

Meeting of the

# AUDIT COMMITTEE

---

Tuesday, 21 September 2010 at 7.00 p.m.

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## A G E N D A

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### VENUE

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

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair: Councillor Rabina Khan	
Councillor Abdul Asad Councillor Craig Aston Councillor Lutfa Begum Councillor Mizan Chaudhury Councillor Stephanie Eaton	Councillor Khales Uddin Ahmed, (Designated Deputy representing Councillors Carlo Gibbs, Rabina Khan, Abdul Asad, Lutfa Begum and Mizan Chaudhury) □ Councillor Carli Harper- Penman, (Designated Deputy representing Councillors Carlo Gibbs, Rabina Khan, Abdul Asad, Lutfa Begum and Mizan Chaudhury) □ Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) □ Councillor Bill Turner, (Designated Deputy representing Councillors Carlo Gibbs, Rabina Khan, Abdul Asad, Lutfa Begum and Mizan Chaudhury)

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

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

# LONDON BOROUGH OF TOWER HAMLETS

## AUDIT COMMITTEE

Tuesday, 21 September 2010

7.00 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

	PAGE NUMBER	WARD(S) AFFECTED
<b>2. DECLARATIONS OF INTEREST</b>	<b>1 - 2</b>	
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.		
<b>3. UNRESTRICTED MINUTES</b>	<b>3 - 10</b>	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 13 July 2010 (postponed from 29 <sup>th</sup> June 2010).		
<b>4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION</b>		
4 .1 Annual Governance Report - Council Accounts - To Follow		
4 .2 Annual Governance Report - Pension Fund Accounts - To Follow		
<b>5. UNRESTRICTED REPORTS FOR CONSIDERATION</b>		
5 .1 Quarterly Internal Audit Assurance Report	11 - 56	
5 .2 Social Housing Fraud Update	57 - 60	
5 .3 Annual Anti Fraud Report 2009-10	61 - 72	
5 .4 The National Fraud Initiative 2010-11	73 - 94	

# 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 7.00 P.M. ON TUESDAY, 13 JULY 2010**

**MEETING ROOM M72, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5  
CLOVE CRESCENT, LONDON, E14 2BG**

**Members Present:**

Councillor Carlo Gibbs (Chair)  
Councillor Abdul Asad  
Councillor Mizan Chaudhury  
Councillor Stephanie Eaton (Leader, Liberal Democrat Group)  
Councillor Rabina Khan (Vice-Chair) (Scrutiny Lead Member, Prosperous Communities)  
Councillor David Snowdon

**Other Councillors Present:**

None.

**Officers Present:**

Alan Finch – (Service Head, Corporate Finance, Resources)  
Minesh Jani – (Service Head, Risk Management)  
Jill Bell – Head of Legal Services (Environment), Legal Services  
Jon Hayes – (District Auditor, Audit Commission)  
Steve Vinall – (Service Manager, Deloitte & Touche)  
Les Warren – (Director of Finance and Resources, Tower Hamlets Homes)  
Sayeed Kadir – (Director of Asset Management)  
Zoe Folley – (Committee Officer, Democratic Services Chief Executive's)

**1. APPOINTMENT OF VICE - CHAIR**

**RESOLVED**

That Councillor Rabina Khan be elected Vice – Chair of the Audit Committee for the Municipal Year 2010/11 .

**2. APOLOGIES FOR ABSENCE**

Apologies for absence were received on behalf of Councillor Lutfa Begum and Councillor Craig Aston. Councillor David Snowdon would be deputising for Councillor Aston.

### 3. **DECLARATIONS OF INTEREST**

Councillor Abdul Asad declared a personal interest in agenda item (7.1) (Internal Audit Annual Report 2009/10). The declaration was made on the basis that the report contained references to schools and Councillor Asad was an employee of the Bishop Challoner School.

Councillor Rabina Khan declared a personal interest in the agenda item (7.1) (Internal Audit Annual Report 2009/10). The declaration was made on the basis that the report contained references to schools and the Councillor was a school governor.

**Noted.**

### 4. **UNRESTRICTED MINUTES**

**RESOLVED** that the unrestricted minutes of the meeting held on 30<sup>th</sup> March 2010 be approved subject to the following amendments:

Page 1 of minutes - Members Present, Councillor Helal Abbas - removal of the title 'Leader of the Council' and be replaced by Chair to reflect designation at the time of the Audit Committee meeting.

Page 5 - amended to state that 'Mr John Hayes highlighted leases and IFRIC as the most significant risks for 2009/10'

Page 9 - word credential be changed to prudential.

#### **Matters Arising**

In reply to questions, Mr Minesh Jani (Service Head Risk Management) reported that the Annual Statement of Accounts for 2008/09 were due to be signed off by the Committee on 29<sup>th</sup> June 2010, but this meeting was declared inquorate. As a result, the Accounts would now have to be submitted to Full Council on 14<sup>th</sup> July 2010 for approval in accordance with International Financial Reporting Standards (IFRS). The regulations stated that the Accounts must be approved before or on 30<sup>th</sup> June 2010.

Members requested that they be given more time to considered the accounts ahead of the Audit Committee meeting. It was considered that the documents should be made available a week before the meeting to give Members a chance to scrutinise the accounts. It was **Agreed** that in future the Annual Accounts be circulated to Members one week before the Audit Committee meeting where they were due to be considered.

**Action: Alan Finch (Service Head Corporate Finance)**

In relation to the audit of parking permits, (page 8 of minutes) Mr Jani referred to the findings of the last Audit of the area completed in 2007, and the reasons for the limited assurance score. Audit Services would be undertaking a review of this whole area to address any risks and would be reporting back to the Committee.

## 5. **AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP**

The Committee considered the report.

A Member felt that the Majority Labour Group should be invited to nominate more than one deputy to the Committee in the interests of securing a quorum especially as the last meeting on the 29<sup>th</sup> June 2010 was inquorate. The Chair, Councillor Gibbs, **undertook** to put this request to his group.

It was also **Agreed** that the start time of the future meetings of the Audit Committee be brought forward to 7pm from 7:30pm.

### **Action: Zoe Folley (Democratic Services)**

Members also discussed whether the Committee should meet on a more regularly basis to enable it to conduct more in depth investigations given its wide ranging remit. For example an additional 2/3 meeting could be programmed in over the year. Consideration was given to the type of issues the Committee may wish to discuss at such extra meeting. Officers welcomed Members to submit topics for consideration by the Committee.

### **RESOLVED**

That the Terms of Reference, Membership, Quorum and Dates of future meetings as set out in Appendices 1, 2 and 3 to the report be noted.

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

### 7. **ANNUAL AUDIT LETTER 2008/09**

Mr Jon Hayes (District Auditor Audit Commission) presented the Annual Audit letter initially due to be considered at the March 2010 meeting of the Committee. Mr Hayes explained the purpose of the letter highlighting the key messages and recommendations.

In response, Members raised the following points:

Members discussed the problems with removing leavers from the payroll and the findings in respect of journals (Page 23). Members questioned the consequences of these material weakness and the costs to the Council.

Mr Hayes expressed uncertainty over whether these controls were fully working . As a result he would need to carry out additional work to establish whether they were and has had to increase his audit fee accordingly.

Members expressed concern at the time taken to correct the problems in payroll as this problem was identified two years ago. Mr Minesh Jani (Service Head Risk Management) expressed confidence that the controls had been put

in place, but would check to determine whether the control was operating as intended as part of this year's audit plan . He **Agreed** to come back to the Committee with a summary of leavers showing the work that had been done in this area.

**Action: Minesh Jani (Service Head, Risk Management)**

In relation to the level 2 use of resources scores, Members considered the recommendations for improvement.

KLOE 2.3 Good Governance (Page 33) - Members drew attention to the actions in the September 2009 Annual Governance Statement (AGS) in particularly those around the departure of the former Chief Executive.

It was **Agreed** that an update on this issues and the AGS requirements should be submitted to the Committee following the Mayoral Election in October 2010, to take into account the new system of governance.

**Action: Minesh Jani (Service Head, Risk Management)**

The Committee considered the Action Plan (Appendix 2).

