarding body.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Grant compilers and finance managers to ensure return is entered on electronic system by deadline. Where extension is necessary, finance manager to ensure that data is entered, reviewed and approved on system before extension expires. Chief Accountant's Team to highlight this in revised guidance.	Ongoing. Revised guidance to be sent out by 31/3/10
8	R9 Communicate adjustments to the financial statements to relevant officers to ensure that grant claims are fairly stated.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Ensure that any adjustments to the financial statements which are relevant to grant claims are communicated to grant claim preparers.	July-Sep 2010 (Audit period for financial statements)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R10 Implement detailed handovers when officers leave to ensure that adequate knowledge is retained in-house.	3	Alison Gebbett (Chief Accountant's Team)	Yes	Finance managers to ensure that grant compilers carry out detailed handover if officers leave the authority. Chief Accountant's Team to act as support for directorates who are new to grant claims and need further guidance.	Ongoing.
9	R11 Fully cascade findings from internal audit work to officers to ensure that they are aware of all relevant findings.	1	Alison Gebbett (Chief Accountant's Team)	Yes	Any relevant internal audit reports to be forwarded to grant compilers by Finance Managers. Chief Accountant's Team to incorporate this into revised guidance notes.	Ongoing.

The Audit Commission

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Agenda Item 51

REPORT TO: Audit Committee	DATE 30 March 2010	CLASSIFICATION	REPORT NO.	AGENDA NO. 5.1
REPORT OF: Corporate Director, Resources	Quarterly Assurance Report Ward(s) Affected: N/A			
ORIGINATING OFFICER(S): <i>Service Head Risk Management</i>				

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2009 to February 2010.
- 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 1972 (AS AMENDED) SECTION 100D
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 on 15 December 2009, 21 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		5	1		6
	Moderate		7	7	1	15
	Low					
Total Numbers			12	8	1	21
Total %			57%	38%	5%	100%

- 5.4. From the table above it can be seen that of the six finalised audits which focused on high risk or high value areas; five audits were assigned Substantial Assurance and one received Limited Assurance. A further fifteen audits were of moderate significance and of these, seven were assigned Substantial Assurance, seven received Limited assurance and one was assigned an assurance rating of Nil.
- 5.5. Overall, 57% of audits resulted in an adequate assurance (substantial or full) and 43% of audits have an inadequate assurance rating (limited or nil). Work in progress is shown in Appendix 3.

5.6. Performance Indicators

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 November 2009 to January 2010.

Performance measure	Target	Actual
Percentage of Audit Plan completed up to January 2010.	80%	81%
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%	88%

5.7. The table above shows that the proportion of internal audit work completed to January 2010 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.

5.8. The percentage of priority 1 recommendations implemented at the follow up stage was around 100%, whereas the percentage of priority 2 recommendations was 88%. 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.

6. Comments of the Chief Financial Officer

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

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

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

8. One Tower Hamlets Considerations

8.1 There are no specific One Tower Hamlets Considerations issues arising from this report.

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 implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. This report identifies areas of risk for management to mitigate.

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
NIL	Moderate	CSF	Langdon Park Secondary School
LIMITED	Extensive	Assistant Chief Executive	Legal Planning Meetings on Child Protection
	Moderate	CLC	Household Waste Recycling – Contract Monitoring
	Moderate	CLC	Control and Monitoring of Parking Permits
	Moderate	THH	Control of Keys to Decanted Dwellings in Ocean Estate
	Moderate	THH	Control of Keys to Void Dwellings
	Moderate	CSF	St Edmunds Catholic Primary School
	Moderate	CSF	Stephen Hawking Special School
	Moderate	CSF	Harry Roberts Nursery School
SUBSTANTIAL	Extensive	THH	THH Financial Systems
	Extensive	CLC	Tower Hamlets Partnership – Governance Arrangements
	Extensive	Resources	Internet and e-mail Computer Audit
	Extensive	Resources	ICT Management and Organisation – Computer Audit
	Extensive	Resources	Information Policies and Procedures
	Moderate	CSF	Children’s Social Care Commissioning
	Moderate	CSF	Children’s Centres
	Moderate	CLC	Management of Highways
	Moderate	THH	Unauthorised Occupants - Follow Up audit
	Moderate	ACE	Members Allowances
	Moderate	CLC	FLARE – Computer Audit
	Moderate	CSF	Seven Mills Primary School

Summary of Audits Undertaken

Nil Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Langdon Park Secondary School	Feb. 2010	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school. The following issues were reported:-</p> <ul style="list-style-type: none"> • The Scheme of Delegations was incomplete. There were no declarations of business interest from some governors and staff with financial responsibilities. • Budget monitoring reports lack explanations on budget variances even where the variances are over 500% of the agreed budget. • The school did not have any purchasing and tendering procedures in place. The school had made high value purchases where there was no evidence of obtaining competitive quotations. Orders are not always raised from the school's accounting system and as such no commitments are accounted on budget monitoring records. • No charging policy in place. Income collection processes for miscellaneous and trip/journey income were inadequate. • The school could not evidence all pre-recruitment checks being completed prior to employment being commenced. There is inadequate separation of duties between processing and authorising starter forms. • There are no robust procedures in place to ensure that all staff are paid correctly. It was established that one teacher was not being paid in accordance with the salary assessment form for two months. This member of staff was being under-paid by £50.49 for April and May 2009. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate	Nil

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Langdon Park Secondary School	Feb. 2010	<p>Management Action</p> <p>Following the Audit, the requirements to undertake visits were reinforced with Schools Finance officer, SIP and link advisors. Clearly the audit found that procedures were not complied with. All recommendations have been agreed by the school, to enable to provided with improved management and support arrangements the school has recently signed a gold service finance SLA, commencing from the 1st of April 2010. These additional arrangements will enable for agreed actions to be tracked and implemented by Schools Finance team including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions.</p> <p>The school has agreed to complete all actions by the 22nd of March 2010, majority of these recommendations have already been actioned to date.</p> <p>The audit report requirements were added to the Schools Finance committee agenda in January 2010 and to be carried forward until an acceptable closure has been agreed and ratified by the Full Governing Body for each item.</p> <p>A further check will be carried out by the auditor, later in the year to ensure measures have been effective.</p> <p>We have written to the school formally to ask what additional steps the school plans to take in light of the audit findings and specifically, for the school to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment.</p>	Moderate	Nil

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Legal Planning Meetings on Child Protection Systems Audit</p>	<p>Nov 2009</p>	<p>The objective of this audit was to assure management that there were sound systems in place to plan, control, manage and monitor legal planning meetings on child protection issues. The following was reported:-</p> <p>Officers are required to comply with statutory guidance (Children’s Act - 1989) and the Judicial Protocols (Public Law Outline) when deciding whether the Local Authority is to make an application to Court for a care or supervision order. Although Legal Services have an Office Manual in place which complies with Lexcel standards, we noted that there was no specific written departmental procedure for planning, controlling and managing Legal Planning Meetings. Steps had been taken to document the procedures for the purposes of the Framework-I workflow.</p> <p>Overall, we have reported that systems for administering, managing, controlling and monitoring performance were in place, but during our testing we found cases of non-compliance with systems and procedures which can increase the exposure to unnecessary risks. Our recommendations, therefore, were around reinforcing the requirement to comply with internal controls established by management and improving the monitoring procedures, so that non-compliance issues can be detected and prevented promptly.</p> <p>All findings and recommendations were agreed with the Assistant Chief Executive (Legal Services) and Head of Legal Services – Community.</p>	<p>Extensive</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Legal Planning Meetings on Child Protection Systems Audit</p>	<p>Nov 2009</p>	<p>Management Action</p> <p>This audit was requested by Legal services as we have implemented a new innovative way to record and track the Legal Planning meeting (which is a key step prior to seeking a care order). We have established a workflow on framework i and our own data time recording software for this in order to record the advice and ensure it is timely so the risk of failure is avoided with these checks and balances. This is a pilot and has not been done at other borough legal departments. In the nature of these new processes the audit helpfully pointed out where officers had not completed forms properly e.g. dates or signatures missing and pointed out that monitoring had gaps these issues have now been acted upon in anticipation of a 6 months review.</p>	<p>Extensive</p>	<p>Limited</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Household Waste Recycling Contract Monitoring	Feb 2010	<p>The objective of this audit was to assure management that the systems in place for controlling and monitoring the contract were sound, adequate and secure. We found that the Council has a clear policy on household waste recycling. This is a high priority service to meet statutory household waste recycling targets and manage the increasing costs of land filling. The following issues were reported:-</p> <p>No written contract monitoring procedures were in place and contract monitoring was not being undertaken on a programmed basis. There was a general lack of clarity on the level of monitoring required as a risk assessment had not been undertaken to target the critical areas for monitoring purposes. Roles and responsibilities had not been clearly assigned and some stability in senior management positions providing a continuous lead and presence on a whole spectrum of waste management services was required.</p> <p>Our review also found that errors had been made in making payments to the contractor. We were unclear as to whether payments to the contractor were being made in accordance with the contract prices. Controls around invoice checking, approval and certification needed to be improved significantly. Variation control was weak. Major variations to the contract were not supported by variation orders and financial implications were not being assessed and recorded. Audit trail between financial cost of a variation and invoice payment for that variation needed to be improved.</p> <p>All findings and recommendations were agreed with the Service Head – Public Realm.</p>	£2.7M	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Household Waste Recycling Contract Monitoring	Feb 2010	<p>Management Action</p> <p>A contract monitoring manual has been produced and will form the basis of future contract management meetings. These have been scheduled on both an operational and strategic basis. It should be noted that the investments within the recycling service and close working arrangements with the contract have seen a doubling of recycling within the borough since 2007 and the service has, in both 2008/09 and 2009/10 exceeded its LAA target for recycling and is currently forecasted to deliver over 26% recycling across the borough.</p> <p>The contract documents have been agreed and signed by both parties and a full assessment of all variation orders is in progress. Whilst specific references have been made to the lack of suitable databases for all existing properties, it should be noted that the number of complaints relating to miss collections is low. The fact that properties do not appear on a database does not stop the practical collection of recyclates from the resident.</p> <p>The contract management and risk assessment documents have been structured to reflect the work of the new clean and green division and clearly sets out roles and responsibilities across the service. Permanent staff have been appointed at a senior level within the business and the wider structure will now be addressed as part of the next phase organisational change.</p>	Extensive	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Household Waste Recycling Contract Monitoring	Feb 2010	<p>Management Action (continued)</p> <p>Controls in relation to financial payments were in place at the time of the audit, however these were largely driven by our finance group. The Interim Head of Clean and Green has carried out significant work with the finance section to ensure that all variations are costed and records are maintained.</p> <p>In 2010-11 the control of finances will be much more closely monitored with the introduction of the new Clean and Green division and the appointment of a permanent service head. During the coming months detailed work will be carried out with officers in the division to ensure that proper procedures are maintained and followed, also that the original contract documents are followed according to the contract monitoring manual.</p> <p>Responsible officers will be monitored monthly at 1-2-1's to ensure budgets are accurate and projections are regularly provided to finance. For the current year it is forecast that the service will show an end of year outturn within its budget and meet its key performance indicators.</p>	Extensive	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Parking Permits Systems Audit	Jan. 2010	<p>The objective of this audit was to assure management that the systems for controlling, monitoring and issuing of all types of parking permits were sound, secure and adequate. The following issues were reported:-</p> <p>Generally One Stop Shops were making steady progress in the administration and issue of permits and scratch cards within the policy guidelines set by CLC. Operational procedures had been developed by the Parking Head Office. However, a policy framework for parking permits needed to be developed and approved.. We reported that the resident permit application form allows for non Tower Hamlets residents to obtain Resident permits - there are some 221 Resident permits issued to vehicles not registered and / or insured to a LBTH address.</p> <p>We were unable to ascertain if the applicant's proof of residency had been checked against council tax records as this could not be evidenced due to poorly designed forms. In order to manage an initial high level of processing errors, monthly performance Management Reports were produced on the accuracy of permits processed and there has been an improvement over a period. However, we highlighted a number of systems weaknesses around policy and financial accountability at the Parking Head Office level which can put the systems objectives at risk.</p> <p>All findings and recommendations were agreed with the Service Head Environmental Control.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Parking Permits Systems Audit	Jan. 2010	<p>Management Action</p> <p>The audit inspection identified that a new policy framework for parking permits needed to be developed and approved as there are the current form allows for non TH residents to obtain resident permits and it is estimated that some 221 permits have been issued to vehicles registered outside the borough.</p> <p>As part of the Parking Fees & Charges report presented to Cabinet on 10th February 2010 it was agreed to no longer accept an insurance certificate as a named driver to obtain a parking permit. As a result parking officers are now amending the resident parking permit application form to remove the named driver on the insurance certificate as an alternative proof of vehicle. This means that in future the main proof of vehicle will be the UK registration certificate (V5C) which must be registered at their address in the borough. A consequence of this will be to reduce the risk of fraud e.g. the 221 permits identified will no longer be issued.</p> <p>The audit inspection identified a weakness in the design of the application form, as it did not appear to indicate if the processing office had checked the Council Tax system to either verify the Council Tax ref number or to show if a check had been made. As a direct result the Resident Permit Application Form "official use section" has now been updated to include a section for the Processing Officer to indicate if the applicant is liable for Council Tax. In addition, the resident Permit Process Map makes it clear that the Council Tax System must be checked as a matter of course. An advantage of this change is that we can now be much more proactive in preventing and detecting fraud, as well as sharing information with other directorates.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Parking Permits Systems Audit	Jan. 2010	<p>Management Action (continued)</p> <p>Finally the audit inspection also identified that no reconciliation between the parking permit system and the AIMS payment system was being undertaken by the One Stop Shop Officers at the end of the working day in order to reconcile their takings. This meant that irregularities were not being identified promptly or corrective action being taken on the same day. To address this situation the Parking Permits manager has instructed IT to undertake changes to the PCRM (permits database) to be modified in order to generate a daily location and/or Officer transaction report. This will serve to reconcile the standard AIMS report, which is already available to the One Stop Shop team leaders.</p> <p>All of the matters raised in audit inspection report will be addressed or implemented by the 1st April 2010.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Decanted Dwellings in Ocean Estate	Jan 2010	<p>This audit was undertaken at management request to examine the controls over the management of decants which are currently subject to demolition as part of Ocean Estate Regeneration. The following issues were raised:-</p> <p>There were no written procedures for securing and decommissioning dwellings earmarked for decanting. The Interim Neighbourhood Housing Manager subsequently ensured that all voids marked for decanting were stripped out and secured and a contract was let to carry out these works. Another company was providing 24 hour patrols at the Ocean Estate. However, this work was not competitively tendered, there should have been a clear contract specification and the contractual relationship should have been clear to provide a basis for stringent monitoring to manage risks of paying for unnecessary and duplicate security services.</p> <p>Audit was advised that THH were requested by the client to provide these services as there were no client security arrangements in place. However, no formal funding arrangement was put in place and THH began to incur expenditure without a formalised budget. We noted that the cost of site security at the time of audit was some £490,200 which was an unfavourable variance. We recommended that Management should closely monitor this situation to ensure that this level of expenditure was affordable and good value for money.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services and findings were reported to LBTH Client.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Decanted Dwellings in Ocean Estate	Jan 2010	<p>Management Action</p> <ul style="list-style-type: none"> • Written procedures are now in place for securing and decommissioning properties earmarked for decanting. • At the end of December a contract for the dog patrols was agreed and is in place. We have agreement from the Council that additional costs in excess of 225,000 will be met by them as the extra security costs are over and above allowances in the management agreement. THH Finance officers are in the process of raising the invoice to the Council. • Monthly invoices produced by the contractor providing the dog patrols are now providing greater clarity on the level and frequency of the service (as defined in the contract) and this is checked by the Neighbourhood Manager before sign off. 	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Void Dwellings	Jan 2010	<p>This audit was undertaken at management request. The objective was to examine systems for controlling keys to void dwellings across all four housing areas and make recommendations to improve control. The following findings were reported:-</p> <p>Our testing showed that significant improvement was required in the control and security of void keys across all Housing Areas. There were no written procedures for guiding officers on key control issues. In the absence of clear procedures, there was a risk that inconsistent procedures were deployed and accountability was not assured. Furthermore, once keys were handed over to Housing Services, evidence was not always held on the void file to show that locks were being changed and new keys booked in. This can expose THH to unnecessary range of risks. Some LHO's were not holding void keys in secure lockable cabinet or restricting access to void keys. There was no monitoring of void keys and hence keys could be booked out for a number of days, with no follow up action being undertaken.</p> <p>In some cases, the notice to terminate the tenancy had been signed and dated by the tenant only and there was no information on the V2 form to confirm whether or not Housing Services had received the keys back from the tenant. This can result in dilution of accountability as it could not be clearly identified as to who accepted the keys from the tenant.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Void Dwellings	Jan 2010	<p>Management Action</p> <ul style="list-style-type: none"> • A record of void lock changes are held on the Northgate (SX3) system. There are written procedures clearly illustrating that lock changes are carried out on all voids. • Written procedures on key control have been issued to all Managers and teams in the Housing Offices. All officers have been requested to sign a receipt. Spot checks are being carried out by managers on key control to ensure officers are following key control procedures 	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Edmunds Catholic Primary School	Nov. 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school. The following findings were reported:-</p> <ul style="list-style-type: none"> • The Scheme of Delegations document although approved by the full Governing Body had not included the maximum delegated limits to the Deputy Head Teacher and to the Finance Officer. • Staff members with financial responsibilities with purchasing influence also had not completed business declarations. • At the time of the audit there were no Terms of Reference for the Teaching and Learning Committee. • The Governing Body minutes highlighted that the school is using a credit card for purchase of goods although the use of debit cards/credit cards is not included in the School's Scheme of Delegations. There is no record of the users who are authorised to use the credit card to make purchases and there are no clear protocols around reconciling credit card statements to supporting documents. The credit card statements showed that the relevant invoices had not been authorised by an appropriate officer. • At the time of the audit the school did not have a Charging Policy. • The school did not have an IT Policy in place. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Edmunds Catholic Primary School	Nov. 2009	<p>Management Action</p> <p>The school has agreed to complete all actions with a defined timeframe. We have written to schools formally requesting the school and the governing body to fully commit to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • confirm additional steps that the school are planning to take in light of the audit findings • to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stephen Hawking Special School	Feb. 2010	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p><u>Main Control Strengths Identified:</u></p> <ul style="list-style-type: none"> • Financial Planning and Budgetary Control • School Meals • Voluntary Fund and School Journey; • Risk Management and Insurance. <p><u>Main Control Weaknesses:</u></p> <ul style="list-style-type: none"> • Due to a lack of evidence the school could not demonstrate that sufficient quotations had been obtained for three procurements in order to achieve best value as required by the School's Purchasing Policy. • The Terms of Reference of committees did not specify the frequency of committee meetings or delegated financial limits. • Whilst a register of business interest was in place, the declarations of twelve governors were out of date. • Bank mandate was out of date. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stephen Hawking Special School	Feb. 2010	<p>Management Action</p> <p>Management Comments; The school has agreed to complete all actions with a defined timeframe. We have written to schools formally requesting the school and the governing body to fully commit to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • confirm additional steps that the school are planning to take in light of the audit findings • to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Roberts Nursery School	Feb. 2010	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school. Following issues were raised:-</p> <ul style="list-style-type: none"> • There was no evidence of the provision of regular budget monitoring reports to the Finance and General Purposes Committee. • Controls over ordering and certification of invoices were found to be weak. • Declarations of interest had not been obtained from three members of the Governing Body. • There was no clear link between the resource commitments detailed in the SDP and the approved annual budget. • The school did not produce any cash flow forecast reports. • Payroll reconciliations have not been completed since June 2009. • There is no evidence that the school has an approved Pay Policy. • Whilst the school maintain an up to date inventory for IT equipment we identified that non ICT inventory had not been updated since April 2009. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate	Limited