Mr Finch reported that Corporate Finance had put in place a revised system for closing the accounts, which worked well. The service did manage to successfully close the accounts on time despite unforeseen staffing changes. It was hoped that the new system would lead to better quality and a more efficient close down process. There had also been discussions with Audit Services exploring ways of achieving this.

Mr Finch reported that Corporate Finance was well on target to complete the transition to IFRS. A new project team had been put in place to support this work. A key challenge now was to produce IFRS versions of the balance sheet.

**RESOLVED**

That the Annual Audit Letter 2008/09 be noted.

**8. PROGRESS REPORT JUNE 2010**

Mr John Hayes (District Auditor, Audit Commission) presented the progress report.

Mr Hayes referred to the decision to abolish Comprehensive Area Assessments (CAA). He expressed uncertainty about the implications of this . It could mean that the fee letter might need to be revised and the level of fee reduced to take into account this decision. He indicated that he would need to give further consideration to this issue and would report back to the Committee accordingly.

In relation to the review of Value for Money, (Page 39 paragraph 8) Mr Hayes stated that he would be writing to all Councils this month about this. He



anticipated that he would then be in a position to report back to the Committee.

### **RESOLVED**

That the Progress Report for June 2010 be noted.

## **9. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION**

## **10. INTERNAL AUDIT ANNUAL REPORT 2009/10**

Mr Minesh Jani (Service Head Risk Management) introduce the report setting out the annual internal audit opinion. He reported that overall the Authority had a sound system of internal control and was operating effectively in 2009/10.

The report contained a summary of all audit work including the assurance ratings assigned to each area.

The Committee considered a list of the areas assigned a limited assurance including Tower Hamlets Homes Budgetary Control and the Morpeth Secondary School and the recommendations for improvement.

Reference was made to the performance targets for priority one and two recommendations. Mr Jani reported that he had written to the Corporate Directors detailing the outstanding actions to enable CMT and DMTs to quickly respond to them.

Members queried the reasons why some of the recommendations had yet to be implemented. Mr Jani reported that this could be partly due to staffing changes, changing priorities. It was considered that the target of 100% for priority 1 and 2 recommendations was obtainable. The Committee requested that steps be taken across the directorates to deliver them.

Members recommended that e-mail alerts be sent to services two months before follow up audits in addition to the e-mail notifications sent one month beforehand.

It was also **Agreed** that the actual numbers for recommendations be provided as well as percentage figures.

### **Action: Minesh Jani (Service Head, Risk Management)**

In reply to questions from Members about the legal planning meetings, Mr Jani reported that this area had since been re - inspected and had been ascribed a satisfactory level of assurance. The findings purely related to administrative rather than child protection issues. Mr Jani reported that the 'to be scheduled audits' would all be allocated a date by September 2010.

Mr Les Warren (Director of Finance and Resources, Tower Hamlets Homes) replied to the limited assurances ascribed to the Tower Hamlets Homes (THH).

THH had implemented a number of additional controls aimed at ensuring staff understood the budget process and managers/budget holders appreciated their budgetary and monitoring responsibilities. THH had simplified and refocused the format for management budgets which was now risk based. THH had also reviewed and strengthened their Financial Regulations which had been approved by the THH Board who robustly scrutinised budgets along with its Finance and Audit Committee. In support of this, THH had held events with officers and face to face meetings to discuss budgets. He also referred to the controls in place to prevent overspend and mitigation measures.

Mr Warren stated that he was satisfied with the new measures, (set out on Page 61) and considered that they would rectify the issues. The findings of the follow up audit were due to be reported in Autumn 2010.

In response to questions from Members, it was reported that officers reviewed the Audit Plan to identify which audits reports should be resourced in house or by external auditors based on expertise and value for money. This judgement was reviewed on a regular bases.

In relation to Morpeth School, it was explained that Audit Services took action with Children's services to ensure the recommendations were implemented. Audit Services had asked colleagues in Children's services to produce an Annual report to establish whether there were any common problems across all schools to rectify the problem. A holistic approach was taken.

Mr Jani **Agreed** to check the Benchmarking Club Results to ascertain whether this covered the whole function not just the in house team.

**Action: Minesh Jani (Service Head, Risk Management)**

### **RESOLVED**

That the content of the Annual Audit Report and the summary of the Audits undertaken which have not previously been reported to the Audit Committee and the Head of Audit opinion be noted.

## **11. ANNUAL GOVERNANCE STATEMENT 2009/10**

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

In reply to questions, Mr Jani reported on a pilot scheme recently introduced in one Directorate aimed at improving sickness absence levels which had been successful. As a result, this good practice would be rolled out across all Directorates. It was anticipated that this would bring sickness levels down. Consideration was given to improving Member scrutiny of individual cases of severance payoffs which were confidential as detailed in the Annual Statement of Accounts. Officers undertook to look into this matter.

**RESOLVED**

1. That the process and findings set out in paragraphs 4.1 – 7.4 of the report be noted; and
2. That the Draft Annual Governance Statement for the financial year 2009/10 at Appendix 3 of the report be agreed.

**12. TREASURY MANAGEMENT ACTIVITY FOR PERIOD ENDING 31 MAY 2010**

Mr Alan Finch (Service Head Corporate Finance) presented the report highlighting the main issues for consideration.

Members drew attention to the outturn figures for 2009 – 10. In reply Mr Finch reported that in both cases the Council had outperformed the portfolio benchmark . However investment returns were starting to decrease in quarter 2 of 2010.

Officers were reviewing the trade off between investment risk and the need to diversify to secure the right balance. This issue would be discussed with the Council's treasury.

Member questioned whether there were any plans to move away from the 'UK only policy' of investing all money in UK Banks. Mr Finch confirmed that officer were looking at investing a limited amount of funds in the foreign Domicile Institutions at the right rates, rather just small UK banks. However there were limited options for securing favourable returns with the current investment criteria. Consequently consideration was being given to amending the credit criteria/ treasury management strategy to take into account current market conditions. However this decision would need to be taken by Full Council. Officers were satisfied with the balance between overnight and long term investment. However the Council did obtain better rates over the long term.

The fund currently had more overnight deposits than expected, but it was anticipated that this would correct itself over the course of the year.

At the request of Members, Mr Finch **Agreed** to check the figures for Clydesdale PLC Bank in the investment strategy (page 118) and to report back on the reasons for these figures accordingly.

**Action: Alan Finch (Service Head Corporate Finance)**

**RESOLVED** That the contents of the Treasury Activity Report for period ending 31 May 2010 be noted.

The meeting ended at 8.35 p.m.

Chair, Councillor Carlo Gibbs  
Audit Committee

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# Agenda Item 51

REPORT TO: <b>Audit Committee</b>	DATE <b>21 September 2010</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>	<b><i>Quarterly Internal Audit Assurance Report</i></b>			
ORIGINATING OFFICER(S): <b><i>Minesh Jani, Service Head, Risk Management and Audit</i></b>				
		<b>Ward(s) Affected: N/A</b>		

## 1. SUMMARY

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

### **3. Background**

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

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

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

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

### **4. Overall Audit Opinion**

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

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

5.1. Since the last Assurance Report that was presented to the Audit Committee in July 2010, 32 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.
- Appendix 3 provides details of followed up and highlighted as outstanding at the time of the review.

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	0	10	1	0	11
	Moderate	1	14	5	1	21
	Low	0	0	0	0	0
<b>Total Numbers</b>		<b>1</b>	<b>24</b>	<b>6</b>	<b>1</b>	<b>32</b>
<b>Total %</b>		<b>3%</b>	<b>75%</b>	<b>19%</b>	<b>3%</b>	<b>100%</b>

- 5.4. From the table above it can be seen that of the 11 finalised audits which focused on high risk or high value areas; ten audits were assigned Substantial Assurance and one received Limited Assurance. A further 21 audits were of moderate significance and of these, one was assigned full assurance, fourteen were assigned Substantial Assurance, five received Limited assurance and one was assigned Nil assurance.
- 5.5. Overall, 78% of audits resulted in an adequate assurance (substantial or full). The remaining 22% of audits have an inadequate assurance rating (limited or nil).