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Roberts Nursery School	Feb. 2010	<p>Management Action</p> <p>The school has agreed to complete all actions with a defined timeframe. We have written to schools formally requesting the school and the governing body to fully commit to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • confirm additional steps that the school are planning to take in light of the audit findings • to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 	Moderate	Limited

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Financial Systems	Feb 2010	<p>This audit sought to provide assurance that the company's financial systems for managing the management fee element of the funding were sound and secure. Systems such as creditors, debtors, treasury management, company bank account and VAT management were tested. Budgetary control was programmed as a separate audit. The issues raised are summarised below:-</p> <p>Overall, creditors system needed some improvement. Controls for ensuring that all payments were certified in accordance with the Scheme of Delegation needed improvement. There was risk of invoices being paid without certification and procedures for evidencing, approving and paying expenses to interim staff needed to be strengthened. .</p> <p>Overall, administration of VAT was adequate, but we recommended that VAT returns should be independently checked and should be submitted by due date. In addition, reconciliation process between VAT paid and the amount recorded on the General Ledger system required improvement.</p> <p>Treasury management policy was in place and this was not a significant activity during the audit. However, the current Bank Mandate required updating in order to reflect the names and designation of the current senior management team with details of the level of signing authority for each officer. The bank account was reconciled to the General Ledger on a monthly basis, but these reconciliations were not independently checked and agreed. The opportunity to make more payments by BACS needed to be explored and manual cheque control required to be made robust. All findings and recommendations were agreed with the Director of Resources.</p>	£37.4M	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Partnership Governance Arrangements	Jan 2010	<p>This audit sought to provide assurance over the soundness and adequacy of the governance arrangements within Tower Hamlets Partnership_(THP)</p> <p>Our review showed that in response to legislative requirements, LBTH has established the THP, which functions as a Local Strategic Partnership. Performance objectives and targets pursued by THP are those specified within the Local Area Agreements. Our review of the governance arrangements found that roles and responsibilities of the Partnership Board, the Executive Board and various LAP Steering Groups and Community Plan Delivery Groups were clearly defined within their respective Terms of Reference. There is a forward programme of meetings for the partnerships and minutes of these meetings are taken.</p> <p>However, the minutes of meetings needed to clearly reflect the business that should be conducted at these meetings to achieve the objectives contained within the terms of reference of each forum. There was no clear system to declare personal and prejudicial interests by participants at meetings of the Board and its Executives. A clear system needed to be introduced for identifying and reviewing the Partnership's risks on a regular basis. At operational level, the Director of THP's authority and delegations had not been identified within the CLC Scheme of Delegation and clear financial procedures to support the delegated authority needed to be drafted and formalised to improve financial controls. Overall, we were of the opinion that adequate governance arrangements have begun to be put in place, but there is scope for further improvements and embedding of the principles of sound management.</p> <p>All findings and recommendations agreed with the Director of THP.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Internet & e-Mail Computer Audit	Oct 2009	<p>The objective of this audit was to assure management that there were sound systems in place to control the use of the internet and the use of the email system. This was to help ensure that information was confidential, available and its integrity was assured for Council business as the provision of Internet and E-mail is core to Council services.</p> <p>Overall, we have reported that systems for administering, managing, controlling and monitoring the internet and email were in place. However, we reported that controls could be improved in the following areas:-</p> <ul style="list-style-type: none"> • Reviewing the internet and email policy as this has not been reviewed for 3 years, approving this policy and assigning ownership of the policy • Reviewing email usage logs to identify excessive use of the system • Ensuring a contract is in place with the Internet Service Provider for internet services detailing the roles and responsibilities • Locking web browser settings to help ensure that these cannot be amended to weaker settings which could expose the Council to the risk of insecure services entering the Council • Alerting management to suspicious activity on the Firewall system • Implement a separate environment for testing the firewall <p>All findings and recommendations were agreed with Information Governance Officer and members of the ICT DMT.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Management and Organisation Computer Audit	Feb 2010	<p>The objective of this audit was to assure management that there were sound systems in place to control the use of the Council's ICT facilities. This service forms part of the Resources Directorate and currently managed within four key services - Service Delivery, Customer Services, Service Development and Business Support. The service follows the Council's corporate planning/performance framework. An ICT Service Review was performed in May 2007 which identified the need to establish an ICT competency framework for staff and to restructure the service to deliver customer focused, pro-active services.</p> <p>Overall, we have reported that systems for managing the ICT service are in place. However, controls could be improved in the following areas:-</p> <ul style="list-style-type: none"> • Proactively recruit to fill vacant staff positions and the impact of temporary positions on the budget • Review the responsibility and position for ISO27001 (Information Security standard accreditation). • Consider the completion of an ICT Service Catalogue as part of the Service Improvement Plan along ITIL (IT Infrastructure Library) lines. • Review and continue to monitor ICT KPIs and identify remedial action where performance is not as expected. • Put processes in place to improve how the ICT service maintains customer satisfaction via the Service Desk. <p>All findings and recommendations were agreed with Service Head - ICT</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Information Policies and Procedures	Dec 2009	<p>This audit sought to provide assurance that there were sound systems in place to control the use of ICT equipment including some of the policies and procedures in place. There are a number of approaches and processes to Information Security and Information management. Overarching guidance is provided by Information Governance Group (IGG) which includes nominated members from key directorates. There is an Information Security Policy owned and reviewed by the IGG. The policy includes statements on applicability of document and expected controls.</p> <p>Overall, we have reported that systems and procedures providing secure framework are in place. Following recommendations were made:-</p> <ul style="list-style-type: none"> • Consistent policy statements are made across the range of Council policies that control IT working, including reviewing and making references to Home Working, Internet and email and security policy. • Review staff training processes on Information Security and ensure that good practices are reflected. A process to assess staff awareness should also be implemented. • Develop data management protocols including controls over data access, retention, security and disposal. • Review which organisations the Council shares data with and ensure appropriate controls are in place. • Review the use of email encryption in use with the Council and identify where further use can be made of this. • Extend the use of protective marking to other areas of the Council where sensitive information is held. <p>All findings and recommendations were agreed with Information Governance Manager and members of the ICT DMT.</p>	Extensive	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Children's Social Care Commissioning Systems Audit</p>	<p>Nov. 2009</p>	<p>To assure management that the systems of control for the procurement, performance monitoring and paying for children's social care services were sound, secure and adequate. The following issues were reported:-</p> <p>There were sound arrangements in place for the commissioning and formal tendering, however we recommended that because of the risks involved, there should be a system for declarations of interests by relevant staff.</p> <p>The systems in place for checking and approving payments for projects were in accordance with the Council's procedures. However, there were instances where the administration, approval and checking process had been inadequate.</p> <p>There were sound budgetary processes in place but budget meetings needed to be recorded. Generally there was adequate contract monitoring process in place. We have recommended that following the current restructure, an effective management information system should be established that informs management on all areas of the commissioning process.</p> <p>All findings and recommendations were reported to the Acting Corporate Director and were agreed with the Service Head Strategy and Performance.</p>	<p>£1.86M</p>	<p>Substantial</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children's Centres	Dec 2009	<p>This audit was carried out using a regularity audit programme for establishment audits. There are currently 21 Children's Centres in Tower Hamlets. In consultation with the Head of Early Years and Senior Strategic Manager, Internal Audit selected five centres to visit: These were Little Oaks; John Smith; Montefiore; Shadwell and Wapping. Our review found that generally there were adequate procedures in place, but particular attention was needed in the following control area:-</p> <p>Governance arrangements needed to be strengthened to ensure that decision making was clear and transparent.</p> <p>Provision for financial and budgetary information required to be improved so that financial management can be sound.</p> <p>The checking and approving of petty cash expenses, utility bills and treatment of VAT needed improving.</p> <p>Procurement for goods and services required improvement and inventory control should be put on sound footing.</p> <p>All findings and recommendations were agreed by the Head of Children's Centres and reported to Service Head Early Years.</p>	Moderate	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Highways	Feb 2010	<p>This audit sought to provide assurance that the systems of control for developing and managing the highways works programme and individual projects within this programme were sound, secure and adequate.</p> <p>The review found that there were clear policies and procedures for managing the capital programme and projects. There was an adequate control to establish that the programme was developed to meet priorities and was properly costed, funded and approved. There was a transparent process in place for selection of the appropriate contractors to undertake the required works. However, the requirement to ensure that adequate records were maintained to log Declarations of Interest was not adhered to. There were instances where the authorisation of Purchase Orders did not comply with the Authorised signatory list. Projects were being administered, controlled and managed to ensure they were within budget but the completion of schemes may not be within set targets. Financial records required to be in an orderly system to mitigate the risk of prime documents being mislaid or lost. There was some slippage in the programme of works and the action required to address this was formally reported to management and the principal funding body, but the required actions were not formally laid down and may result in continual slippage occurring and loss of funding.</p> <p>All findings and recommendations were agreed with the Service Head – Public Realm.</p>	£2.2M	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Unauthorised Occupants – Follow Up Audit</p>	<p>Jan. 2010</p>	<p>This audit was a follow up audit to a systems review which was reported in June 2008. A Follow-up audit was undertaken as part of the 2009/10 Audit Plan.</p> <p>The Follow-up review found that out of 12 recommendations made in the original audit, 6 recommendations had been implemented. These related to carrying out tenancy audits by all Housing Areas and ensuring an improvement in audit trail to support tenancy audits. A dedicated fraud hotline has now been introduced for reporting unauthorised occupants. Regular meetings now take place with Legal Services to review and monitor the progress in dealing with reported cases. However, some of the key recommendations such as having a clear strategy and policy to control and manage various forms of unauthorised occupants; working jointly with other Council Departments, agencies, RSLs, and Local Authorities to proactively identify unauthorised occupants; and developing an anti-fraud strategy and publicising cases of identified fraud still needed to be fully implemented. In view of the progress made so far in implementing some of the key recommendations, we have assigned an assurance level of 'substantial'. However, we emphasised that further progress needed to be made to improve the control environment.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services.</p>	<p>Moderate</p>	<p>Substantial</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Members Allowances Systems Audit	Feb. 2010	<p>The objective of this audit review was to assure management that the systems for administering, managing and controlling members' allowances and claims for travel, subsistence, etc. were sound, secure and adequate.</p> <p>Overall, there were adequate systems in place for paying and processing of Members' Allowances. However, we found that the Council had published two versions of the Scheme - the intranet version which was last updated in July 2007, showed the rates applicable in that year. Whereas the version on the Council's website was updated in June 2008. We have recommended that both these versions should be reviewed and a single version should be put on both sites. In addition, we found that there were no written procedures for the administration of members' allowances for Members Support staff to follow. We recommended some restructuring of the budget to ensure that the budget for Members Allowances has a dedicated cost centre and object codes so that the spend on different types of expenses can be accounted for and monitored. In 2007/08 and 2008/9, the members allowance budgets were overspent by £51,000 and £24,000, respectively. We have therefore, recommended that a budgetary control and monitoring system be put in place.</p> <p>All findings and recommendations were agreed with the Service Head – Democratic Services.</p>	Moderate	Substantial

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>FLARE (APP Public Protection Audit)</p> <p>Computer Audit</p>	<p>Dec 2009</p>	<p>The objective of this audit was to assure management that there were sound systems in place to plan, control, manage the CIVICA APP (Public Protection System) used for the management of Trading Standards and Environmental Health services at the Council.</p> <p>The Council performs a variety of environment and public protection activities relating to trading standards, environmental health and community safety. These activities are governed by legislation, such as the Environmental Protection Act 1990, the Public Health Act 2006 and the Licensing Act 2003. The Civica APP application is used to support the coordination of these activities, as it provides a central repository for data pertaining to premises, inspections, investigations, resident complaints and service requests.</p> <p>Overall, we have reported that systems for administering, managing, controlling and monitoring the system were in place, but during our testing we found some cases where control could be improved. Our recommendations, therefore, were focused at ensuring that adequate controls exist for the support of the system in the event of unavailability of the current administrator, improving the password and access controls to obtain access to the system and performing a review of all users to help ensure that their access is required.</p> <p>All findings and recommendations were agreed with the Head of Trading standards and Environmental Health.</p>	<p>Moderate</p>	<p>Substantial</p>