## 6. Performance Indicators

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

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to August 2010	40%	40%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	90% (26 out of 29)
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	92% (12 out of 13)

- 6.2. The table above shows that the proportion of internal audit work completed to August 2010 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was around 90%, whereas the percentage of priority 2 recommendations was 92%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3.

## Summary of Audits Undertaken

## APPENDIX 1

Assurance level	Significance	Directorate	Audit title
<b>NIL</b>			
	Moderate	CSF	Central Foundation Girls' Secondary School
<b>LIMITED</b>			
	Extensive	Corporate	Contract Management and Monitoring – Corporate Review
	Moderate	Resources	AXIS Income Management and e-payments
	Moderate	CSF	Old Church Nursery
	Moderate	CSF	Raines Foundation School
	Moderate	CSF	Thomas Buxton Infant School
	Moderate	CSF	Swanlea Secondary School
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Treasury Management - Systems Audit
	Extensive	Resources	Cashiers- Cash Income
	Extensive	Resources	General Ledger - Systems Audit
	Extensive	Resources	Housing Benefits
	Extensive	Resources	Payroll - Systems Audit
	Extensive	Resources	Business Continuity
	Extensive	Resources	ICT Change Management
	Extensive	Resources	ICT Service Desk
	Extensive	ACE (Legal Services)	Legal Planning Meetings on Child Protection - Follow Up Audit
	Extensive	AHW	Homeless Families – Placing and Payments - Systems Audit

## Summary of Audits Undertaken

## APPENDIX 1

Assurance level	Significance	Directorate	Audit title
<b>SUBSTANTIAL</b>			
	Moderate	CSF	Children’s House Nursery School
	Moderate	CSF	St John’s CE Primary School
	Moderate	CSF	Sir John Cass Secondary Foundation and Redcoat School
	Moderate	CSF	Bowden House School
	Moderate	CSF	Columbia Market Nursery
	Moderate	CSF	Bishop Challoner Catholic Collegiate Boys School
	Moderate	CSF	Oaklands Secondary School
	Moderate	CSF	Manorfield School - New Build Current Contract Audit
	Moderate	CSF	Implementation of the Common Assessment Framework (CAF)
	Moderate	CLC	Transport Fuel Purchase and Utilisation - Follow Up audit
	Moderate	CLC	Transport Recharges Follow Up Audit
	Moderate	CLC	Street Works – Follow Up
	Moderate	CLC	Street Lighting - Follow Up audit
	Moderate	THH	Strategic Management of SLAs - Follow Up audit
<b>FULL</b>			
	Moderate	CLC	Community Safety Project Management - Follow Up Audit

**Summary of Audits Undertaken - Nil Assurance**

**APPENDIX 2**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Central Foundation Girls' Secondary School	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. 30 recommendations were made, including eight priority 1 issues. The main weaknesses were as follows:-</p> <p>The Governing Body and Resources Committee meeting minutes were clerked by a staff member supervised by the Director of Finance. Furthermore, review of Governing Body minutes showed that decisions were not clearly recorded, for example there was no evidence in the minutes of approval of the 2009/10 budget or the Recovery Plan for the deficit budget. Moreover through discussions with the clerk Audit identified that the clerk did not have any formal training on clerking.</p> <ul style="list-style-type: none"> <li>• Review of the business interest register highlighted that the Governors had not declared business interests for 2009/10. Declaration of business interests had not been included as an agenda item at every Governing Body meeting. Furthermore staff members with financial responsibilities had not completed declarations.</li> <li>• The school failed to provide for its PFI contribution in the 2008/09 budget plan which resulted in the budget deficit. The ordering system was weak and the system for independent certification of invoices was not sufficiently robust. Review of a sample of direct debits found that signed bank mandates were not retained and direct debit payments were not confirmed by supporting payment documents/invoices. Income control was also weak. Neither the school fund nor school journey accounts have been subject to annual independent audits.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	Moderate	Nil

### **Management Comments on Schools Audits**

The following comments apply to all the schools assigned Nil and Limited audit assurance in this report :-

All the schools have acted immediately and agreed to complete all agreed actions with a defined timeframe. All these schools and their governing bodies are fully committed to the recommendations made in their respective Audit reports by:

- Tracking all actions within the timeframe provided in the reports, including evidence of actions taken where appropriate.
- Confirming additional steps that each school is planning to take in light of the audit findings.
- Taking immediate action in mitigating exposure to risks arising from weaknesses in the control environment identified by Audit.

In addition to the above measures, each school will complete a re-assessment within six months to evaluate the progress made in implementing audit recommendations. In April 2010, a brief summary of known areas of weakness was sent to all schools having their assessments carried out in 2010-11. In May 2010, the Schools' Finance newsletter carried a good practice guide for "Financial Planning". The issue of weakness in schools from the recent audits reports was raised at the termly secondary bursars meeting and suggested that all secondary schools assisting in drawing up a best practice guide by reviewing all recommendations made by the auditors. A planned meeting is to take place in September 2010.

Schools' Finance are also working on the idea of "Health checks" for Audits in schools. One Schools' Finance Officer had recently assisted a primary school in collecting all the relevant information for their Audit and the school was rated as "substantial assurance".

**Summary of Audits Undertaken - Limited Assurance**

Title	Date	Comments / Findings	Scale of Service	Assurance Level
Contract Management and Monitoring – Corporate Review	April 2010	<p>The objective of this audit was to provide assurance over systems for contract monitoring at both Corporate and Directorate levels to ensure that objectives of procuring the contracts were achieved and best value was obtained.</p> <p>Our review showed that there was basic corporate guidance on effective contract monitoring. However, these needed to be strengthened further. Improvements were required over corporate control and procedures for storage and security of signed contracts, controlling and approving of contract extensions, variation control and ensuring that enhanced benefits were derived from effective contract management.</p> <p>During our testing of a sample of contracts, we found that in some cases, signed copies could not be easily located from either the Procurement Service or from client officers. Contract Monitoring was not always effective.</p> <p>At Directorate level, responsibility for contract management was inconsistent as responsible officers in some cases did not have signed contract documents and hence they were not clear on contract specification, performance standards and other contract conditions. We have recommended that critical risks should be identified and assessed for each contract, and monitoring should be focussed on key risks to ensure that resources are used efficiently, the Council's interests are safeguarded and best value is obtained.</p> <p>Audit acknowledge that a number of the issues raised in this audit were for contracts that were tendered, agreed, documented or otherwise before the introduction of the tollgate process for contracts and before the introduction of the Competition Board. The checks and balances introduced with the tollgate process and the scrutiny by the Competition Board should significantly enhance the control framework in this areas.</p> <p>All findings and recommendations were agreed with the Service Head Procurement and final report issued to the Chair of the Competition Board and Corporate Director, Resources last April which has since been acted upon.</p>	Extensive	Limited

### **Management Comments on Contract Management and Monitoring – Corporate Review**

Significant progress can be reported in most of the areas highlighted within the report and the Competition Board has taken responsibility to ensure the agreed recommendations are actioned. All recommendations have now been reviewed.

- A plan has been agreed with Legal colleagues with regards to the centralisation of the storage of contracts.
- This will include various measures to ensure that such data as contact end dates and the reprocurement or potential contract extensions are easily accessible
- It has been decided to use a contract database based on the London wide contracts register to aid joint procurement.
- To improve the robustness of contract monitoring within Tower Hamlets various initiatives are being investigated such as a simplistic header sheet that acts as a tick list for staff to ensure that new procedures are followed, e.g. such as the need to send a finalised copy of the contract to legal.
- There are also a variety of Initiatives being explored to improve the robustness of our contract management and monitoring.
- It is also planned to develop a more coherent system of officer training over the next 12 months which could result in a 'license to procure' being issued, possibly with different grades of licences being issued.