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Seven Mills Primary School	Feb. 2010	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p><u>Main Control Strengths Identified:</u></p> <ul style="list-style-type: none"> • Accounting for Income and Expenditure; • Personnel and Payroll Management; • Security of IT Infrastructure, and Data Protection; • Risk Management and Insurance. <p><u>Main Control Weaknesses:</u></p> <ul style="list-style-type: none"> • Whilst the Scheme of Delegations document had delegated authorisation of orders to the Deputy Head Teacher, Bursar, Office Manager and Budget holders no maximum limit had been specified. • While terms of reference were available for the Finance Committee, these did not exist for the remaining 3 Committees at the school. The Finance Committee meets at least twice a term but there was no evidence that the other Committees meet regularly. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	£1.6m	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	Draft Report
Absence Management	Draft Report
Risk Management	Field work
Control and Use of Minicabs by Staff	Draft Report
Assistant Chief Executive's	
Charges on Property	Draft report
Working Neighbourhood Fund	Field Work
Mainstream Grants – Strategic Commissioning	Field work
Children's, Schools and Families	
Common Assessment Framework	Draft Report
Management and Control of Surplus Balances	Draft Report
Building Schools for Future – contract audits	Draft Report
ContactPoint Implementation	Audit Brief

CLC	
Budgetary Control	Draft Report
Development and Renewal	
Homelessness	Audit Brief
Management of Planning Permissions	Audit Brief
Tower Hamlets Homes	
Grounds Maintenance – Contract Monitoring FU	Draft Report
Installation of Aerials – Contract Audit	Draft Report
Budgetary Control	Draft Report
Performance Management	Field work
Housing Repairs	Field work
Adults, Health and Wellbeing	
Governance of Pooled Agreements	Field work
Resources	
NNDR	Draft Report
Council Tax	Draft Report
Pensions	Draft Report
Management and control of VAT	Draft Report

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London Borough of Tower Hamlets



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Foreword

The role of internal audit is becoming increasingly important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2010-11 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

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

Minesh Jani
Service Head – Risk Management and Audit

Context

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

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

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

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

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. There are 33 strategic risks currently (Dec 2009) facing LBTH which are being monitored by the CMT and the Audit Committee. The Council's key strategic risks and how it gets assurance from various sources is demonstrated below.

No.	Risk	Source of Assurance
DRA0001	Failure to deliver Decent Homes by 2016	2009-10 Audit Plan
CSD0009	Implementation of actions arising from the Laming report into Baby P may require additional financial resource	2010-11 Audit Plan
DRD0002	Financial penalties for not achieving the CRC Energy Efficiency Scheme (CRC)	2009-10 Audit Plan
CL0002	Waste Strategy - Procurement Project does not deliver a solution that is within budget	PRG
RSB0010	Future settlement will be much lower than current level	Transformation Board
DRC0002	Resources required by the Directorate to deliver its priorities are not available or not sustainable	D&R DMT
AHC0001	Capacity to manage sickness levels and other HR tasks.	2009-10 Audit Plan

No.	Risk	Source of Assurance
CEAC0002	Failure to deliver a credible public awareness campaign - Tower Hamlets Together within budget	CE DMT
RSE0002	The cost of administrative buildings may increase substantially from 2010/11	2010-11 Audit Plan
CSG0005	The financial risk around the BSF programme and the existing PFI scheme which may need to be bought out with the consequential delay in implementing capital investment works into the schools	2009-10 and 2010-11 Audit Plan
AH0009	Personalisation - Targets not met in giving clients choice and control	2010-11 Audit Plan
CL0005	Civil Protection Unit Swine Flu	Business Continuity Plan
CSF0003	There may be a failure to maintain the performance rating under the new Comprehensive Area Assessment (CAA)	CSF DMT
AH0010	Personalisation - New Resource Allocation System leads to the AHWB budget being overspent	2010-11
AH0012	Swine Flu pandemic impacts on capacity to maintain essential services	Business Continuity Plan
LSP010002	Uncertainty of sustainable funding after WNF	2009-10 Audit Plan

No.	Risk	Source of Assurance
RSB0014	Failure to deliver Financial Management Review Programme	Financial Reporting and Technical Group
DR0018	Failure to manage the requirement to reduce the number of households in temporary accommodation by 50% by 2010	2009-10 Audit Plan
DRD0003	Failure to adequately plan, manage and maintain assets and premises	2010-11 Audit Plan
DRA0005	Services charges debt may not be fully recovered, allowing for the provision. Total debt is £33m.	2009-10 Audit Plan
CSF0001	There is a risk that the Ofsted unannounced inspection of safeguarding finds serious concerns	CSF DMT
CEB0002	There is inadequate corporate business continuity planning leading to loss of key services	2009-10 Audit Plan
RSC0004	Data compromised	2010-11 Audit Plan
RSG0001	Failure of the customer contact centre	Resources DMT
RSA0001	Occupational Health - failure to deliver services in line with contractual arrangements	HRIP
RSA0004	Workforce Planning - Failure to implement strategy and plans	HRIP

No.	Risk	Source of Assurance
DRP0001	Failure to deliver LDF Core Strategy	Asset Management and Capital Board
DRD0001	Failure to adequately plan, manage and maintain community building portfolio	2010-11 Audit Plan
RSB0011	A model an efficiency programme to take account of the likely reduction in future funding across public sector is not developed	2010-11 Audit Plan
RSC0003	Failure of ICT Infrastructure and Telephony Service	2010-11 Audit Plan
RSB0005	Economic uncertainty and banking conditions lead to loss of income or investment capital.	2009-10 Audit Plan
CH&AD0001	Negligence resulting in harm to a vulnerable person (arising from Baby P incident)	2010-11 Audit Plan
CEAA0004	Electoral petition - Challenge to election result May 2010	CE DMT and Ass Chief Exec (Legal)

The Role of Internal Audit

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

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

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

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

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

London Borough of Tower Hamlets 2010/11 Internal Audit Plan

	Audit Days	Pages
Corporate Systems and Council-wide reviews	195	10-12
Assistant Chief Executive's	80	13-14
Children, Schools and Families	360	15-18
Communities, Localities & Culture	95	19-20
Tower Hamlets Homes	145	21-23
Development & Renewal	115	24-26
Adult, Health and Wellbeing	100	27-28
Resources & core financial systems	218	29-31
Contract audit	50	32
Information Technology audits	100	32
VFM and Pro-active fraud	70	32-33
Follow up, management and reactive fraud provision	350	33
Total Provision	1,878	-

INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Core Management Processes	This audit will review core people management processes such as managing attendance, managing performance, managing conduct and managing learning and development. The objective is to provide assurance that corporate people management processes are being complied with resulting in good governance.	M	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Programme	This review will provide assurance that efficiency programmes to take account of the likely reduction in future funding have been developed and controls are in place to monitor their delivery across the Council.	H	20	Strategic Risk Register ref. RSB0011	One Tower Hamlets Working efficiently and effectively as One Council
National Performance Indicators	The objective of this work will be to audit and verify data quality of a sample of high risk national performance indicators prepared by the Council for submission to the Audit Commission.	H	40	Working with the Council's External Auditors	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Recruitment	This audit will review systems for recruiting staff to established posts ensuring that corporate procedures are complied with and that satisfactory pre-recruitment checks are carried out.	H	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Leavers	This audit will evaluate systems for managing and controlling leavers to ensure that staff who leave the service of the Council are promptly notified to HR and Payroll to mitigate risks.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Corporate Governance	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council



INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Financial Regulations and Waivers	This review will examine the Council's Financial Regulations to provide assurance that the regulations are current, up to date and provide effective financial control and monitoring. In addition, the system for controlling and monitoring Waivers to the regulations will be reviewed.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and control of Overtime	This audit will examine systems and procedures for claiming, approving and paying overtime to officers to ensure that the systems are sound and secure and corporate procedures are complied with.	M	20	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
To be allocated subject to operational risk assessment			35		



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Assistant Chief Executive's</u>					
Registrars	This will be a regularity audit to the Registrars office to provide assurance that systems for controlling income, expenditure, controlled stationery, assets and information are sound and secure.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of members Enquiries	The objective of this audit is to provide assurance that systems and procedures for dealing with and managing and monitoring enquiries raised by elected members of the Council are sound and secure.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Information Security Incident Management	The objective of this audit will be to review the systems in place for reporting, investigating and managing incidences of breaches in information security procedures.	H	10	Strategic Risk register RSC0004 and Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Local Area Agreements	This audit will review the Council's and its partner's arrangements for delivering the outcomes of the Local Area Agreements	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Assistant Chief Executive's</u>					
Performance Management	The objective of this audit is to provide assurance over the Council's systems for managing and monitoring performance of its key services to ensure that the delivery of the strategic priorities of the Council are managed and monitored effectively.	H	15	Directorate Risk register CSF0003 and Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

To be allocated subject to operational risk assessment

20



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Youth Service Contract Monitoring	This audit will review systems for managing and monitoring the youth service contracts to ensure that the contracts deliver value for money and outcomes required by the Council.	H	20	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Offending Youth	This review will focus on the Council's 'Reducing re-offending programme' arrangements to prevent and reduce youth re-offending. In addition systems for issuing Rehabilitation orders and for preparing and monitoring 'supervision plans' will also be audited.	M	15	Directorate Risk register CSC0002	A Safe and Supportive Community Tackle and prevent crime
Implementation of Laming Recommendations	This audit will provide assurance over the implementation of recommendations arising from Laming Review	H	15	Strategic Risk register CSD0009 and CH&AD0001	A Safe and Supportive Community Focus on Early Intervention Empower older and vulnerable people and support families



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Prevention and Early Intervention Strategy	This audit will review systems and procedures for prevention and early intervention to provide assurance that the key objectives of the Council's Strategy are being achieved and monitored.	M	15	Audit needs analysis	A Safe and Supportive Community Focus on Early Intervention
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	150	From Audit Needs Assessment	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council
Financial Management Standards for Primary and Secondary Schools	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	90	DCFS regulation on financial management standards at schools in line with the DCFS toolkit.	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council.



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>	This audit will examine systems for procurement of supplies and provisions for Central Kitchen to ensure that best value is obtained from the procurement and the use of provisions is controlled and monitored effectively.	M	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Procurement	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Programme and Project Management	This audit will review the Directorate's compliance with the Corporate Programme and Project Management procedures. A sample of strategic projects will be selected to test compliance.	M	10	Audi needs analysis	One Tower Hamlets Working efficiently and effectively as One Council



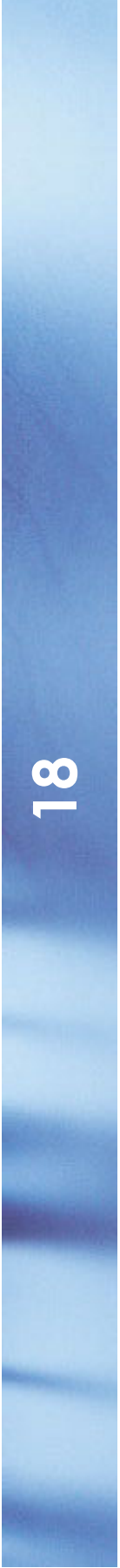
INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
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Children, Schools and Families

To be allocated subject to operational risk assessment

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INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Commercial Waste	This audit will examine systems for managing commercial waste by the contractor to ensure that controls over income and expenditure are sound and adequate and the contract is robustly monitored.	M	15	Audit needs analysis	A Great Place to Live Improve the environment and tackle climate change
Leisure Management – contract management and monitoring	This review will provide assurance over the management and monitoring of the contract, ensuring that sound systems are in place and value for money is achieved in the delivery of the contract.	M	15	Audit needs analysis	A Healthy Community. Reduce differences in people's health and promote healthy lifestyles
Purchases of library books and other stocks	This audit will seek to provide assurance over the arrangements for purchasing books and other stocks for the Council's libraries and Idea Stores, ensuring that best value is obtained and stocks are properly secured.	M	10	Directorate Risk register CL0011	A Prosperous Community Support lifelong learning opportunities for all.
Environmental Protection	This audit will review compliance with the Council's statutory requirements in relation to environmental protection and pollution control.	M	15	Audit needs analysis	A Great Place to Live Improve the environment and tackle climate change

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities. Localities and Culture</u>					
CCTV Control Room and Management	This audit will provide assurance that systems and procedures around the efficient and effective operation of the CCTV room are sound and secure.	M	10	Directorate Risk register CL0017 and Audit needs analysis	A Safe and Supportive Community Tackle and prevent crime
Procurement	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
To be allocated subject to operational risk assessment			20		

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Gas Repairs and Maintenance	This audit will seek to provide assurance over the systems and controls in place around gas repairs and maintenance repairs ensuring that key contract objectives are achieved and works paid for are carried out efficiently and effectively.	M	15	THH Risk register THH010017 and Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
is audit will provide assurance over the effectiveness of the current systems and controls over the granting of probationary tenancies.					
Leaseholder Income Collection	This audit will examine systems and controls in place for collecting and recovering income due from Leaseholders.	M	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Financial Systems	This audit will review the key financial systems as part of the annual assurance over the soundness of financial control across THH.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Caretaking Service	The scope of this audit will be to examine systems for managing and monitoring caretaking services ensuring that the services are well planned, managed and controlled to achieve the key objectives.	M	15	THH Risk register THH010028 and Audit Needs analysis risk register	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Implementation of the Service Improvement Plan	This review will seek to provide assurance that systems and procedures for effective implementation of the Service Improvement Plan are sound.	H	10	Audit Needs analysis and Risk register THH 010022	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Systems Development work	The objective of this work will be to advise management on procedures and controls during the systems development stages.	H	10	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Contract Audits	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control.	H	15	Audit Needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Health and Safety	This audit will provide assurance that there are sound systems and procedures for management of Health and Safety at work across THH.	H	10	Audit Needs analysis and Risk Register THH010009	One Tower Hamlets Working efficiently and effectively as One Council
Management of garages, sheds and estate parking spaces	This audit will examine systems and controls for managing and monitoring income and expenditure relating to garages, sheds and estate parking spaces in all Housing areas to ensure that systems are sound and secure.	M	15	Audit Needs analysis and Management request.	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Asset Management	This audit will seek to provide assurance that there are sound systems for governance, planning and managing the Council's assets and premises.	H	15	Audit Needs analysis Strategic risk register DRD0003	One Tower Hamlets Working efficiently and effectively as One Council.
Housing Property Buy Back	The objective is to provide assurance over the management and control of the buy back scheme to ensure that the systems are efficient, effective and achieve the objectives of the Council.	H	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Planning fees and charges	This audit will examine systems for managing and controlling the collection and banking of planning fees.	H	10	Audit Needs analysis and Directorate Risk Register DRP0005	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>	<p>Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme to provide assurance that cost and programme controls are adequate during the currency of the contract.</p> <p>Post contract audits will be carried out on completed sample schools to provide assurance that objectives of the building programme have been achieved, final accounts audited and lessons learnt are factored into the future development work.</p>	H	25	Strategic Risk register CSG0005 and Audit needs analysis	<p>A Prosperous Community Support lifelong learning opportunities for all.</p>
Programme and Project Management	<p>This audit will review the Directorate's compliance with the Corporate Programme and Project Management procedures. A sample of strategic projects will be selected to test compliance.</p>	H	10	Directorate Risk register DRC0003 and Audit needs analysis	<p>One Tower Hamlets Working efficiently and effectively as One Council</p>
Community Building Portfolio Management	<p>The objective is to provide assurance over the management and control in relation to the Council's Community Building Portfolio.</p>	M	15	Directorate Risk register DRD0001	<p>One Tower Hamlets Working efficiently and effectively as One Council</p>



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Procurement	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

To be allocated subject to operational risk assessment

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INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Community Equipment Store	The objective of this audit is to provide assurance over the systems and procedures in place for ordering, paying and controlling OT equipment.	M	10	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Contract management and monitoring	This audit will examine systems for managing and monitoring a sample of contracts awarded by the Directorate to ensure that there are sound and secure contract monitoring arrangements in place at the Directorate level.	H	15	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Integrated Commissioning of Mental Health	This audit will review the systems and controls for commissioning mental health services for adults using the integrated commissioning approach.	H	15	Directorate Risk register AH0014	A Healthy Community Support Mental Health services to improve mental health

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Implementation of Personalisation Agenda	This audit will provide assurance that there are sound systems in place for implementing the personalisation agenda.	H	15	Strategic Risk Register AH0009 and AH0010	A Safe and Supportive Community Empower Older and Vulnerable People
Out of Hours Social Care	To examine systems and procedures for managing and controlling out of hours social care, ensuring that systems are sound and secure.	M	15	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Quality Assurance	This audit will review the Directorate's quality assurance systems to ensure that the procedures are sound and secure and recommendations made by the team are implemented.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
To be allocated subject to operational risk assessment			20		

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Resources					
Housing and Council Tax Benefit (full systems audit)		H	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
General Ledger incl. Budgetary Control (testing only)		H	10		
Cashiers / Cash income (Testing)		H	7		
Council Tax (testing)		H	10		
Sundry Debtors including Recovery and Write offs (testing)	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	10		
Creditors and R2P (Full systems)		H	20		
Capital Accounting (testing)		H	7		
Pensions (testing)		H	5		
N.N.D.R. (testing)		H	7		



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Personnel/Payroll (Systems)		H	15		
Housing Rents (testing)		H	10		
Treasury Management (systems)		H	10		
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. Council
Grant Claim - Teachers Pensions Return	This is an annual audit which will examine 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. Council
Payments by CHAPS and BACS	To provide assurance that these systems for making and approving these payments are sound and secure to protect Council's assets and interests.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Management of Administrative Buildings	This audit will seek to provide assurance over the management of administrative buildings to ensure that systems and controls for managing the buildings including contract payments for repairs and maintenance etc. are sound and secure.	M	15	Strategic Risk register RSE0002	One Tower Hamlets Working efficiently and effectively as One Council
Out of Hours Emergency Service	This audit will provide assurance that the out of hours emergency service is operating efficiently and effectively to achieve the objectives and priorities of the Council.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
To be allocated subject to operational risk assessment			20		



INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	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 Council
<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.	-	100	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
<u>Value for Money Audits</u>					
Translation Service	Directorates of the Council use various providers to deliver translation services. Our review will focus on the present arrangements for translation services and whether these provide value for money	M	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Proactive Fraud Work</u>	A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised.	H	50		One Tower Hamlets Working efficiently and effectively as One.
<u>Follow Ups</u>	Follow-up of reviews carried out in 08/09 to ensure implementation of audit recommendations.	H	150		One Tower Hamlets Working efficiently and effectively as One.
<u>Management Time</u>	This is a provision for management time required to direct, control and monitor the work of the audit team.		100		
<u>Reactive Fraud</u>	A provision for work carried out on investigating and reporting upon reported irregularities and fraud	H	100		

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.

Appendix 1

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE		This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.		
Score	Risk to Department, Corporate and/or Service Objectives	Operational Risk Exposure	Financial Risk Exposure	
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	Minor inconvenience	Under 2% of total operating income or net assets.	
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	Difficult to recover	Between 2% and 10% of operating income or net assets.	
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	Permanent loss of data	Between 10% and 30% of operating income or net assets.	
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	Unable to restore system	Between 30% and 50% of operating income or net assets.	
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	Organisation unable to function	Over 50% of total operating income or net assets	

Internal Audit Risk Assessment Matrices

<p>B 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			No regulatory requirements	or	
20	Some public embarrassment but no damage to reputation or standing in the community	Information would be of interest to local press		Minimal regulatory requirements and limited sensitivity to non-compliance	or	
30	Some public embarrassment leading to limited damage	Information would be of interest to local MPs		Modest legal and regulatory requirements	or	
40	Loss of credibility and public confidence in the service concerned	Incident of interest to National Press	Or	Extensive legal and regulatory requirements with sanctions for non-compliance	or	
50	Highly damaging with immediate impact on public confidence	Incident of interest to the Audit Commission, government agencies	Or	Possible court enforcement order for non-compliance	or	

Internal Audit Risk Assessment Matrices

<p>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.</p>						
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	Moderately complex system with medium risk of error	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	Complex system with high risk of error	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

<p>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.</p>				
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	or
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.	or
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.	or
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.	or
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.	or

Internal Audit Strategy

Introduction

What is Internal Audit?

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

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

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

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

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

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

Why do we need an Internal Audit Strategy?

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

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

- on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;
- audit of the Authority' risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;
- improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- effective co-operation with external auditors and other review bodies functioning in the Authority; and
- provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

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

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

Strategic Aims

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

- Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;

Appendix 2

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

Internal Audit & Risk Management

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

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

Identifying Audit Coverage

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

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

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

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

Delivering the Strategy

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

Internal audit will 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.

The Internal Audit Process

The Pre-Audit Stage

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

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

During the Audit

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

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

Post Audit Stage

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

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

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

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

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.

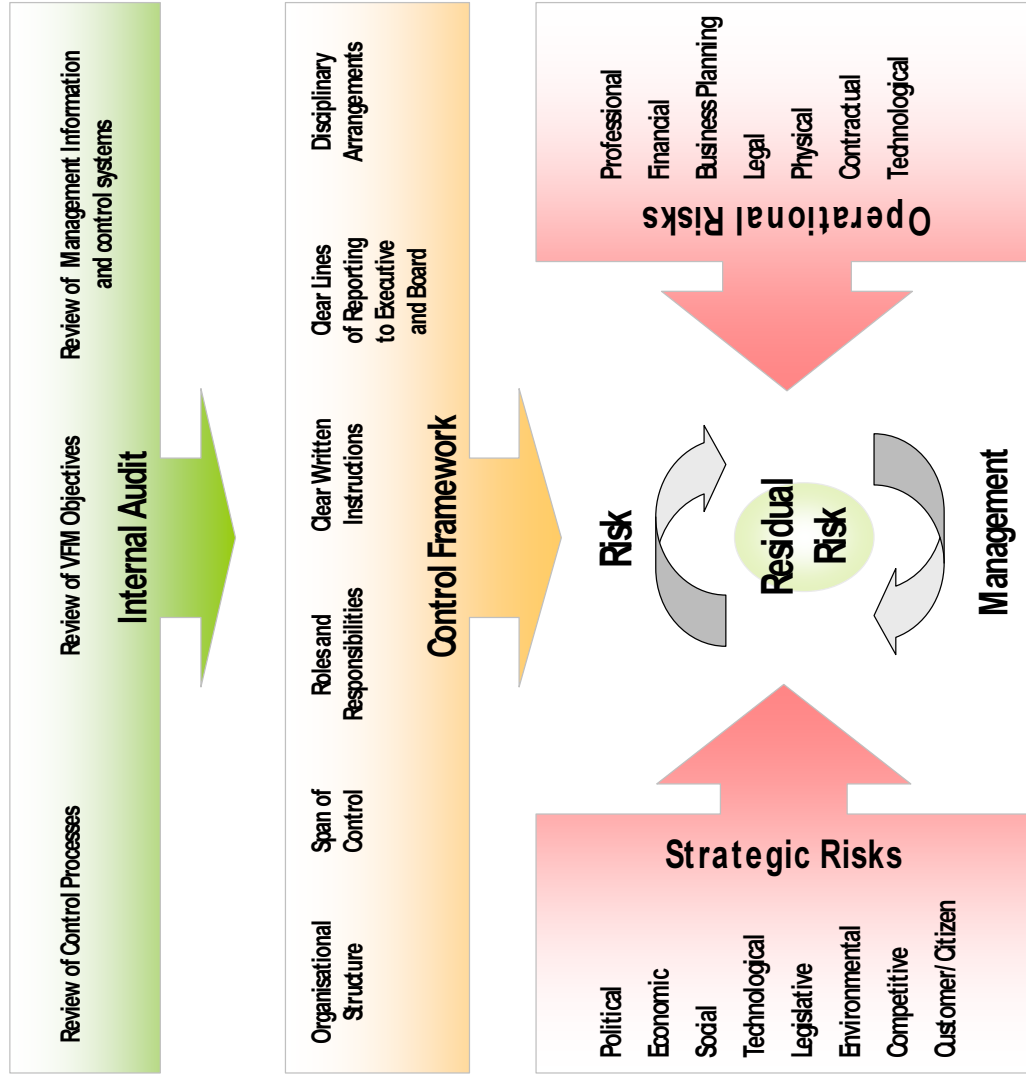
The Monitoring Process

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

Internal Audit recommendations are classified as follows:

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

Summary



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

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

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

Appendix 3: Risk Management Framework

Definitions

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

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

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

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

Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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

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

Classification of Risk

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

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Agenda Item 53

REPORT TO: Audit Committee	DATE 30 March 2010	CLASSIFICATION	REPORT NO.	AGENDA NO. 5.3
REPORT OF: <u>Corporate Director, Resources</u>		Annual Anti Fraud Plan 2010-11		
ORIGINATING OFFICER(S): <u>Head of Audit Services</u>		Ward(s) Affected: N/A		

1. INTRODUCTION

- 1.1 This report provides audit committee with a summary of the planned work to be carried out by the Corporate Anti Fraud Team in 2010/11.
- 1.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. This minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 1.3 The need for effective anti fraud work within local authorities has also been reflected by the Audit Commission, through the Use of Resources Assessment. The requirements highlight the expectations around the framework local authorities have in place in respect of the prevention and detection of fraud. As such, it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption activities. The work of the Anti Fraud Team will increase in 2010/11 with the setting up and management of a small team to look at social housing fraud.

2. RECOMMENDATIONS

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

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D 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. ANNUAL CORPORATE ANTI FRAUD PLAN 2010/11

- 3.1 This is the third year where we have provided a separate and specific plan for anti fraud work as previously it had been included within the Internal Audit Plan. This is to reflect the increasing priority of the service within Internal Audit.
- 3.2 The overall aims and objectives of this plan reflect the Council's Anti Fraud and Corruption Strategy. The key aims are to:
- Highlight and promote the Council's commitment to stop fraud and corruption;
 - Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
 - Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
 - Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.
- 3.3 The key drivers used to compile the corporate anti fraud plan for 2010/11 has built on experience and takes account of the: -
- Fraud Risk Register (maintained by audit through training with services);
 - Management requests and priorities;
 - Local Knowledge;
 - Joint working arrangements - external (DWP, PCT, Police and other Local Authorities);
 - Resourcing the Government's initiative to examine instances of un lawful sub letting of Registered Social Landlord properties
 - Joint Working arrangements – internal (payroll, pensions, parking services, benefits services, housing services;
 - Issues identified from planned audit work; and

- Good Practice checklists from the CIPFA Publication- Managing the risk of Fraud- Red Book 2.

3.4 Our plan is attached as Appendix A. The focus of the plan is to:-

- Planned activities for Tower Hamlets Homes that will include a pro active and reactive work and along with review of access to accommodation, including nominations, transfers, successions and management determinations; as part of the on-going work of the Social Housing Fraud resource
- Manage the internal audit process and continue to support the Authority on providing assurance on data quality of the National Indicators which have replaced the best value performance indicators; (n.b. this also includes the management of the 40 days resource from the Internal Audit Plan)
- Continue management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements under the Audit Commissions Code of Data Matching Practice and that the NFI exercise is appropriately resourced and finalised within prescribed deadlines; in finalising the 2008/9 exercise and prepare and the deliver the 2010/11 NFI.
- Ensure that the work of those engaged in Anti Fraud work supports the Council's Strategic Plan;
- Work jointly, internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to provide anti fraud training and awareness to members and officers;
- Continue to hold monthly meetings with the Assistant Chief Executive (Legal Services) on Governance issues;
- Ensure that appropriate training and development on ethical governance matters is rolled out to staff and members as appropriate;
- Publicise all our successes;
- Ensure that all agreed timescales prescribed for the completion of investigation work are met and that all cases are adequately reported to senior management as part of our ongoing reporting procedures; and

- Develop mechanisms for categorising and quantify fraud for more accurate reporting to enable better informed risk assessments.
- 3.5 The plan makes provision for the existing resource plus a buy in of circa 100 additional days along with the temporary resource to manage the social housing fraud work.
- 3.6 The following table shows the Corporate Anti Fraud Team resources for 2010/11 and the resource required to complete the anti fraud work in 2009/10.

Reactive resources	Days
Head of Audit Services	180
NFI co-ordinator and Fraud Manager	200
Additional bought in requirement (1/2 post)	100
	<u>480</u>
Plus	
Social Housing Fraud Temporary resource (3 x 6 months)	300

4. Comments of the Chief Financial Officer

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

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

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

6. One Tower Hamlets Considerations

- 6.1 There are no specific One Tower Hamlets Considerations issues 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 implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. This report identifies areas of risk for management to mitigate.

10. Sustainable Action for a Greener Environment (SAGE)

- 10.1. There are no specific SAGE implications.