A recent Audit Commission review, looking at the authority's procurement process, has shown the authority to be making very good progress on procurement. It is hoped that this brief update serves to reassure management that actions are under way.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
AXIS Income Management and e-payments	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the process for managing the AXIS IT System used for the management of Income within the Council and for the e-payments module which allows the payment for Council Services via the Council's website. Controls were adequate in Data Input Control, Data Processing Controls and Output Controls. However, weaknesses were identified in the following area:-</p> <ul style="list-style-type: none"> <li>• The Council had implemented the Secure Bureau Service and have changed bank accounts from HSBC to RBS, they have not yet completed the PCI DSS Self Assessment Questionnaire to confirm their compliance with the standard. Password Controls and change controls were weak. There was no clear ownership for the system. We also found that there has been no review to confirm the extent of user access on the system. Moreover, the network and e-payments system had not been subject to an Independent Penetration test. No specific rule has been defined on the firewall for the communication between the LBTH server (THVAIM01) and the Capita SBS servers. Some data input controls on the online payments interface where users enter data had not been completed and therefore some incorrect data could be entered.</li> <li>• There was no evidence available to confirm that the Council had formal documented policy for refunds. All users within the One Stop Shop user group had permissions to approve refunds and charge backs. Moreover, there was no formal documented strategy in place for the use of e-Payments within the Council to identify how the system may be developed to incorporate future services and payment methods. Although the original agreement with Capita had been signed by the Service Head – Revenues, the Addendum to Agreement dated 11 July 2008 had been signed by a consultant therefore does not have the authority to enter into contractual arrangements on behalf of the Council. Supplier performance against agreed service levels is not monitored on a regular basis.</li> </ul> <p>The findings and recommendations were agreed with the ICT Business Support Manager and Service Head – Customer Services</p>	Moderate	Limited



**Management Comments on AXIS Income Management and e-payments**

**PCI DSS Self Assessment Questionnaire** – Currently CAPITA have completed the PCI DSS SAQ and meet the standard. We have yet to complete our own SAQ but this will be addressed this year.

**Password Controls** – The existing levels of control do not have this level of security, but Version 7.2, currently being installed across the borough, does meet these requirements.

**Ownership of the System** – Head of Revenue Services, does now have ownership of AIMS and Income Management.

**No review to confirm the extent of user access on the system** – ICT have removed the Administrator Account account and all service desk accounts, except 1. User enrolments forms must be fully completed before creating or amending users.

**Independent Penetration test** – Agreed to investigate by October 2010. Firewall Rules - Agreed to investigate by October 2010.

**Refunds** – access to refunds has been withdrawn from all staff except designated managers who will be required to authorise all refunds made using the system.

**Development of e-payments** – all requests for system enhancements and additional services are now channelled through the Corporate Collection Forum.

**Disaster Recovery** – The Disaster Recovery Plan will be updated to include AIMS and Income Management.

**Supplier performance** – The SLA is held and regular meetings are now scheduled to address areas of poor performance.

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Old Church Nursery	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The Nursery School and the adjoining Children’s Centre that provides day care and additional services are managed by the same Governing Body and the Head Teacher. Financial Services and administration support is also provided by the same staff. One third of the Head Teacher’s and the Office Manager’s salaries is recharged to the Children’s Centre. 23 recommendations were made, including two Priority 1 and seventeen Priority 2 recommendations. Controls were adequate in School Meals, Voluntary Fund and School Journey. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Declarations of interest had not been obtained from four members of the Governing Body and staff with financial responsibilities. The Finance Manual document was unclear with respect to the Scheme of Delegations.</li> <li>• The budget for 2009/10 had been prepared without using the surplus balance brought forward from the previous financial year.</li> <li>• The school did not produce any cash flow forecast reports by profiling income across the year and comparing it to expenditure plans to monitor cash surpluses and deficits.</li> <li>• There was non-compliance with the Code of Finance Practice for the Supply of Goods, Works &amp; Services.</li> <li>• There was no demonstration of separation of duties for some procurement. Orders had not been raised for the majority of procurements in the audit sample and there was no signature for receipt of goods and services in some cases.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children’s Services through Education Finance.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Raines Foundation School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has submitted an application for a licensed deficit and submitted their recovery plan to the Borough detailing the areas the school is focussing on to reduce expenditure. The school has experienced a high level of deficit due to overspend occurring on salaries, IT, and maintenance and due to pupil numbers reducing. Eight recommendations were made including two Priority 1 issues.</p> <p>Controls were adequate in Procurement, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, Personnel and Payroll Management, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Governing Body and Finance Committee meetings were clerked by the Bursar. This is not regarded as approved practice as per the Information for School Governors and specifically the 'Clerk to the Governing Body Overview'.</li> <li>• The school budgeted for a deficit of £448,841 for 09/10 due to overspends occurring on salaries, IT, and maintenance. Whilst the Bursar appeared to be monitoring the 2009/10 budget on a monthly basis and reporting this the Governing Body and the Finance Committee, the minutes of these meetings did not reflect how the budget deficit situation was being managed and whether the deficit was being reduced or not.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Thomas Buxton Infant School	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. 14 recommendations were made including four Priority 1 issues. Controls were adequate in Accounting of Income and Expenditure, Voluntary Fund and School Journey and Asset Control and Security of Assets. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Examination of Financial Procedures Manual, Scheme of Delegation incorporating the Finance Procedures Manual and the Terms of Reference of the Finance &amp; Resources Committee, highlighted significant discrepancies between the limits recorded in relation to expenditure and virements.</li> <li>• Quarterly budget monitoring reports are produced by the external Consultant. However, there was a lack of documentary evidence that these financial reports showing the variances were presented to the Finance Committee on a regular basis.</li> <li>• Procurement testing identified that official orders had not been raised for any of the six transactions sampled for which orders should have been raised.</li> <li>• Controls around pre-recruitment checks required improvement.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Swanlea Secondary School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school.</p> <p>12 recommendations were made, including two Priority 1 issues. Controls were adequate in School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School Development Plan needed to be reported and approved by the full Governing Body. The scheme of delegation also needed to be approved by the Governing Body .</li> <li>• Budget virements had been made without documenting them or obtaining approval from the Governing Body. Moreover, the monthly bank reconciliations and VAT reports had not been reviewed by an independent officer and had not been sent to the Local Authority promptly.</li> <li>• In the last financial year there were six instances where the school had made procurements between £1,500 and £5,000 without obtaining the minimum two written quotations as per the School's Finance Policy. There were also three instances where the school had made procurements between £5,000 and £25,000 without obtaining the minimum three written quotations as per the School's Finance Policy. Furthermore, there was no evidence of undertaking any tendering exercise for photocopier contract.</li> <li>• Orders are not raised on RM Finance System. It is the view of Audit that this is an inefficient use of resources not to use the commitment facility of the RM System.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Limited

## Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management Systems Audit	July 2010	<p>This audit sought to provide assurance that systems and procedures for controlling, monitoring and reporting treasury management transactions were sound, secure and adequate</p> <p>The Council has appointed Sector Treasury Services as its Cash Portfolio Management Partner. All services to be provided by Sector had been written into a formalised schedule of services document. Meetings were held to monitor the performance of the provider, however, these meetings required to be formally minuted. Our review also showed that investments were being made in accordance with the Council's Treasury Management Strategy and Policy, which was approved by the Cabinet. Overall, there were adequate systems and controls in place for managing the Treasury functions and procedures were being complied with. Some minor issues were identified around recording of interest rates offered on call accounts, certification of monthly reconciliations of control accounts by an independent officer not involved in the treasury function and accurate projection and calculation of cash requirements and balances available for investment on a daily basis.</p> <p>All findings and recommendations were agreed with the Service Head, Corporate Finance and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers – Cash Income  Systems Audit	June 2010	<p>The Cashiers function is responsible for the collection, receipt and banking of monies due to the Council in the form of cash, cheques, BACS and CHAPS payments, and standing orders.</p> <p>Our review found that controls were adequate in Policies and Procedures, Banking and Unpaid Cheques, IT Systems and Security. The main weaknesses are identified below:-</p> <ul style="list-style-type: none"> <li>• Cashiers do not receive updated approved signatory lists. Currently, the existing authorised signatory list is manually added to with new signatories when identified. However, no routine information is provided to Cashiers regarding authorised signatories that have left the Council or whether their delegated limits have changed.</li> <li>• End of day cash balancing is routinely undertaken, and it was found that ‘cash-up reports’ had been signed by two Cashiers in most cases, but there were a few occasions when these were signed by only one officer.</li> <li>• Bank and General Ledger reconciliations required to be completed and reviewed in a timely manner.</li> </ul> <p>The findings and recommendations were agreed with the Service Head - Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger Systems Audit	July 2010	<p>The authority is required to make arrangements for the proper administration of its financial affairs and to ensure the accuracy of the General Ledger to ultimately present its financial accounts. The General Ledger system in place at the Authority is the JD Edwards OneWorld system (JDE), which is the main accounting system and is fed by a number of other financial systems including Council Tax, Housing Benefits, Housing Income, Payroll, e-Billing, Revenues, Purchase Card Payments, Housing Rent and Cash collections. Feeder systems interface with the General Ledger to upload financial data on a regular basis. The audit found that controls were adequate in policies and procedures, completeness and accuracy of coding, and end of year procedures. The main weaknesses are identified below:-</p> <ul style="list-style-type: none"> <li>• The suspense account was not cleared in a sufficiently timely manner. At the time of the audit, the total balance on the suspense account was £35,222,261.49. Approximately £33m had only recently been posted (less than six weeks old) however 56 items dated back to the year 2006.</li> <li>• Although there was adequate segregation of duties surrounding the input and approval of journal entries, Audit found that there were currently no financial limits for officers in respect of journal approvals. Sample testing of 25 journal postings identified three entries that were approved by junior officers (i.e. Assistant Accountant and a Trainee Accountant).</li> <li>• Although areas of significant over/under spends were reported to the Cabinet on a quarterly basis, we found that Finance Officers responsible for overseeing the budget did not prepare an action plan which documents how areas of significant under/overspends were to be managed.</li> </ul> <p>The findings and recommendations were agreed with the Service Head – Corporate Finance and reported to the Corporate Director, Resources.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing and Council Tax Benefits	June 2010	<p>The Authority is responsible for assessing and paying claims to HB claimants under regulations and guidance issued by the DWP. Benefit calculation is organised into four area teams with a central control function. Housing Benefits (HB) is a means-tested benefit that is paid to tenants with low income and limited capital, to help them to pay their rent. Housing benefits may be paid to council tenants as rent rebates and to other tenants, (Housing Associations and private sector), as rent allowances.</p> <p>Controls were adequate in policies and procedures, benefit and claim processing (including allowances), benefit calculation and accuracy (including allowances) coding, and management information. The main weaknesses are identified below:-</p> <ul style="list-style-type: none"> <li>• There were no escalation procedures in place if overpayment of benefits was not recovered by the housing benefit officers. The housing benefit officers did not have the capability to take further action, including the use of Court Orders, where a debtor refuses to repay the overpayment through liaising with the housing benefit officers.</li> <li>• It was found that no reconciliations between the GL (One World) system and the Northgate Benefits system had been completed from September 2009 up to the date of the audit.</li> </ul> <p>All findings and recommendations were agreed with the Service Head Customer Access &amp; ICT and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Systems Audit	June 2010	<p>The objective of the Payroll system is to ensure that that the correct salaries and other monies payable are paid to the correct employees promptly in accordance with policies and procedures. During the main payroll run in January 2010, a total of £16,577,253 was paid out to a total of 10,674 employees. Controls were adequate in policies and procedures, amendments, payroll run, reconciliation and year end procedures, verification and validation of accuracy of standing data, performance management and management information. The main weaknesses are identified below:-</p> <ul style="list-style-type: none"> <li>• There were weaknesses in the administration of starters and leavers. Key documentation had not been retained on personnel files. In particular, the following could not be identified on file: <ul style="list-style-type: none"> <li>- One out of 20 new starters' forms;</li> <li>- One opt-out form from the LGPS, out of the 10 applicable cases;</li> <li>- Two out of the 20 leavers' forms;</li> <li>- Copies of three out 20 leavers' P45; and</li> <li>- One out of 20 loan application forms.</li> </ul> </li> <li>• There were weaknesses in the administration of starters and leavers. Key documentation had not been retained on personnel files for items in the audit sample. These included documents such as new starters' forms, opt-out form from the LGPS, leavers' forms; leavers' P45; and loan application forms.</li> <li>• Sample testing of 20 staff reimbursements in January 2010 found an expense claim for additional hours worked which should have been processed as overtime. In addition, an expense claim for a telephone bill did not have sufficient detail/information (i.e. itemised bill) to establish if the costs were incurred for wholly for Council business.</li> </ul> <p>The findings and recommendations were agreed with the Interim Service H.R. and Organisational Development, and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Business Continuity Planning (BCP)	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration of Business Continuity Planning processes.</p> <p>Controls were adequate in Business Continuity Processes. Critical Functions, Disaster Escalation and Emergency Action Procedures, Business Continuity Plan Updates, Temporary and Salvage Temporary Finance Arrangement. However, weaknesses were identified in the following area:-</p> <ul style="list-style-type: none"> <li>• Inspection of the Business Continuity Operational Procedures, identified that contact details for third parties have only been documented for ICT within the Resources Directorate and are not contained within the procedures for the other Directorates.</li> </ul> <p>The findings and recommendation were agreed with the Corporate Safety and Civil Protection Manager.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Change Management	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the process for managing Changes to the IT Infrastructure and that change were adequately controlled.</p> <p>Weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> <li>• Of the three Council IT systems tested all use a different process to control system changes. The APP Environmental Protection system, which is administered outside of ICT, has different processes, while JD Edwards and Siebel CRM use different versions of the Application Change Request form and slightly different system development methodologies.</li> <li>• Sample testing of three approved changes showed approval for changes to be incomplete, indicating that either the flags are not used consistently, the required reviews are not taking place or changes rejected by these areas are still being approved for implementation</li> <li>• There are no Change testing standards defined within the user guide or change management documentation to provide guidance to ICT teams as to appropriate testing principles required for system changes.</li> <li>• The Change Control Meeting (CCM) requires change submissions to indicate the impact of the proposed change on the existing environment, however, these details are often omitted or limited as there is a lack of shared Configuration Management within ICT. Currently, Configuration Management is ad hoc and based on the knowledge of individuals around individual systems.</li> </ul>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Change Management		<ul style="list-style-type: none"> <li>• When Service Desk and IT Moves are informed of the requirement to dispose of hardware, this information is not communicated to the staff maintaining the Asset Register. Therefore, scrapped assets are not always being marked as disposed of in the Asset Register.</li> <li>• The Service Desk is not receiving regular and periodic leavers' lists from HR and communication to individual application teams regarding leavers is inadequate.</li> </ul> <p>The findings and recommendation were agreed with the ICT Business Support Manager and ICT Service Delivery Manager.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Service Desk	August 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the process for managing the provision of the IT Service Desk. Controls were adequate in Back-up and Recovery, Scope of Service Desk Activity. However, weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> <li>• Password Controls on the system could be improved. The Service Desk engineers have access to Council applications for support purposes in some cases such as Income Management this was a generic account which provides little accountability. There is a weakness in the process for notifying the Service Desk and application support of leavers from the Council.</li> <li>• The ICT SLA was accepted by all of the Departments within the Council in 2004, but has not been formally reviewed and updated. The SLA does not adequately address the scope of support to be provided by ICT with respect to the systems to be supported and any specific service level requirements for each Directorate. It was noted that service level management has not been in place.</li> <li>• Records are maintained of the Service Desk's year-to-date performance, but evidence that formal trend analysis is performed on this data could not be obtained. The September minutes indicated that the yearly trend shows improvements to ICT's overall performance figures but does not specifically note the Service Desk's year-to-date performance. Whilst some of the Service Desk's August statistics improved, it was noted that there were also declines in some statistics for the same month. Actions to stabilise the performance of the Service Desk have not been noted within the action log.</li> </ul>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Service Desk		<ul style="list-style-type: none"> <li data-bbox="584 379 1653 751">• The existing categorisation of priority levels does not reflect the severity of the calls falling within the specified categories due to the definition of these based on the number of users impacted instead of business impact. For example, a priority one call is an incident that affects more than ten users but the impact of this on the service is not explicitly considered. Furthermore, it was noted that the response and resolution times for calls is relatively lengthy. Comments within the Customer Satisfaction surveys indicate that users are dissatisfied with the length of time it takes to resolve calls. Of the users who responded to the September 2009 SOCITM survey questionnaire, 17.7% found the resolution of their calls during the first call to be unsatisfactory.</li> <li data-bbox="584 788 1653 922">• Inspection of the Customer Satisfaction Surveys indicated that staff have raised concerns around the number of times they are required to chase calls to obtain information about the progress being made to resolve the issue that has been raised.</li> <li data-bbox="584 959 1653 1161">• The interim escalation process does not provide for the follow up of non-major incident calls subsequent to escalation to ensure that they are appropriately resolved. As per inspection of the performance monitoring data, it was noted that several calls were in breach of SLA by the second-line staff and the KPI targets were not being reached by the Service Desk as a whole.</li> </ul> <p data-bbox="584 1198 1653 1262">The findings and recommendation were agreed with the ICT Business Support Manager and Service Desk Manager.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Legal Planning Meetings on Child Protection</p> <p>Follow Up Audit</p>	<p>Aug 2010</p>	<p>The key objective of this audit was to evaluate the action taken since the original audit review in November 2009 and to ensure that recommendations had been implemented as agreed.</p> <p>We have reported that out of seven priority 1 recommendations, all had been actioned and out of the six priority 2 recommendations all had been progressed but new recommendations emerged in some areas. The review identified that Legal Services produced a procedure note for the handling of Legal Planning Meetings (LPM). The procedure note clearly specified the roles and responsibilities of officers including specific performance standards for LPM's. Monitoring of performance against the performance standards specified in the LPM procedure note was robust. Adequate segregation of duties was enforced to ensure that the officer undertaking the initial assessment of risk was different to the officer who was allocated the case. However, we noted that on one occasion the officer undertaking the file review had also been allocated the case. Overall, we noted significant improvement in control.</p> <p>All findings and recommendations were agreed with Head of Legal Services – Community and final report was issued to the Assistant Chief Executive – Legal Services.</p>	<p>Extensive</p>	<p>Substantial</p>