APPENDIX A

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>Tower Hamlets Homes</u>							
Management Support and Advice	5		H	Circa £140M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Work carried forward, Whistle blows management referrals and proactive contingency	35	Finalising work carried forward, Whistle blows management including those for THH, Management referrals and reactive and proactive contingency. There will be additional work as part of the work on Social Housing Fraud included in subsequent items of this plan	H	Circa £140M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Anti Fraud Arrangements/ Joint Working-	10	This work includes the Fraud Forums, training with the service on Anti Fraud and Corruption Strategy, Money Laundering etc. There is also provision for in year unplanned investigations and support to management.	H	Circa £140M	0.5% to 3%	Legislative Requirement	One Tower Hamlets Working efficiently and effectively as one Council
	<u>50</u>						

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>Housing Client</u>							
NFI Management	10	This work will involve managing the Audit Commission Web base site, provision of training and support and monitor progress.	H	Circa £140M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	<u>10</u>						
<u>Proactive Training and Development</u>							
Anti fraud liaison groups development	5	This will involve close working with a number of our external partners including the Police, DWP and PCT.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Anti fraud training and development for members and services- Includes multi module E-Learning package	10	This is an ongoing mechanism that seeks to embed good practice within the Council and will be enhanced by the introduction of our E- Learning package on Governance matters.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	<u>15</u>						

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>Overall Governance</u>							
Audit Committee	10	Preparation and presentation of reports to the Committee	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Standards Committee	5	Preparation and presentation of reports to the Committee		N/A			
FOI	5	Reactive responses to Freedom of Information requests for information.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Money laundering- Training Module and compliance	10	This work enhances our existing arrangements for the proper disclosure of Money Laundering instances and will ensure we meet best practice.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Categorising and Quantifying fraud	10	Developing systems and procedures for categorising and quantify fraud to enable meaning savings targets	H	Over £1B	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	40						

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>National Indicators</u>							
National Indicators	40	This is a first year review of the new National Indicators and will form a key evaluation within the CAA process.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
National Indicators Working Groups	10	Working with the each of the directorate performance teams and the corporate performance team providing support and training on data quality testing and evaluation of the adequacy of returns in preparation of the external audit review.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	50						

<u>National Fraud Initiatives</u>							
NFI 2008/09 and 2009 pilots	20	NFI 2009/10 finalising previous exercises and pilots	H	Over £500M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
NFI 2010/11 new exercise	25	Preparation, consultations and data management for new exercise.	H	Over £500M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>National Fraud Initiatives</u>							
NFI 2010/11 new exercise investigations	60	This work will involve managing the Audit Commission Web base site, provision of training and support and monitoring progress for the Council as a whole. It will also include the provision of reporting to the Audit Commission in accordance with prescribed deadlines.	H	Over £500M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	<u>105</u>						

<u>Joint working with other agencies</u>							
DWP joint working and referrals	9	This involves providing support to DWP referrals on staff related inquiries	H	£140m	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Police referrals	8	Responding to Met Police referrals from both the local and specialist police functions.	H	Unknown dependent on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>Joint working with other agencies</u>							
Joint working with PCT	20	This will involve joint Risk Assessment of key Fraud Risks to both organisations and resultant joint working	H	Over £100M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Joint working and referrals from other LA's	9	Supporting inquiries from other Local Authorities where cases of suspected Fraud and Irregularity are identified.	H	Unknown dependent on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
Joint work with Benefits Fraud	9	Joint working with Benefits Fraud on crossover matters arising from social housing fraud matters	H	£140M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	55						

<u>Planned other pro active work</u>							
Access controls- Review of recruitment vetting for new staff	20	This review will evaluate the effectiveness of access to employment to the Council from both permanent and temporary staff to ensure systems are as robust as possible.	H	Over £100M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
<u>Planned other pro active work</u>							
Anti Fraud Data Matching Testing	20	This will involve data matching various key financial systems to ensure that the data held is reliable and provides good evidence of the minimisation of fraud and or error.	H	£300M	0.5% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
	<u>40</u>						
Social Housing Fraud management	30	Management overview of social housing fraud team and objectives	H	Over £150M	0.5% to 5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council
<u>Contingencies</u>							
Proactive contingency	60			Unknown dependent on values of referrals			
W/B contingency	25			Unknown dependent on values of referrals			
	<u>85</u>						
	-						
<u>TOTAL</u>	<u>480</u>						

Activity	No of days	Broad Scope	Risk Assessment	Scale of Service	Business risk as %	Source of Risk	Link to Corporate priorities
Social Housing Fraud	<u>300</u>	Temporary team to set up to identify unlawful accommodated public sector properties, recover and work with THH and RSL partners to improve systems	H	Over £150M	0.5% to 5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council

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Agenda Item 54

REPORT TO: Audit Committee	DATE 30 March 2010	CLASSIFICATION	REPORT NO.	AGENDA NO. 5.4
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Head of Audit Services		Anti Fraud and Corruption Strategy Ward(s) Affected: N/A		

1. Introduction

- 1.1 This report provides Audit Committee with an updated Anti Fraud and Corruption Strategy following the best practice guidance issued by the CIPFA publication "Managing the Risk of Fraud – Actions to Counter the Risk of Fraud- Red Book 2".
- 1.2 Audit Committee will recall that the Council undertook a review of its arrangements earlier in the financial year to benchmark its arrangements against the requirements of the best practice guide as prescribed by CIPFA. The small number of additional actions required to maintain best practice, have been worked on during the year and attached is a revised Anti Fraud and Corruption Strategy which is intended to ensure the Council continues to meet best practice.

2. Recommendations

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

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

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

3.3 The key tests were:-

3.3.1 Adopting the right strategy

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

3.3.2 Measuring Fraud and Corruption Losses

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

3.3.3 Creating and Maintaining a strong structure

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

3.3.4 Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action.

3.3.5 Defining Success

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

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

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

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

4. Progress update

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

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

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

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

4.4 The expectation is that the Council will have reached full compliance by the end of this financial year.

4.5 At the 29th September 2009 Audit Committee, Members received a report on the Council's progress made in compliance with the Red Book 2 requirements and the actions required to "achieve full compliance". Attached as appendix A is an update which shows that we are on course to be compliant by the end of March 2010.

4.6 The attached Appendix B is an updated Anti Fraud and Corruption Strategy that includes the additional best practice suggestions from the independent review.

5. Comments of the Chief Financial Officer

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

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

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

7. One Tower Hamlets Considerations

7.1 There are no specific One Tower Hamlets Considerations issues arising from this report.

8. Equal Opportunity Considerations

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

9. Anti-Poverty Considerations

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

10. Risk Management Implications

10.1. The implications arising from failure to control and manage risks could result in vulnerability to the systems of control that may be exploited. This report identifies areas of risk for management to mitigate.

11. Sustainable Action for a Greener Environment (SAGE)

11.1. There are no specific SAGE implications.

APPENDIX A

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

1. ADOPTING THE RIGHT STRATEGY

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

2. MEASURING FRAUD AND CORRUPTION LOSSES

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
2.1	Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements?	<ul style="list-style-type: none"> • Corporate Fraud Risk Register • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee 	Y	
2.2	Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption?	<ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy which includes a definition of fraud • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee 	Y	<p>The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each area. The report should also include civil proceedings taken (if any) and anonymised information about disciplinary sanctions applied (if any). Consideration should be given to adopting a method of assessing losses prevented in areas susceptible to such a calculation.</p> <p>Developed in 2009/10. To be included in 2009/10 Annual Anti Fraud Report as a standard item, together with the Insurance Claims experience and exposure to Fraud in the year.</p>
2.3	Does the organisation use accurate estimates of losses to make informed judgments about levels of budgetary investment in work to counter fraud and corruption?	<ul style="list-style-type: none"> • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee 	Y	<p>The risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each additional area. Corporate Anti Fraud should consider setting up a system to record losses to fraud and corruption.</p>

3. CREATING AND MAINTAINING A STRONG STRUCTURE

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
3.1	Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's counter fraud and corruption strategy?	<ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Constitution • Scheme of Management • Financial Regulation CR6 - Preventing Fraud and Corruption 	Y	<p>Financial Regulation CR6 should be amended as part of the current review of Financial Regulations to include specific reference to the Head of Audit Services in the investigation of potential fraud and corruption. Revisions have been included in the revised regulations.</p> <p>This has been revised and will be introduced when Financial Regulations are re issued.</p>
3.2	Is there strong political and executive support for work to counter fraud and corruption?	<ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee • Statements by the Lead Member Resources & Performance (ELA Article 02/10/08) 	Y	<p>Consider issuing a joint statement from the Leader of the Council and the Chief Executive.</p>

3. CREATING AND MAINTAINING A STRONG STRUCTURE

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
3.3	Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?	<ul style="list-style-type: none"> Annual Fraud Plan which includes risk assessment and is reported to the Audit Committee 	Y	<p>Consideration should be given to benchmarking expenditure on counter fraud and corruption arrangements with other comparable local authorities. As in recommended in 2.3 above, the risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each area.</p> <p>The Audit and Housing Benefit Services are benchmarked via the CIPFA Benchmarking Clubs. The out turn report for 2008/09 on the Anti Fraud Annual report identified actual and notional values for all losses incurred as a result of fraud and error.</p>
3.4	Are all those working to counter fraud and corruption professionally trained and accredited for their role?	<ul style="list-style-type: none"> Benefits, and Parking Services officers PINS accredited Qualified Trading Standards Officers Head of Audit Services is a certified fraud examiner Ad hoc other training – e.g. witness training for those giving evidence in criminal proceedings 	Y	<p>The Head of Audit Services to identify services with profession skills gaps and recommend and develop relevant training.</p> <p>This has been completed.</p>

3. CREATING AND MAINTAINING A STRONG STRUCTURE

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
3.5	Do those employees who are trained and accredited formally review their skills base and attend regular refresher courses to ensure they are abreast of new legislation?	<ul style="list-style-type: none"> • PDR Process • Fraud circulars • Refresher courses • London Borough Fraud Investigation Group 	Y	The Head of Audit Services should review random sample of PDR records to ensure this area of personal development is being affected and reviewed. This has been completed.
3.6	Are all those working to counter fraud and corruption undertaking this work in accordance with a clear ethical framework and standards of personal conduct?	<ul style="list-style-type: none"> • Employees' Code of Conduct • Audit Manual • Fraud investigation policy code of conduct 	Y	
3.7	Is there an effective propriety checking process?	<ul style="list-style-type: none"> • At present CRB checks only are obtained for specific services and corporate anti fraud staff 	Partial	Current arrangements do not include the more extensive pre employment screening required to meet the requirements of this criteria and consideration should be given to implementing applicant propriety checks, including the resources available/required for the introduction of such a process. This is being examined with HR and an appropriate electronic identity vouching tool is being evaluated.
3.8	Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented?	<ul style="list-style-type: none"> • See compliance and recommendations for 3.7 above 	Partial	This will form part of the process mentioned above and will go live in early 2010.

3. CREATING AND MAINTAINING A STRONG STRUCTURE

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
3.9	Are framework agreements in place to work with other organisations and agencies?	<ul style="list-style-type: none"> There are no such formal agreements in place at present. The Anti Fraud Forum which was established in 2007 and includes partner organisations such as the police, PCT and Tower Hamlets Homes is however well placed to consider any proposed arrangements which might be developed. The Forum's terms of reference already include these matters and the Forum oversee implementation and review of any agreements and ensure they focus on the practicalities of common work. 	Y	<p>Agreements should be developed with the police and NHS as a minimum and approved by the Forum as soon as possible.</p> <p>SLA's in place with PCT and Housing Benefits.</p> <p>Protocol in place with PCT and Internal Audit and Housing Benefits.</p>
3.10	Are the framework agreements focused on the practicalities of common work?	<ul style="list-style-type: none"> See compliance and recommendations for 3.9 above 	Y	
3.11	Are there regular meetings to implement and update these arrangements?	<ul style="list-style-type: none"> See compliance and recommendations for 3.9 above. 	Y	This is through the Anti Fraud Forum which meets four times per annum.

4. TAKING ACTION TO TACKLE THE PROBLEM

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

4. TAKING ACTION TO TACKLE THE PROBLEM

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

4. TAKING ACTION TO TACKLE THE PROBLEM

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
4.9	Does the organisation have a clear programme of publicity to counter fraud and corruption?	<ul style="list-style-type: none"> • Statements by the Lead Member Resources & Performance (ELA Article 02/10/08) • In your best interests! Pulling Together Article – October 2008 • Beat the cheats adverts • Intranet postings • Pay slip notifications • Hospital Newsletters • Borough Map 	Y	Publicity has been targeted at successes and areas of known loss but a comprehensive publicity programme for each year should be agreed with Communications and reviewed as part of the Annual Fraud Plan.
4.10	Has the organisation successfully published work in this area?	See compliance and recommendations for 4.9 above.	Y	
4.11	Has the publicity been targeted at the greatest fraud losses?	See compliance and recommendations for 4.9 above.	Y	
4.12	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	Review of key projects in advance of contract award: <ul style="list-style-type: none"> ➢ Purchase Cards ➢ Commensura ➢ SX3 ➢ Tollgate 	Y	
4.13	Do concluding reports on investigations include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place?	In practice, the outcome of audit investigations include proportionate proposals for counter fraud measures where this is considered appropriate.	Y	This practice should be formalised as a requirement for consideration in all investigations. We have undertaken work in 2009/10 on Housing Benefit claims to Parking Permits.
4.14	Is there a system in place for considering and prioritising action to remove identified weaknesses?	In practice, the outcome of audit investigations identify the extent of any weaknesses and allocate responsibility for implementing changes where this is considered appropriate.	Y	This practice should be formalised as a requirement for consideration in all investigations and a grading system against which weaknesses are measured should be approved by the Audit Committee To be prepared and presented to the audit Committee as part of the Outturn report.

4. TAKING ACTION TO TACKLE THE PROBLEM

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

4. TAKING ACTION TO TACKLE THE PROBLEM

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
4.18	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	<ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Financial Regulations • Internal information exchange • Employee Code of Conduct • NFI notifications and consultation • Whistle blowing Process 	Y	<p>The Anti Fraud and Corruption Strategy should be included as a specific item in the Council's corporate induction process for new employees. A leaflet should be produced for managers reminding them of their obligation to report actual or suspected cases of fraud and corruption to internal audit. The leaflet could also usefully identify the key indicators of potential fraud and corruption and provide an outline of the process followed by internal audit in accordance with the Audit Manual for the investigation of suspected fraud and corruption.</p> <p>Agreed for implementation from April 2010</p>
4.19	Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated?	<ul style="list-style-type: none"> • Audit Manual • NFI targets • Whistle-blowing time frames • Benefits time frames within key work objectives 	Y	
4.20	Are proactive exercises undertaken in key areas of risk or known system weaknesses?	<ul style="list-style-type: none"> • Fraud Risk Register • Annual Fraud Plan • Annual Audit Plan 	Y	<p>The risk assessment included in the Annual Fraud Plan should be expanded to include financial impact so that the Council can demonstrate that it has taken account of the level of potential losses when determining the allocation of resources for counter fraud measures. The Annual Anti Fraud Report should be expanded to include homelessness and all other proceedings initiated by the Council in addition to benefits and parking related cases to include estimated potential losses for each additional area. The level of proactive fraud work should also be reviewed</p> <p>This is included as part of the 2010/11 plan.</p>

4. TAKING ACTION TO TACKLE THE PROBLEM

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
4.21	Is the organisation's investigation work effective?	<p>There are currently no arrangements in place for analysing investigations that have been undertaken in terms of timeliness, outcomes, level of sanctions, prosecutions and the amount of losses recovered.</p> <ul style="list-style-type: none"> • Audit Manual • Fraud investigation policy code of conduct 	Y	<p>These arrangements should be implemented and the outcome reported to the Audit Committee and relevant stakeholders.</p> <p>A coordinated approach has been developed and will be reported as part of the outturn report for 2009-10.</p>
4.22	Is it carried out in accordance with clear guidance?	<ul style="list-style-type: none"> • Anti Fraud and Corruption Strategy • Constitution • Scheme of Management • Financial Regulation CR6 - Preventing Fraud and Corruption • RIPA and PACE authorised officers 	Y	<p>Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes.</p>
4.23	Do those undertaking investigations have the necessary powers, both in law and where necessary, within the organisation?	<ul style="list-style-type: none"> • NFI Monitoring by the audit commission • Benefits time frames within key work objectives • Whistle blowing reporting • Reporting to Audit Committee 	Y	<p>Financial Regulation CR6 should be amended as part of the current review of Financial Regulations to include specific reference to the Head of Audit Services in the investigation of potential fraud and corruption. Any agreements developed in accordance with the recommendations contained in 3.9 above should include provision for internal rights of investigation with other organisations, such as the NHS.</p> <p>This is now in place.</p> <p>Implementing the recommendation for 4.21 above could also be used for monitoring and quality assurance purposes.</p>
4.24	Are referrals handled and investigations undertaken in a timely manner?	<p>Deloitte's periodic external audits</p>	Y	<p>In 2009 The Head of Audit Service to introduce client feedback surveys following each investigation which can also be used to provide feedback to investigators on their performance.</p>
4.25	Does the organisation have arrangements in place for assessing the effectiveness of investigations?		Y	

4. TAKING ACTION TO TACKLE THE PROBLEM

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
4.26	Does the organisation have a clear and consistent policy on the application of sanctions where fraud and corruption is proven to be present?	Sanctions Policy	Y	The Sanctions Policy should be expanded to cover all areas of fraud and corruption and to include a recovery of losses and a police referrals policy.
4.27	Are all possible sanctions disciplinary/regulatory, civil and criminal considered?	Annual Fraud Report MATT & YAS investigations	Partial	The Anti Fraud and Corruption Strategy and Sanctions Policy should be amended to include specific reference to 'triple tracking'. To be developed with Legal Services during 2009-10.
4.28	Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available?	MATT & YAS investigations Recommendation:	Partial	Any revisions to the Sanctions policy should reflect current practice to consider sanctions at the end of an investigation unless earlier intervention is necessary (for example civil proceedings to obtain a freezing order to protect assets) or where earlier intervention is possible (for example disciplinary action not dependent on the outcome of a criminal investigation). This will be formalised by march 2010.
4.29	Does the organisation monitor the extent to which the application of sanctions is successful?	Annual Anti Fraud Report to the Audit Committee and Standards Committee	Partial	The Annual Fraud Report should be expanded to include an analysis and comparison in the successful application of sanctions in previous years. To be effected for 2009/10 out turn.
4.30	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	There is no current policy.	Partial	Revisions to the Sanctions Policy should include the addition of a recovery of losses policy. To be implemented during 2009-10.

4. TAKING ACTION TO TACKLE THE PROBLEM

Item Ref	Item Ref	Item Ref	Item Ref	Item Ref
4.31	Is the organisation effective in recovering any losses incurred by fraud and corruption?	There is no monitoring of the recovery of losses at present.	Y	An analysis and monitoring information relating to the recovery of losses should be included in the Annual Anti Fraud Report to the Audit Committee and Standards Committee. To be effected as part of the 2010-11 reporting cycle.
4.32	Does the organisation use the criminal and civil law to the full in recovering losses?	Partial compliance demonstrated by: MATT & YAS investigations	Partial	The Anti Fraud and Corruption Strategy and Sanctions Policy should be expanded to reflect current practice and to consider to parallel sanctions, POCA applications and the potential for insurance claims. To be considered as part of the 2010-11 plan.
4.33	Does the organisation monitor proceedings for the recovery of losses?	Annual Anti Fraud Report to the Audit Committee and Standards Committee	Y	Consideration should be given as to whether it is possible to quantify losses in additional areas to benefits and NFI and to reporting the amount of losses recovered by reference to individual cases (where the losses are significant) and otherwise by reference to categories or types of case, for example depending on the sanction applied.
4.34	What is the organisation's successful recovery rate?	There is no monitoring of the recovery of losses at present.	Y	An analysis and monitoring information relating to the recovery of losses should be included in the Annual Anti Fraud Report to the Audit Committee and Standards Committee. To be effected as part of the 2010-11 reporting cycle

5 DEFINING SUCCESS

Item Ref	Key Objective	Evidence of Compliance	Compliance Met Y/N	Actions to achieve full compliance
5.1	Are there clear outcomes described for work to counter fraud and corruption?	<ul style="list-style-type: none"> • Red Book Review • Annual Fraud Plan which is also reported to the Audit Committee • Annual Anti Fraud Report to the Audit Committee and Standards Committee 	Partial	<p>Fully implementing the recommendations of the Red Book Review will establish clearer outcomes which relate to actual sums lost and harm caused by fraud and corruption.</p> <p>Full compliance will provide the Council with confidence that arrangements meet best practice and have demonstrated a 'value added' benefit.</p>
5.2	Do the desired outcomes relate to the actual sums lost to and harm caused by fraud and corruption?	See recommendation relating to 5.1 above.	Partial	<p>Full compliance will provide the Council with confidence that arrangements meet best practice and have demonstrated a 'value added' benefit</p>

LONDON BOROUGH OF TOWER HAMLETS
ANTI FRAUD AND CORRUPTION STRATEGY

This document should be read in conjunction with the Council's Anti- money Laundering Policy

1. INTRODUCTION

- 1.1 The London Borough of Tower Hamlets has a revenue and capital budget of almost £1 billion and employs around 10,000 staff, inclusive of those employed within our schools. It works with an extensive number of partners including the third sector and private sector. The scale, complexity and profile of the Council put it at potential risk to fraud and corruption, both from within & without.
- 1.2 The Council is committed to making sure that the opportunity for fraud and corruption is reduced to an absolute minimum and have strategies and policies to underpin this commitment through our Governance procedures. The lead member for Resources drives this strategy as part of the Council's overall Risk Management arrangements.
- 1.3 Where there is the possibility of fraud, corruption and other problems, we will deal with it in a firm and controlled manner.
- 1.4 It is essential that the Council is able to prevent and detect fraud, thus ensuring that services are provided honestly and efficiently and Public funds are administered properly. The Anti Fraud and Corruption Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption. It should be noted that the scope of this document is concerned only with matters associated with potential cases of fraud and corruption and does not consider other matters of malpractice which are properly covered by other policies within the council's procedures.

Definitions of Fraud and Corruption

Fraud "The intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain."

Corruption "The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions of any person."

2. BACKGROUND

- 2.1 The Committee on Standards in Public Life, Chaired by Lord Nolan strengthened the need to have clear procedures for staff to raise concerns if they feel that malpractice has occurred.
- 2.2 The Council expects all of its staff, partners and Members to comply with the seven principals of public life in all of its activities. These are

Selflessness

Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in their performance of the official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contract, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

2.3 The council is committed to delivering an anti-fraud culture within the authority and among people and organisations that deal with it. It will attempt to raise the awareness of fraud, both within the authority, and in the community. It will encourage the reporting of suspected fraud and will take appropriate action when fraud, corruption or irregularity comes to light.

2.4 The strategy set out in this document covers the following areas:

- Legislative framework
- The anti fraud environment
- Preventing fraud and corruption
- Detecting, investigating and recovery
- Training and awareness

3. THE LEGISLATIVE FRAMEWORK

3.1 Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Councils systems of internal control, practices and systems. This requirement was further reinforced by the Accounts and Audit Regulations 2003.

3.2 There is now a requirement for the annual accounts to include a statement on internal control to be certified by the Chief Executive and Leader of the Council.

3.3 From time to time there will be a need to examine allegations and incidents that may have regard to fraud, corruption or financial malpractice.

3.4 In these circumstances the Council will ensure that any inquiry is legal, meets professional standards and that whistleblowers raising a genuine concern are afforded protection in accordance with the law.

3.5 Relevant Legislation

3.5.1 The following is an outline of some of the primary legislation that covers investigation of fraud and corruption :-

- The Fraud Act 2006
- The Theft Acts 1968 and 1978 (as amended)
- Social Security (Fraud) Act 1997
- Public Interest Disclosure Act 1998
- Audit Commission Act 1998
- Data Protection Act 1998
- Human Rights Act 1998
- Regulation of Investigatory Powers Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2003

- The Identity Card Act 2006

3.5.2 Further information on a number of these can be found at Appendix 1.

4. THE ANTI- FRAUD ENVIRONMENT

4.1 We expect all people and organisations that are in any way associated with the Council to be honest and fair in their dealings with us, our clients and customers. We expect our members and employees to lead by example in these matters.

4.2 To support this we have a number of procedures and rules to make sure that our financial, working and organisational procedures are properly controlled. These are an important part of our internal control process, and it is important that all members and staff know about them.

The most important of these are as follows:

- Standing Orders
- Financial Regulations
- Code of Conduct for Employees
- Code of Conduct for Members
- Scheme of Delegation
- Risk Management Strategy and Local Code of Corporate Governance

4.3 Where regulations are breached the Council reserves the right to take formal action which may include ending their employment with the Council and civil and /or criminal proceedings being commenced.

4.4 In the case of elected members the Council's Monitoring Officer will be responsible for reporting matters to the appropriate authority.

4.5 We believe our members and employees have an important part to play in dealing with fraud and corruption and we will encourage our staff and members to report suspected fraud or corruption.

4.6 We will deal with all information fairly and confidentially. We will endeavour not to reveal the names of the people who gave us the information. Our Fraud Response Plan (Appendix 2) gives more advice on this issue.

4.7 We expect our Directors and Heads of Service to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive/Director of Resources in consultation with the Head of Audit Services may refer matters to the police if there is suspicion of any criminal activity having taken place.

4.8 The conduct of an investigation is a serious, expensive and disruptive business. Therefore where it is found that allegations are unfounded and

vexatious or malicious, this will be taken very seriously and dealt with under the Council's disciplinary code.

5 PREVENTING FRAUD AND CORRUPTION

5.1 The diversity and scope of the Councils business functions and services exposes the authority to the risk of fraud. We are committed to fighting fraud and corruption, whether attempted from inside or outside the authority. We will take appropriate action against the perpetrators. The council's strategy for fighting fraud and corruption is based four cornerstone principles as follows:

5.2 Anti fraud culture

5.2.1 The council believes that the ongoing development of a culture of honesty and openness is a key element in tackling fraud. The council expects all elected members and employees to carry out their duties in accordance with appropriate legal requirements, internal codes of conduct including Human Resource Strategy guidance, procedures and regulations and to act at all times with honesty and probity in the discharge of their duties. The council expects that all outside individuals and organisations, including partners, suppliers, contractors and claimants will act towards the authority with honesty and integrity.

5.2.2 Where IT systems are being utilised all parties are required to comply with the requirements of the Data Protection Act 1998, Acceptable Use Policy and the Computer Misuse Act.

5.3 Internal Controls

5.3.1 The council has in place a framework of controls and procedures to deter fraud from taking place and detect it when it does. It is the responsibility of all members and employees to work within this framework. These controls include codes of practice, schemes of delegation, standing orders and financial regulations and a risk management strategy.

5.4 Effective Action

5.4.1 Corporate Directors and Service Heads will report all suspicions of fraud or corruption to the Head of Audit Services via the Director of Resources/ Chief Executive in their respective roles of Head of Paid Services and Section 151 officer. If elected members are suspected then the Chief Executive/Monitoring Officer will co-ordinate the investigation. Following investigation, the appropriate action will be taken which may include disciplinary action, civil recovery and referral to the police.

5.4.2 Where evidence of irregularity has been found and prosecuted all cases will be publicised through press articles etc. to maximise awareness and to act as a deterrent to others.

6. DETECTING, INVESTIGATING AND RECOVERY

- 6.1 This section should be read with our Fraud Response Plan (see Appendix 2) and also our Prosecution Policy (Appendix 4).
- 6.2 The Council has robust processes designed to reduce the risk of fraud and corruption these include regular management review of systems and procedures to ensure compliance with financial control, a risk based Internal Audit review cycle, Risk Management review process and governance guides including Hospitality procedures and declarations of interests.
- 6.3 Where appropriate and in accordance with the fraud response plan the Internal Audit Service will undertake formal investigations into fraud and corruption. The process utilised in undertaking and investigation is covered by established professional practice as prescribe by CIPFA and in compliance with the Councils Fraud Response Plan and legislative guidance.
- 6.4 All cases referred either by the Whistle blowing telephone line or via an internal referral are formally risk assessed by the Head of Audit Services and approval sought from the Head of Risk Management. Each case is then recorded for tracking on a database maintained by Internal Audit. It is important that transparency is maintained in all decision making and consequently there is a process verification and review of the basis elements of the enquiry throughout the audit/investigation process.
- 6.5 It is important to note that the auditor receiving the complaint will not be the sole investigator of the enquiry, therefore ensuring the utmost independence is maintained during the currency of an investigation.

6.6 Data Matching

- 6.6.1 As a proactive commitment to the prevention and detection of fraud the Authority has actively participated in the National Fraud Initiative, which is a data matching exercise carried out by the Audit Commission under their powers within the Audit Commission Act 1998. This data match looks at wide variety of data sources and compares them to each other to identity potential fraud and irregularity. The potential fraud and irregularity areas include:-
- Benefits
 - Payroll and Pensions
 - Creditors
 - Street Traders
 - Insurance
 - Private and Voluntary Adult Homes
 - Child Minders
 - Blue badge misuse
- 6.6.2 In addition data matching is also carried out with the Benefit Agency (Department of Works and Pensions) and the Inland Revenue under their own statutory powers.

6.6.3 Data matching is conducted within the requirements of the current Data Protection legislation, and the new Audit Commission protocols effective from 2006 and staff side consultation.

6.7 Housing or Council Tax Benefit Fraud

6.7.1 This Service is managed by the Central Benefits Section within the Resources Directorate.

6.7.2 The framework for benefits related investigations and sanctions is contained within Appendix 4

6.7.3 Concerns regarding possible Housing or Council Tax Benefit Fraud, these can be reported using the Benefit Fraud Hotline on (0207 364 7443 – 24 hour answer phone service) or you can speak to a Benefit Investigator direct on 0207 364 7425 or 7426 or 7442

6.7.4 Other possible fraudulent activity include the following (see Appendix 5 for more details) :-

- Tenancy Fraud
- Grants
- Insurance Claims
- Parking Permits including Blue Badge Scheme
- Identity theft fraud
- Protect yourself
- Advance fee fraud

7. TRAINING AND AWARENESS

7.1 All staff in the authority will be trained in fraud awareness and anti-fraud and corruption procedures, and this training will be reinforced regularly. It is the responsibility of chief officers to ensure that staff are properly trained. The Director of Resources will provide advice and assistance in the provision of training in fraud awareness to staff.

7.2 Future training will include ;-

- Organised workshops will continue to be delivered during for 2010/11
- Induction training to new Investigating Officers under the Council's Disciplinary Code.
- Departmental management team training
- Regular on-line alerts and training

8. CONCLUSION

- 8.1 Tower Hamlets Council is committed to tackling fraud and corruption whenever it happens. Our ongoing response relies heavily on the principles included in this document.
- 8.2 We will continue to review our processes and procedures to ensure this strategy document remains effective following endorsement of the current approach by the Audit Panel and Standards Committee.

APPENDIX 1

The Fraud Act 2006

The Fraud Act 2006 came into effect on 15 January 2007. It applies to England, Wales and Northern Ireland and is based on the recommendations of the Law Commission report "Fraud" published in 2002.

The act replaces all the deception offences in the Theft Acts of 1968 and 1978 and replaces them with a single offence of Fraud as outlined in Section 1 of the act.

The offence can be committed in three different ways thus-

- False representation (Section 2)
- Failure to disclose information when there is a legal duty to do so (Section 3)
- Abuse of position (Section 4)

The Act also creates new offences of possession (Section 6) and making or supplying articles for use in frauds (Section 7)

The offence of fraudulent trading (Section 458 of the Companies Act 1985) will apply to sole traders (Section 9).

Obtaining services by deception is replaced by a new offence of obtaining services dishonestly (Section 11).

Further information on this legislation can be found at <http://www.opsi.gov.uk/acts.htm>

The Identity Card Act 2006

The Identity Card Act 2006 defines what constitutes an identity document and includes

- an ID card
- a designated document
- an immigration document
- a UK passport
- a passport issued by or on behalf of the authorities of a country or territory outside the UK or by or on behalf of an international organisation
- a document that can be used instead of a passport- for example a visa
- a UK diving license or a driving license issued by or on behalf of the authorities of a country or territory outside the United Kingdom

Under this legislation it is an offence to hold a false Identity document.

A person found guilty of this offence shall be liable, on conviction on indictment to imprisonment for a term not exceeding ten years or to a fine, or both.

This legislation is evolving and guidance will be updated as it becomes clearer.

The Proceeds of Crime Act 2002

The Proceeds of Crime Act 2002 and Money Laundering Regulations 2003 place some important obligations upon professional advisers from a wide range of sectors, including Tax advisers, Accountants, Auditors, Insolvency Practitioners and Legal advisers. Such professionals who carry on relevant business are required to fulfil a range of obligations to prevent money laundering. In particular they are required to report their knowledge or suspicion of money laundering to the National Criminal Intelligence Service (NCIS). This covers the proceeds of all crime including all acts of tax evasion and fraud.

At Tower Hamlets we have followed the guidance of CIPFA and the Head of Audit Services fulfils the role of Money Laundering reporting officer. There is a process and procedure for reporting concerns to the National Criminal Intelligence Service (NCIS) and Metropolitan Police via prescribed documentation. The areas most likely to be exposed to Money Laundering are physical cash, asset transactions and planning gain receipts.

If you have a concern regarding this you have a duty to report your concern to the Head of Audit Services who will investigate the matter.