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homeless Families – Placing and Payments  Systems Audit	July 2010	<p>The objective of this audit was to assure management that the systems of control for placing homeless families in suitable temporary accommodation and for making the agreed payments to various providers for the length of time the families stay in the accommodation are sound, secure and in accordance with the statutory requirements. There are satisfactory controls in place for the selection and payment of providers. The authorisation and payment of invoices is timely in the majority of cases and charges were within the set tariffs.</p> <p>Our review found that systems for placing and recording applications within the required timescale and criteria were satisfactory. Pre-inspections and managing agent inspections were being carried out. There were satisfactory controls in place for the selection and payment of providers. The authorisation and payment of invoices was timely in the majority of cases and charges were within the set tariffs. However, there were some weaknesses in the system, including gaps in recording of dates of inspections which meant that not all properties were being inspected by Managing Agents in accordance with the required 8-week visiting cycle. In terms of the required 3 monthly visits by the Council, our review showed that this objective was not being met due to resource implications, but we understand that a restructuring proposal was in place.</p> <p>All findings and recommendations were reported to the Head of Homelessness, Service Head Resources and the Corporate Director – D&amp;R.</p>	<p>£37 M 2010/11 budget for Homeless and housing Advice</p> <p>1500 private leased dwellings</p>	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children's House Nursery School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Children's House is a mixed nursery school. Nine recommendations were made as a result of the audit work, including one priority 1 issue. Controls were adequate in Operation of Governance Processes, Procurement, Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Signed salary assessments had not been given to teachers. HR functions of the school are carried out by the LA.</li> <li>• Review of Governing Body minutes for the previous twelve months confirmed that there was no documentary evidence that the School's Development Plan had been approved by the full Governing Body.</li> <li>• Review of the three bank reconciliations for the months from November 2009 to January 2010 identified that they were not signed by the Finance Consultant who undertakes the monthly reconciliations although these were signed by the Head Teacher as evidence of independent review.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St John's CE Primary School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. 12 recommendations were made as a result of the audit work, although there were no priority 1 issues. Controls were adequate in Accounting of Income and Expenditure, School Meals, Asset Control and Security of Assets, and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The school has developed a Code of Practice for Financial Management &amp; a Delegation of Financial Authority. However, there were no procedures or limits specified in this document for writing off of debts and disposal of equipment. Furthermore procurement procedures for values between £10,000 and £15,000 were not included in this document.</li> <li>• The Terms of Reference of the Resources Committee and the Community Committee does not have a quorum requirement or frequency of meetings to be held. Furthermore, the Terms of Reference of the Resources Committee did not outline the delegated financial thresholds. The Community Committee had not met regularly during 2008 and the Resources Committee had met only three times within the last two years. None of the minutes are sufficiently detailed and signed by the relevant Chairs.</li> <li>• Testing of five staff starters identified that: None of the five starters had evidence of ID checks on files such as photocopies of passport, driving licences. Three starters did not have evidence of obtaining references on file. None had evidence of medical checks. One starter form was not available.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