Regulation of Investigatory Powers Act 2000

To demonstrate the Councils commitment to open/ transparent government it has adopted the Home Office guidelines and documentation for Directed Surveillance and Covert Human Intelligence Sources- Informants/ whistleblowers. This act was introduced in response to the Human Rights Act 1998 and the London Borough of Tower Hamlets is committed to maintaining its principles.

The Office of Surveillance Commissioners ('OSC') are tasked with carrying out regular inspections of Law Enforcement Agencies to ensure compliance with the Regulation of Investigatory Powers Act 2000 ('RIPA') in so far as directed surveillance and the use or conduct of a covert human intelligence source ('CHIS') is concerned. As part of that implementation, the OSC advise that Law Enforcement Agencies to develop a Corporate Policy. As the Council is classed as a Law Enforcement Agency and in order to follow the OSC's requirement as to a Corporate Policy, this Policy has been formulated and which came into effect from July 27th 2004.

Section 6(1) of the Human Rights Act 1998 provides that it is unlawful for a public authority to act in a way that is incompatible with a Convention right.

Article 8 of the European Convention of Human Rights provides:

Everyone has the right to respect for his private and family life, his home and his correspondence.

There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

RIPA was introduced to ensure that surveillance and certain other intelligence gathering complies with the European Convention of Human Rights. Specifically, Part II of RIPA provides a statutory framework that is compliant with the European Convention of Human Rights when using intrusive surveillance techniques and by introducing national standards that apply to the Police and other Law Enforcement Agencies.

The Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998, which came into force in 1999, provides whistleblowers with statutory protection against dismissal and victimisation. The Act applies to people at work raising genuine concerns about crime, civil offences, miscarriage of justice, and danger to health and safety or the environment. It applies whether or not the information is confidential and extends to malpractice overseas.

The Act distinguishes between internal disclosures (a disclosure in good faith to a manager or the employer is protected if the whistleblower has reasonable suspicion that the malpractice has occurred or is likely to occur), regulatory disclosures and wider disclosures. Regulatory disclosures can be made in good faith to prescribed bodies such as the Health and Safety Executive, the Inland Revenue and the Financial Services Authority.

Wider disclosures (e.g. to the police, the media, and MPs) are protected if, in addition to the tests for internal disclosures, they are reasonable in all the circumstances and they meet one of three conditions. Provided they are not made for personal gain these conditions are, that the whistleblower:

- reasonably believed he would be victimised if he raised the matter internally or with a prescribed regulator;
- reasonably believed a cover-up was likely and there was no prescribed regulator; or
- had already raised the matter internally or with a prescribed regulator.

For protection from victimisation to be afforded under the Public Interest Disclosure Act it is necessary in the first instance to consider the nature of the information revealed, and decide whether the disclosure is a 'qualifying disclosure' within Section 43(B) of the Employment Rights Act 1996.

The question is whether the worker concerned honestly believes that the information revealed tends to show that there has been, or is, or is likely to be a relevant failure - past, present or future.

The relevant failure may be:-

- (a) a criminal offence;
- (b) a failure to comply with any legal obligation;
- (c) a miscarriage of justice;
- (d) a danger to the health and safety of any person;

Extract from Internet Report prepared by 'Public Concern at Work'

APPENDIX 2

Fraud Response Plan

As part of the Borough's Anti Fraud and Corruption Strategy, it is best practice to have a Fraud Response Plan in place. The plan offers staff direction and help in dealing with matters of suspected Fraud and Corruption indicating responsibilities, and sources for guidance.

Internal Audit

The Internal Audit Service is usually the most appropriate unit to investigate suspected fraud. It is essential, therefore, that every case of suspected fraud is reported to Internal Audit.

The Director of Resources will advise and decide on how an inquiry will be progressed and, in conjunction with the Chief Executive, whether external agents such as the Police need to be informed.

Experienced Audit staff will be assigned to manage fraud and/or corruption investigations. Such investigations by Internal Audit will give due regard to Audit Commission Guidelines, Codes of Practice and relevant legislation.

At the conclusion of the investigation, management of the service concerned will be informed as to the outcome together with recommendations as to proposed action. The Planned Audit Team will ensure that all recommendations agreed are fully implemented following an actual follow-up audit within six months of the conclusion of the investigation. This will therefore inform the risk based audit approach and the local/corporate risk registers.

Reporting suspected Fraud and Corruption

Staff are at the forefront in helping the authority to detect fraud. It is often members of staff who are the first to notice suspected cases of fraud and corruption.

The authority encourages staff to report issues concerning fraud or corruption. Financial Regulations and the Officers Code of Conduct require staff to raise their concerns where irregularity is suspected.

When the employee first uncovers a case of suspected fraud or corruption the action they initially take can often be vital to the success of any investigation that ensues. It is essential that their actions be in line with the guidance given in this document.

Guidance on 'What to do' when you suspect fraud and/or corruption are given in the Sections headed 'Action by Employees' and that on 'Action by Managers'

NB. Your suspected fraud and/or corruption matter should be reported to one of the following :-

- Your Line Manager - (where appropriate)
- Your Head of Service- (where appropriate)
- Your Corporate Director- (where appropriate)
- The Head of Audit Services - Tony Qayum Ext. 4773
- Internal Audit - Fraud Co-ordination Manager - Lino Messore Ext. 4774
- Head Risk Management Minesh Jani Ext 0738
- Monitoring Officer - Isabella Freeman Ext 4800
- Director of Resources – Chris Naylor Ext 4700
- Via the Confidential Staff Whistle blowing Hotline on Free phone 0800 528 0294 (See Whistle blowing process – Appendix 3)
- Public Concern at Work 020 7404 6609

Action by employees

Where fraud or corruption is suspected:

- Write down your concerns immediately
- Make a note of all relevant details e.g. telephone conversations, dates times, names, actions
- Any notes or evidence in their possession, which supports what is being reported, must be kept intact and placed in a secure location
- Report the matter immediately to either your line manager or your Head of Service. If this is not possible/or appropriate due to your concerns potentially about your own service or line manager, it can be reported to the Internal Audit Service (Tony Qayum Ext. 4773 or Lino Messore Ext. 4774). Alternatively, the Councils confidential Staff Whistle blowing telephone line can be used for this (0800 528 0294). Give that officer any notes you have made or any evidence that you have gathered
- Do not tell anybody else about your suspicions
- Be prepared to assist Internal Audit or any authorised body in any investigation
- Do not attempt to carry out an investigation yourself as this may jeopardise any future enquiry and compromise your evidence

Please note that under no circumstances should a staff member speak to or write to representatives of the press, TV, radio or to another third party about a suspected fraud without the express authority of the Chief Executive.

It is paramount that officers do not act in a manner that may give rise to an action for slander or libel.

Action by Managers

Where fraud or corruption is suspected:

- Listen to the concerns raised by staff and treat every reported case seriously, sensitively and confidentially. Never give members of staff the impression that their well-meaning concerns are being treated with anything other than the utmost seriousness
- All staff concerns should be given a fair hearing, along with reassurance that their report of such issues will not affect them adversely
- Attempt to gain as much information as possible from the member of staff reporting the concern. This should include any notes or evidence in their possession, which supports what is being reported. Such evidence must be kept intact and placed in a secure location
- Assess whether the suspicions may have some foundation before taking the matter further
- All suspected concerns involving suspected fraud and corruption must be reported in compliance with Financial Regulations to the Director of Resources or to the Head of Audit Services and give that officer any notes or evidence that has been gathered
- Be prepared to assist Internal Audit or any authorised body in any investigation
- Do not attempt to carry out any investigation.

APPENDIX 3

Whistle blowing Process

The introduction of the Public Interest Disclosure Act 1998 (see appendix A for further information) has enhanced the need for an Anti Fraud culture to be present in all Public Service environments. This entails meaningful and accessible means for Staff, Members and Partners to raise concerns in confidence.

The cornerstone of an Anti-Fraud and Corruption Strategy is a Whistle blowing facility which would enable staff, partners and Members to raise concerns of a serious nature in confidence and with assurance that if the matters reported are well-founded they will be investigated without fear of comeback to the whistleblower

The Council launched a confidential Whistle blowing telephone line in September 2000 and has regularly publicised via articles in Pulling Together, the Councils Intranet and within the Authority's Corporate Governance arrangements, including the Authority's Financial Regulations

"Do you have a genuine concern about Unlawful or improper conduct by Council officers or councillors"?

- If you do, we need to know about it
- You are not a snitch, if you raise a genuine concern you will be helping the council
- You will not be asked to prove your concern is true, only that it is honestly raised
- You must have a concern about unlawful conduct for example possible abuse of authority or dishonest activity
- Your concern should not be a grievance or complaint about services. These have different routes for redress
- You should not raise malicious or false concerns
- If you raise a genuine, but, unfounded concern, you will not be involved in any follow up action
- You can remain anonymous and be treated with strict confidence if you request

A Supplement not a Substitute – The Usual Channels for Complaint

It is important to note that the Whistle blowing strategy is not intended to replace any of the complaint/concern mechanisms already in place at Tower Hamlets.

Anyone, including elected members, staff, service users, partners and members of the Public are encouraged to raise genuine complaints or matters of concern with the Council through existing procedures.

Where an appropriate avenue exists people should use it. The Whistle blowing procedure is designed to supplement, rather than replace the existing procedures wherever practicable. These channels are:

- ◆ The Councils Complaints Procedure
- ◆ The Grievance Procedure
- ◆ Line Management
- ◆ The Housing Benefit Fraud Hotline (0207 364 7443)
- ◆ The Social Services Complaint's Unit (0207 364 2143)
- ◆ The Audit Commission

Safeguards

The Council recognises that a decision to “blow the Whistle” can be a difficult one to make. This may be influenced by the fear of reprisal from those who may have perpetrated the alleged malpractice or from the organisation as a whole.

The Council will not tolerate any victimisation and will take appropriate action to protect any person who raises a concern in good faith, including any necessary disciplinary action.

Wherever possible, the Council will protect the anonymity of any member of staff who raises a concern and who does not want his/her name to be disclosed.

However, this may not always be possible, as any investigation process may in itself reveal the source of information and a statement by the Whistleblower may be a necessary part of evidence, particularly if it is thought the matter may lead to a criminal prosecution.

The Council will protect individuals and the organisation from false, malicious and vexatious expressions of concern. If staff make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered and implemented.

The Council will do its best to protect an individual's identity when s/he raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence. The Council will try to ensure that the negative impact of either a false or unfounded allegation on

any “accused” person is minimised. This entails acting with the strictest independence and professional confidentiality.

In determining if action to investigate will take place, the Council will consider the following:-

- whether it is the Council’s business
- the credibility of the concern

the seriousness Anonymous concerns will be considered at the discretion of the Council.

- of the issues raised
- the likelihood of obtaining the necessary information
- the experience of previous related reports

The following charts shows how to get your concerns investigated, and takes you through the agreed procedures on how each concern is dealt with to ensure transparency and that it is being treated seriously.

<ul style="list-style-type: none"> • I think a fraud or unlawful act may have been committed • What should I do? • Who should I contact? 	<ul style="list-style-type: none"> • Is it serious and well founded? • If Yes • You can raise your concerns in confidence on the Whistle blowing Hot Line (or write to Tony Qayum –Head of Audit Services – 4th Floor Mulberry Place)
<ul style="list-style-type: none"> • What will happen if I ring the Hotline 	<ul style="list-style-type: none"> • You will be asked for details of your concern
<ul style="list-style-type: none"> • Will I have to give my name? 	<ul style="list-style-type: none"> • NO
<ul style="list-style-type: none"> • So what will happen next? 	<ul style="list-style-type: none"> • Your concern will be given a reference number. You can call in 10 days to check progress
<ul style="list-style-type: none"> • Who does anything about it? 	<ul style="list-style-type: none"> • A Registration Officer will take details of your call, and a professional investigator will review and classify it. • A register of all calls will be kept, and the Registration Officer will report this to the Chief Executive <p>A final decision will be made and if appropriate an independent confidential investigation will be carried out</p>
<ul style="list-style-type: none"> • Won't it just be covered up? 	<ul style="list-style-type: none"> • NO - there is independence between the Registration Officer and the Investigation Officer. The Investigation Officer is answerable to the Chief Executive, and the Chief Executive must ensure that justified action is reported back to the Registration Officer • An external registered body will independently audit the Registration and the Investigation of your concerns.
<p>PLEASE CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested.</p>	

APPENDIX 4

LONDON BOROUGH OF TOWER HAMLETS

BENEFIT FRAUD ENFORCEMENT POLICY

1) Background

The Benefits service positively encourages the take up of Housing and Council Tax Benefit but acknowledges its responsibility to prevent and detect benefit fraud.

Benefit offences are taken seriously by the Authority and it is our aim to apply prosecutions and sanctions in cases where such action is deemed appropriate.

This policy is designed to provide a suitable framework to ensure a fair and consistent approach is applied for cases under consideration.

2) Legislative framework

The Authority has the power to prosecute offenders under Section 111A and 112 of the Social Security Administration Act 1992 which is generally the legislation most appropriate to benefit fraud offenders. However other legislation such as the Theft Act 1968 may be used where appropriate.

The Authority may apply sanctions in cases where prosecution is feasible, but is not the preferred option. The available sanctions are:

- Administrative Penalty – where a penalty fine of 30% of the fraudulently overpaid benefit can be applied. The offender has the right to refuse to accept the penalty but the Authority should then proceed with prosecution action on the case. Therefore the case must be of suitable quality for prosecution action from the outset.

The legislation pertaining to Administrative Penalties is contained within Section 115A of the Social Security Administration Act 1992 (as amended by Section 15 of the Social Security (Fraud) Act 1997).

- Formal Caution – an oral warning that is administered when a claimant has admitted to an offence. These are generally used in less serious cases where lower amounts of money are involved.

The caution is offered in cases where the claimant has admitted the offence, and he/she has a choice in whether to accept or decline the caution. If the caution is declined the Authority should proceed with prosecution action. An accepted caution is recorded on the Department of Work and Pensions Central database and the record is kept for 5 years. Prior to offering Formal

Cautions or Administrative Penalties the Central Database is checked. It would not be appropriate to issue more than one caution or penalty to an individual. If the check shows they have accepted a caution or penalty previously the Authority should proceed with prosecution action against that individual.

Both Administrative Penalties and Formal Cautions are offered in a special interview by an officer who has not dealt with the investigation of the case. The format of the interview is fully proceduralised by the Department of Work and Pensions (DWP) to ensure clarity, fairness and consistency.

3) Prosecution

Prosecutions on benefit fraud cases are generally facilitated by the Councils Legal Section, but they may also be taken by the DWP or the Police where necessary, according to circumstances.

4) Suitability for Prosecution and Sanction Action

Cases are scrutinised by the Investigations Manager for the suitability for prosecution or sanction action taking into account a number of factors.

Primarily evidence and the public interest test are applied before further additional details of the case are taken into account. Details of the considered criteria are given below:

A) Sufficiency of evidence

- Is there enough evidence to provide a realistic prospect of conviction?
- Has the evidence been collected in an appropriate manner?
- Can the evidence be used in court?
- Is the evidence reliable?

B) Public interest test

Generally it must be seen to be in the public interest to prosecute. Poor publicity surrounding an attempted prosecution can lead to criticism of the Authority. Factors to be taken into account should include:

- Whether there has been unnecessary delays in carrying out the investigation (i.e. unexplained lapses of time).
- Whether the offender has any serious mental or physical health problems.
- The age of the offender.
- Whether the person has voluntarily disclosed the offence before the investigation discovered the fraud.

- Whether a vulnerable person would be put at risk by a prosecution (i.e. an informant).

C) Additional factors of the case

A key consideration in the decision whether to prosecute is the level of dishonesty involved in the fraud. An investigated case may result in a relatively large amount of overpaid benefit, but another with a lower amount of overpayment may present as more serious because of the level of knowledge and deception involved.