	<b>Date of Report</b>	<b>Comments / Findings</b>	<b>Scale of Service</b>	<b>Assurance Level</b>
Sir John Cass Secondary Foundation and Redcoat School	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Nine recommendations were made as a result of the audit work, including three priority 1 issues. Controls were adequate in Operation of Governance Processes, Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Audit identified the following procurements where the school had not complied with the Financial Code of Practice: Three instances during the period from 1 April 2009 to 3 November 2009 where there was no evidence of obtaining at least two quotations for procurements over £5,000; and two contracts over £10,000 where there was no evidence of obtaining a minimum of three quotations as required by the Finance Code of Practice.</li> <li>• At the time of audit, all salary assessments for 2009/ 2010 which should be issued to all teachers on 1 September 2009 were unsigned.</li> <li>• The Bursar stated that the school updates the inventory with new purchases annually at the time of the annual stock take. This is not a satisfactory arrangement. Furthermore, Audit identified that one of the ten inventory items tested from around the school had not been recorded in the inventory and only one had been visibly security marked.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bowden House School	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Bowden House is a residential special school that offers education to boys between the ages of 9 to 16 years. 11 recommendations were made as a result of the audit work, although there were no priority 1 issues. Controls were adequate in Financial Planning and Budgetary Control, Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Whilst the school has an approved Scheme of Delegations the levels of delegated financial limits for authorising expenditure and virements were not consistent with the recommended LA financial procedures.</li> <li>• The Chair of Governors was paid approximately £9,000 per annum school to provide consultancy service which was declared in the business interest register. However, the service commissioned from the Chair was not market tested and there was no specification for the work required. The Chair of the Finance Committee had not attended a meeting within the last year and had not been part of the financial decision making process.</li> <li>• A register of business interest is maintained. The school's Finance Officer and the Domestic Bursar have the delegated authority to assess bids for the school's contract opportunities but, have not made a declaration of pecuniary interest.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Columbia Market Nursery	June 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Columbia Market Nursery School is a community school which caters for boys and girls from the ages of 2 to 7 years with 80 children on roll.</p> <p>12 recommendations were made as a result of the audit work, although there were no priority 1 issues. Controls were adequate in Control and Monitoring of School's Bank Account, Personnel and Payroll Management, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Terms of Reference for the Finance and Premises committee did not specify the frequency of committee meetings and quorum requirements. Furthermore, Terms of Reference were not in place for other Committees.</li> <li>• Some of the Finance and Premises Committee meeting minutes do not adequately detail the decisions made, discussions held, documents approved and actions required. Finance and Premises Committee minutes had not been signed by the Chair to confirm the accuracy of the minutes of meetings held from November 2008.</li> <li>• The School could not produce evidence of authorisation of virements.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bishop Challoner Catholic Collegiate Boys School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The federated school encompasses separate boys' and girls' schools and a mixed sixth form on the same site. They are under the management of the same Governing Body and the Executive Head. 10 recommendations were made as a result of the audit work, although this did not include any priority 1 issues. Controls were adequate in Financial Planning and Budgetary Control, Accounting of Income and Expenditure, Personnel and Payroll Management, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The school's Finance Policy which contains the Scheme of Delegations had been reviewed in December 2009 and approved by the full Governing Body on 1 March 2010. It was identified that the Finance Policy did not contain the authorisation limits and protocol for the use of credit cards and authorisation of signatories for signing bank documents.</li> <li>• Terms of references of all Committees did not state the frequency of meetings to be held. However, it was noted that the Committees had met at least once a term during 2009. Further, the Terms of Reference of the Finance and Premises Committee did not outline the delegated financial limits.</li> <li>• The Charging Policy has not been updated since 15 May 2006.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Oaklands Secondary School	July 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. 12 recommendations were made as a result of the audit work, including one priority 1 issue. Controls were adequate in Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Code of Financial Practice and the Scheme of Delegations had not been approved by the full Governing Body. The Finance Committee had reviewed and approved the document at the meeting on 22 September 2009.</li> <li>• Review of the Code of Financial Practice and Scheme of Delegation documents identified that whilst the Bursar and Budget holders are given delegations to approving orders no maximum limit had been specified.</li> <li>• Terms of references of Committees did not state the frequency of meetings to be held. However, it was noted that the Committees had met at least once a term during 2009.</li> <li>• Review of the School Improvement Plan identified that whilst there is a 'Costs' section in the plan, the objectives are not clearly costed hence not linked to the budget.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Manorfield School  New Build Current Contract Audit	June 2010	<p>The objective of this audit was to assure management that the systems for controlling the cost and programme of works during the currency of the contract was sound and secure.</p> <p>Our review showed that controls in place for managing the works programme, making payments and controlling variations were sound. Health &amp; Safety requirements were in accordance with Construction Design and Management Regulations. However, the review showed weaknesses in the tendering process around the control and monitoring of addendums sent to the contractor after the tenders were received and opened.</p> <p>All findings and recommendations were agreed and reported to the CSF Service Head Resources and Procurement Manager.</p>	£3.6M	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Implementation of the Common Assessment Framework (CAF)	June 2010	<p>The objective of this review was to provide assurance that the system of CAF was implemented adequately across the Council.</p> <p>CAF is a standardised approach to conducting assessments of children's additional needs and deciding how these should be met. Intended for use by all practitioners across all services that come into contact with children in England, the system should promote more effective, earlier identification of additional needs, particularly in universal services.</p> <p>Our review showed that there was good quality project planning and there was evidence of continuous updating of objectives and outputs as the project progressed in its life-cycle. The framework for coordinating the implementation was well organised. There was also sound programme of training to embed CAF. Methods and systems for monitoring and evaluating the impact of CAF were set up. Monitoring reports were issued to the DMT, the Voluntary Sector Forum and management teams within Children and Adult Services. Monitoring enabled the project board to target managers who were still not using CAF or those who were carrying out CAFs but not logging them.</p> <p>Some minor weaknesses were identified including keeping a clear record of minutes of the steering group meetings and producing periodic progress reports which compare actual project outcomes against those planned.</p> <p>All findings and recommendations were agreed and reported to the Corporate Director – Children's Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Transport Fuel Purchase and Utilisation</p> <p>Follow Up audit</p>	<p>June 2010</p>	<p>A review of the processes in place for managing and monitoring Fuel Purchases and utilisation was undertaken in August 2009. A number of recommendations were made following the audit. The objective of the Follow Up audit was to provide assurance that the recommendations made within the Audit report were implemented as agreed.</p> <p>The follow up audit found that out of four priority 1 recommendations 3 had been implemented and that out of three priority 2 recommendations good progress had been made by the Transport Fleet Management Service in addressing the weaknesses identified in the original Audit report, specifically in the area of ensuring that line managers across the Council carry out proper investigations and action planning to improve fuel utilisation of the fleet of vehicles under their management.</p> <p>The findings and recommendations of the follow up audit were agreed with the Transport Manager and the Service Head Public Realm, and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transport Recharges Follow Up Audit	July 2010	<p>This follow up audit assessed the progress made in implementing 6 recommendations made at the conclusion of the original audit in August 2009.</p> <p>Our review found that all five priority 1 recommendations had been implemented and one priority 2 recommendation had still to be implemented. Overall we found that good progress had been made by the Transport Fleet Management Service in addressing the weaknesses identified in the original Audit report. Guidance notes / procedures for the TSU Budget Management &amp; Monitoring had been developed and documented. A detailed review of the TSU had been undertaken to ensure compliance with accounting standards and to identify opportunities for improvement in accounting and recharging procedures. The TSU Budget for 2010 / 11 showed that the operational costs relating to the management and administration of the service had been clearly apportioned across the Fleet, Passenger and Workshop budgets. Detailed notes accompanying the accounts gave explanation for the various entries in the build up for transport expenditure, which increased the transparency of the process. However, the Budget Monitoring reports for the Passenger Transport and Fleet Management budget needed to be broken down by vehicles, so the monitoring information at individual vehicle level was more meaningful to the Transport Service Manager.</p> <p>All findings and recommendations were agreed with the Finance Manager and Service Head, Public Realm and final report was issued to the Corporate Director, Communities, Localities and Culture</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Street Works – Follow Up	July 2010	<p>This audit was a second follow-up to the audit review and was undertaken as part of the 20010/11 Audit Plan. The key objective of this audit was to evaluate the action(s) taken since the original audit review and to ensure that the recommendations were implemented as agreed.</p> <p>Our review has shown that out of seven priority 1 recommendations followed up, six had been implemented. The one outstanding recommendation related to carrying out of a risk assessment to identify areas of work priorities for the Council. We also noted that a system of local performance indicators with targets had been set up and we recommended that it should now be ensured that performance is measured, monitored and reported to an appropriate level of management.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm, and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Street Lighting Follow Up audit	Aug 2010	<p>This audit was a second follow-up to the audit review and was undertaken as part of the 20010/11 Audit Plan. The key objective of this audit was to evaluate the action(s) taken since the original audit review and to ensure that the recommendations were implemented as agreed.</p> <p>The follow up audit showed that out of eight priority 1 recommendations made at the conclusion of the first follow up audit, five had been implemented. The three outstanding recommendations had been partially implemented and further work was required to improve the control environment within these areas. We noted that a system of local performance indicators had been set up and it should now be ensured that performance is measured, monitored and reported to an appropriate level of management.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm, and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Strategic Management of SLAs Follow Up audit  Tower Hamlets Homes	Aug 2010	<p>The objective of this audit was to follow up recommendations made at the conclusion of an earlier audit in September 2009.</p> <p>This follow up review showed that six out of the seven previous audit recommendations had been implemented and one recommendation was in the process of being implemented. We reported that the majority of SLAs had been reviewed by THH and all SLA reviews were due to be completed by September 2010 which was in accordance with the current timetable agreed by Board Members. Our testing showed that Service Specification had been revised in order to include the cost of service provision, performance standards and performance targets and the processes for dealing with any issues of poor performance. All SLAs, which had been finalised, had been signed by both organisations.</p> <p>All findings and recommendations were agreed by the THH Director of Finance and Resources. Final audit report was sent to the Chief Executive.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Community Safety Project Management  Follow Up Audit	July 2010	<p>This follow up audit assessed the progress made in implementing 6 recommendations made at the conclusion of the original audit in May 2009.</p> <p>Our review showed that out of two priority 1 recommendations, both had been actioned. Of the four priority 2 recommendations followed up, all had been implemented. Agreed Project Management Framework document had been put in place which included governance arrangements for programme and project management. Signed SLAs were in place for all projects examined by audit. The delivery agent monitoring returns were consistently recorded and assessed in all Strategic Partnership groups and the Programme Board Action Plans were amended to include all the necessary monitoring information. Overall, our review showed significant improvement had been achieved in all of the areas examined by audit.</p> <p>All findings were reported to the Service Head Crime Reduction.</p>	Moderate	Full