Other factors taken into consideration are:

- Whether there is evidence of a previous instance of benefit fraud.
- Where the offender was in a position of trust (e.g. employee or councillor).
- Where there is evidence of collusion (e.g. with landlord or employer)
- Where the person has declined an Administrative Penalty or Caution.
- Where Authorised Officer powers have been obstructed.
- Where there are errors or flaws in the benefit assessment process.

The facts of the case are provided by the investigating officer in summary form at the end of the investigation following a taped Interview under Caution and calculation (by the Benefit Office) of any resulting overpayment.

The Principal Investigation Officer heading the relevant team will evaluate the case and pass her/ his recommendations on to the Team Manager.

The Team Manager will consider all the available evidence and determine whether any further action will be appropriate on the case in terms of criminal prosecution action, Formal Caution or Administrative Penalty. The above mentioned points are taken into consideration as are any serious social or personal factors that may have come to light during the investigation. The amount of the benefit overpaid as a result of the perceived fraudulent activity is taken into consideration but is not a definitive measure of what action is to be taken on the case.

The Authority aims to facilitate prosecution action on all cases where there is suitable evidence and supporting criteria. The team has an officer dedicated to preparing the paperwork required and liaising with the Legal department to ensure optimum results are achieved when the case goes to court.

APPENDIX 5

Concerns on the following can be reported via the Whistle blowing hotline and will be referred to the appropriate Service Head for investigation and action as necessary.

Tenancy Fraud

The public sector has a limited number of properties available to let and lettings are prioritised according to housing needs. Tenancy fraud involves obtaining properties by deception (for example, individuals claiming to be homeless when they already own a property or are already living at an address), or continuing to claim to be living at a property when they have moved out and sublet it.

We have a duty to house certain vulnerable members of society (e.g. children), and are often forced to use bed and breakfast facilities due to a shortage of public sector housing. In addition, families or individuals on the housing waiting list are denied housing because people are using the council properties for profit or simply queue jumping. Fraudulently obtaining housing from Registered Social Landlords or subletting for personal gain uses up precious resources that should be available to families in need.

Grants

The council awards several different grants to individuals and organisations in the borough. These range from house renovation grants to voluntary organisations providing services to the community. Grant fraud usually involves either making false claims in order to obtain a grant or providing false accounts of how the money is spent.

Insurance claims

The Council receives bogus insurance claims, particularly related to trips and falls on the pavement. This is a serious problem, which drains resources away from repairing and improving the highways themselves.

Parking permits including Blue Badge Scheme

The council has designated many neighbourhoods as controlled parking zones, many requiring a parking permit which is only available to residents. Parking in certain areas of the borough is at a premium, which causes some motorists to use fake permits, other residents' permits, or may fraudulently use a resident's address to obtain a permit from us. This kind of fraud reduces the availability of parking for residents and reduces the revenue to the council.

Identity theft/fraud

Identity theft is the unlawful taking of another person's details without their permission. The information stolen can be used to obtain many financial services goods and other forms of identification i.e. passports and driving licenses. The information stolen can range from a copy of birth certificate to copies of discarded bank or credit card statements and utility bills.

Once the criminals have copies of someone's identity they can embark on criminal activity in your name with the knowledge that any follow up investigations will not lead to them. With your details they can obtain documents that are in essence real but contain false information thus making it difficult for organisations to know who they really are dealing with.

Protect yourself!

Be careful with your personal information. If you receive a telephone call from a credit card company, bank or other retail company asking to confirm certain details about yourself decline them and ask to call them back preferably through a central switchboard. Also, do not reveal your personal details when using your mobile phone in a public place. When destroying personal correspondence such as bank and credit card statements consider a shredder or even burning them on the garden refuse. If you cannot do either then tear the papers up into very small pieces and place in the refuse bin with other waste products.

If you move address remember to inform all of the companies that send personal information to you in the post. Always consider re-directing your post with Royal Mail. If you fail to do this people moving in might have free access to your personal details and misappropriate them.

How do you know if are victim to this type of fraud?

- Are you missing your regular monthly statements?
- Have you noticed charges to your accounts that are not yours? Remember to check all statements especially bank and credit card.
- Being contacted by a debt collection agency about outstanding payments for items or services that you have not ordered.

Protect yourself act quickly

- Firstly do not ignore the problem it might not be you that has ordered some goods or opened an account but the debt falls to your name and address.
- Once blacklisted for credit it may take many years to fully recover the problem you might have difficulties in obtaining a mortgage or other bank credit.
- Contact your local Police and report the crime and ask for a crime reference number to quote to the companies that allege that you have opened an account with them.

Check out the Home Office identity theft website at www.identity-theft.org.uk **for more information**

Advance fee fraud

Advance fee fraud is a popular crime, which involves a myriad of schemes and scams - mail, faxed, and telephone promises designed to facilitate victims parting with money. They usually claim to be from a general or politician in a foreign country who has a large sum of money (millions of pounds), which they wish to get out of a country, and need help in getting it out with the promise of a substantial share of the cash in return. If you receive correspondence of this sort report it to the police. Remember, if it seems too good to be true, it probably is! For further crime prevention advice, visit the ***BBC Crime Prevention website or the Home Office fraud prevention website***

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Agenda Item 55

COMMITTEE: Audit Committee	DATE: 30 March 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO. 5.5
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola, Chief Financial Strategy Officer	TITLE: Treasury Management Activity for Period Ending 28 February 2010 Ward(s) affected: N/A			

Lead Member	Cllr Ohid Ahmed – Resources and Performance
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the year up to 28 February 2010 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

2. DECISIONS REQUIRED

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

3. REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

4. ALTERNATIVE OPTIONS

- 4.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.
- 4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

5 BACKGROUND

- 5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulation 2003 requires local authorities to have regard to the Treasury Management (TM) Code. The TM code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

6. TREASURY ACTIVITY FOR PERIOD 1 April to 28 February 2010

- 6.1 This section of the report sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment 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 28 February 2010.

7 CREDIT CRITERIA

- 7.1 The following credit criteria for investment counterparties were established by the Council in February 2009 as part of the budget setting exercise. Explanation of credit ratings criteria is attached at Appendix I.

Table 1: Counterparty Credit Rating Criteria

	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

- 7.2 In response to the recent instability in capital markets and the banking sector the Corporate Director of Resources 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	Country of Incorporation	Active in Market
Australia and New Zealand Banking Group Ltd	Australia	Y
Commonwealth Bank of Australia	Australia	Y
National Australia Bank Ltd	Australia	Y
Westpac Banking Corporation	Australia	Y
Dexia Bank Belgium	Belgium	Y
Overseas-Chinese Banking Corporation Ltd	China	Y
United Overseas Bank Ltd	China	Y
DBS Bank Ltd	Singapore	Y
Abbey National Plc (Santander Group)	UK	Y
Bank of Scotland Plc	UK	Y
Barclays Bank Plc	UK	Y
HSBC Bank Plc	UK	Y
Lloyds Banking Group Plc	UK	Y
National Westminster Bank	UK	N
Nationwide Building Society	UK	Y
Royal Bank of Scotland	UK	Y

8 INVESTMENT STRATEGY

- 8.1 Sector was appointed on a trial basis in February 2009 to provide a cash management service to the Council. The contract has now been awarded to Sector on a more permanent basis following a tendering exercise.
- 8.2 The service to be provided encompasses the development and implementation of an investment strategy with risk parameters specified by the Council and negotiating with counterparties the terms for term deposits of funds.
- 8.3 These functions were previously undertaken in-house but the Corporate Director of Resources considered it to be appropriate to move to external provision after the success of the trial.
- 8.4 The performance of the contractor will be closely monitored to ensure that the council's investment strategy is being followed and that returns are being maximised within the constraints of the strategy.
- 8.5 It should be emphasised that the Council retains control of the credit criteria and the investments. Sector's role is purely advisory.
- 8.6 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 we are well into Q4 of 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 term.

- 8.7 Sector calculated that the Council will have an effective investment balance of £100million for 2009/10. This is an average and balances will vary through the year. The current balance of £79.8M reflects a reduction in balances due to significant capital expenditure and a lull in business rates collections in February and March 2010.
- 8.8 The current investment strategy within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Investment Strategy

Projection			Actual Deal			
Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	15	0.75%	Abbey National plc	Call	10.000	0.80%
Overnight		0.75%	Clydesdale Bank plc	Call	12.400	0.75%
Overnight			Alliance & Leicester	Call		
Overnight		0.75%	Bank of Scotland plc	Call	12.400	0.75%
			SUB TOTAL		34.800	
1 Month	5	0.70%				
2 Months	10	1.00%				
3 Months	30	1.30%				
6 Months	5	1.60%	Nationwide	15 April 2010	5.000	0.80%
			Nationwide	15 July 2010	5.000	0.79%
9 Months	10	1.70%	Cater Allen (Santander)	01 March 2010	5.000	2.60%
			Nationwide	30 July 2010	5.000	0.99%
12 Months	25	2.00%	Cater Allen (Santander)	14 May 2010	5.000	3.00%
			Lloyds	12 August 2010	5.000	1.82%
			Cater Allen (Santander)	13 January 2011	5.000	2.20%
			Barclays Bank plc	27 April 2010	10.000	2.15%
			SUB TOTAL		45.000	
	£100		TOTAL		£79.800	

- 8.9 The council's bankers, the Co-operative Bank plc, are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.

9 INVESTMENT RETURNS

- 9.1 As a result of investment decisions taken so far this year there has been a total return of £1.13M - a full year return of £1.237M is projected. This equates to 1.24% return on projected cash balances of £100M at the start of the year.
- 9.2 When compared against the following benchmarks: Bank of England base rate; 0.50%, 3 month LIBOR; 0.73%, 12 month deposit; 1.15%, the 1.24% return achieved compares favourably given that the strategy also relies on deposits to be placed in reserve accounts. Reserve accounts offer lower rates of return.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

11 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

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

12. ONE TOWER HAMLETS CONSIDERATIONS

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

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 13.1 There are no Sustainable Actions for A Greener Environment implications.

14. RISK MANAGEMENT IMPLICATIONS

- 14.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

15 CRIME AND DISORDER REDUCTION IMPLICATIONS

- 15.1 There are no crime and disorder reduction implications arising from this report.

16 EFFICIENCY STATEMENT

- 16.1 Monitoring and reporting of treasury management activities ensures the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

Appendix 1: Definition of Credit Ratings

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition (August 2003)
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.

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Agenda Item 56

COMMITTEE Audit Committee	DATE 30 th March 2010	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO. 5.6
REPORT OF: Chris Naylor - Director of Resources ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		TITLE: Changes to Local Authority Financial Reporting Requirements <i>Ward(s) affected:</i> All		

1. SUMMARY

With effect from the 2010/11 financial year, the authority is required to adopt International Financial Reporting Standards. These are being introduced across the public sector in the UK to ensure that reported results are consistent with international standards applying to the private sector and in other countries across the World. The main outcome of this will be that accountants from any sector will be able to understand and comment upon local authority accounts, which will improve understanding and scrutiny. This report informs Committee of the progress of IFRS implementation.

2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1. Note progress towards meeting the International Financial Reporting Standard (IFRS).

LOCAL GOVERNMENT ACT, 1972 (SECTION 100A) **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

Alan Finch (Tel 0207 364 4915)

3. BACKGROUND

In June, officers reported on the requirement for the Council to adopt International Financial Reporting Standards (IFRS). This report provides an update on the requirements and the Council's progress towards meeting them.

4. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

4.1 With effect from the 2010/11 financial year, local authorities will be required to prepare their financial statements in accordance with the International Financial Reporting Standard (IFRS). This replaces the existing standards and the Generally Accepted Accounting Code of Practice for the UK (UKGAAP). IFRS, which has applied to Companies for some years, has already been introduced in central government and the NHS and the purpose is to have a single standard upon which all major organisations throughout the world are required to report. Adoption is mandatory for local authorities.

4.2. The IFRS introduces many changes to the way results are reported, but the main changes which will make a noticeable difference to the way information is used are:

- Increasing the level of detail required in reporting the valuation of **fixed assets**.
- Bringing assets procured through **PFI** onto the balance sheet.
- Enhancing the level of information required to be reported on **leases and contracts**.
- Providing more information in the accounts which relates back to Services and Directorates, so that the **performance against budget** will become clearer from the accounts.
- Increasing the level of reporting required relating to **employee benefits**.

It is understood from experience elsewhere that the changes are likely to increase the size of the accounts by about 50%.

4.3. As the IFRS is introduced fully in 2010/11, it will be necessary to state the current year's (2009/10) accounts in IFRS terms as well as in accordance with existing standards.

4.4. The project began in December 2008 but has been affected by staff changes. Initially the authority was ahead of most others in responding to IFRS but we are now among the majority of authorities. The authority remains on schedule to complete the conversion in time for the necessary deadlines. The table at **Appendix A** sets out the current status of the project in more detail.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1 The comments of the chief financial officer are incorporated within this report of which he is the author.
- 5.2. There are additional costs incurred in adopting IFRS, both in relation to the project and to maintain processes and systems and continue to report on the new basis. These will need to be contained within existing resources.

6. RISK MANAGEMENT

- 6.1 There are no specific risk management implications.

7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

- 7.1. There are no legal implications arising out of this report.

8. ONE TOWER HAMLETS CONSIDERATIONS

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

9. ANTI-POVERTY CONSIDERATIONS

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

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

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

APPENDIX A

INTERNATIONAL FINANCIAL REPORT STANDARDS PROJECT - PROGRESS REPORT		
Issue	RAG Status	Explanation
Contracts	AMBER	All major contracts must be reviewed to ensure that clauses which involve transfer of assets or risk are properly accounted for.
Leases	AMBER	IFRS changes the rules which differentiate between a finance lease and an operational lease. All major leases must be reviewed to ensure they are properly classified
PFI 2008	GREEN	IFRS will change the accounting arrangements for PFI, bringing assets obtained through this route onto the authority's balance sheet.
Employee Benefits	AMBER	The new accounting rules require authorities to value and account for liabilities in relation to non-financial staff benefits. The most obvious example is where staff carry forward leave at the end of financial year to be taken in a later year, this represents value owed to the member of staff to the authority.
		<p>Progress to Date</p> <p>245 contracts of over £250,000 a year in value have been identified. Documentation for around two-thirds of these has been obtained and further steps are being taken to obtain the rest.</p> <p>304 leases have been identified and documentation has been obtained for around half. Further steps are being taken to obtain the rest.</p> <p>The authority has three extant PFI schemes; two relating to schools and one relating to the Barkantine estate. Asset valuations have been obtained and the necessary accounting transactions are being identified.</p> <p>Data was collected on staff leave carried forward at the end of 2008/09 and a repeat exercise is being undertaken at the end of the current financial year.</p>

Infrastructure	AMBER	The rules on valuing infrastructure assets are changing. For example in future the road network must be assessed according to the width of roads and their underlying fabric as well as road length.	Guidance was published on 19 th March and discussions are in hand with Highways & Transportation to ensure the relevant information can be obtained.
Component Accounting	RED	IFRS requires future works to components of assets (eg rooves, boilers etc) to be separately valued and accounted for.	This will apply from April 2010. A plan has been established for undertaking this wo.
Segmental reporting	AMBER	Expenditure and income will need to be reported by Directorate by Directorate in future as well as by standard headings.	This information is already available in management reports.
Training	GREEN	Training of accountancy staff in all Directorates and selected others, notably Property Management staff, is necessary to embed IFRS	Training has been undertaken in the first part of March 2010.
Restatement of Balance sheet	AMBER	The balance sheet as at 1 st April 2009 is required to be restated on IFRS principles.	This has been delayed beyond the original timetable and will be undertaken by mid April 2010.

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