### APPENDIX 3

#### Follow Up Audits – List of Priority 1 Recommendations still to be Implemented

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Purchase and Utilisation of Transport Fuel	In order to ensure that line managers carry out proper investigations and action planning to improve fuel utilisation, Fleet Management should send copies of monitoring reports highlighting excessive fuel usage to Directorate Finance Managers and Service Heads.	Jamie Blake Communities, Localities and Culture.	John Stevens
New Street Works	Risk assessment should be carried out to identify areas of work which are the key priorities for the Council.	Jamie Blake Communities, Localities and Culture	Margaret Cooper
Street Lighting	Consideration should be given to analyse the actual costs to the authority as a result of the scouting operation being passed on to the contractor to assess if value for money is being achieved.	Jamie Blake Communities, Localities and Culture.	Margaret Cooper

#### Follow Up Audits – List of Priority 2 Recommendation still to be Implemented

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Transport Recharges	The Finance Manager should ensure Budget Monitoring reports for the Passenger Transport and Fleet Management budget should be broken down by vehicles, so the monitoring information is more meaningful to the Transport Service Manager.	Luke Cully – Finance Manager	Luke Cully

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# Agenda Item 52

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	<b>21 September 2010</b>			
REPORT OF:	<b>Social Housing Fraud Update</b>			
<b>Corporate Director, Resources</b>				
ORIGINATING OFFICER(S):	<b>Ward(s) Affected: N/A</b>			
<b>Minesh Jani, Service Head, Risk Management and Audit</b>				

## 1. Introduction

- 1.1 This report summarises the work of the anti fraud team on social housing fraud and the recovery of un-lawfully let public sector dwellings.

## 2. Recommendations

- 2.1 The Audit Committee is asked to note this report and seek any clarification as necessary.

## 3. Background

- 3.1 In September 2009 the Audit Commission published its report "Protecting the Public Purse" in which it identified that up to 50,000 properties within the public sector in England could be at risk of being unlawfully sub let. The predicted loss to the public purse was estimated to be in excess of £2 billion.
- 3.2 In response to this report, the Government set up a fund to encourage local authorities to promote tackling tenancy fraud. The Audit team at Tower Hamlets successfully bid for and secured the maximum allocation of £50,000 at the end of December 2009. A decision was made to use this fund to pro actively work with a range of stakeholders to identify this type of fraud and to recover properties for legitimate letting. The paragraphs below set out the actions that have been taken to date.

- 3.3 Audit Services have consulted with Tower Hamlets Homes and other Registered Social Landlords within the borough and with key stakeholders in the Council, particularly Legal Services and the officers within Development and Renewal dealing with housing.
- 3.4 Audit Services have also utilised the funding to promote and publicise the Council's whistle blowing hotline (0800 528 0294) and its anti fraud email address ([anti-fraud@towerhamlets.gov.uk](mailto:anti-fraud@towerhamlets.gov.uk)) to allow residents, staff, members and contractors to report their concerns about tenancy fraud and un-authorized sub letting. The hotline also continues to be used to report other types of fraud or irregularity.
- 3.5 A poster campaign was undertaken and press releases were issued in East End Life which was subsequently picked up by other local newspapers such as the East London Advertiser. The purpose of the campaign was to publicise what we were doing and that we working in partnership with Tower Hamlets Homes, local RSLs and neighbouring authorities (London Boroughs of Newham, Barking and Dagenham, Redbridge, Havering and Waltham Forest).
- 3.6 The majority of the funding has been used to fund three specialist housing fraud officers, employed on six month fixed term contracts to work specifically on the property recovery. Their objective has been to:
- Identify social housing fraud cases;
  - Assist/recover unlawfully public sector (ALMO and RSL) occupied properties (Secure and Assured tenancies);
  - Build up working relations with THH and RSLs to joint manage social housing fraud;
  - Deal with associated fraud matters arising from un lawful occupancy work including Housing Benefit Irregularities, Parking Permit abuse etc; and
  - Identify weaknesses and learn and improve systems to prevent un-lawful occupancy.
- 3.6 The posts were advertised in January 2010 and all three officers with skills in housing management and fraud investigation were in place by end of May 2010.

#### **4. Current Position**

- 4.1 Training on tackling housing fraud has been delivered to Tower Hamlets Homes and local RSLs jointly between the Council's Legal Services and Audit Services.

- 4.2 The Team has successfully worked together and built professional relationships with both Tower Hamlets Homes and local RSLs and this is reflected in the number of referrals and recovery successes. Monthly meetings on progress and issues are held between the Head of Audit Services and Senior Housing Management within THH, and Audit Services are working closely with THH on developing enhanced procedures to minimise the risk of subletting in the first instance.
- 4.3 The Team has also met with Lettings Service management team, Fraud Officers in the Housing Options Service and THH area office housing teams. These meetings have resulted in an increase in referrals and requests for advice from front-line THH staff. Contacts made with partner RSLs has resulted in a similar surge in referrals.
- 4.4 The East London Solutions group has met on four occasions since January which has facilitated the sharing of experience and intelligence on areas to target and how to work smarter. The London Borough of Hackney has now joined the group also.
- 4.5 The publicity on the whistle blowing hotline and the anti-fraud email has proved effective with over 100 referrals for investigations being received from this mode and a further 38 had been received through internal referrals from other services.
- 4.6 A recent test pilot has been undertaken by matching some of our council stock data to external credit agency records which has identified some 700 cases for follow-up.
- 4.7 The following is a summary of the team's case load, progress and successes to date:-
- 147 current cases;
  - Of these 11 have current Notice to Quit having been served on the property and after 28 days are potentially recoverable;
  - 7 further cases are due to be served with Notice's within the next 14 days;
  - 14 of these cases are actively been investigated for both tenancy issues and housing benefit fraud;
  - 50 cases have to date been investigated and closed with no unlawful tenancy issues;
  - 16 properties have been recovered (11 concerning Tower Hamlets Homes and 4 relating to RSL's and 1 relating to a Tenant Management Organisation); and
  - Although 700 new cases (as item 4.6) to be allocated.

4.8 It is intended to provide the Audit Committee with regular updates on the progress of this initiative and proposals for future service delivery.

# Agenda Item 53

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	<b>21 September 2010</b>			
REPORT OF:  <b>Corporate Director, Resources</b>	<b><i>Annual Anti Fraud Report 2009-10</i></b>			
ORIGINATING OFFICER(S):  <b><i>Tony Qayum, Head of Audit Services</i></b>	<b><i>Ward(s) Affected: N/A</i></b>			

## 1. **Introduction**

- 1.1 This report provides a summary of the anti fraud activity during 2009/10.
- 1.2 The report provides a corporate perspective of the work of Audit Services as well as that of the Housing Benefit Investigations team, Parking Service and insurance claims experience.

## 2. **Recommendations**

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

## 3. **Background**

- 3.1 This report provides the Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2009/10. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and Insurance Services.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

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

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

#### **4. Key matters arising from the Audit Service Outturn for 2009-10**

4.1 There has been one substantial inquiry which has involved close working between the relevant Directorate, Audit Services, the Police and Legal Services. The matter arose from an internal referral.

4.2 The resultant investigation covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality. The matter was referred to the Metropolitan Police and following arrest the case was successfully tried at Crown Court. The resultant system improvements were introduced by the relevant service and verified as being implemented by a follow up Audit review.

4.3 The case was given publicity in the local press.

4.4 Audit Services has also worked closely with the Corporate Property Services division of the Development and Renewal directorate on the adequacy of controls for income and expenditure at a training centre within the authority. This was undertaken in close liaison with the Assistant Chief Executive (Legal Services).

4.5 The Audit Service has also provided support to Directorates upon request. This has included an ongoing review of the operation of the London Illegal Money Lending team, a debtor integrity project and a



review of the financial arrangements operated within the Community Safety team.

- 4.6 We have continued to work closely with the Council's Legal Service on a number of matters around employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service (with regard to Blue Badge irregularity) and have worked corporately where instances of Resident Parking Permits and Blue Badge irregularity has involved members of staff.
- 4.7 We have introduced a small team to assist the Council in tackling Sub Letting of RSL properties which is covered in detail in a separate report elsewhere on the agenda.
- 4.8 We have organised and run several training sessions with staff on Risk Management and the Anti Fraud and Corruption Strategy as part of our proactive initiatives and more are planned for this financial year.
- 4.9 During the year we introduced a monthly Governance paper which identifies key issues arising from sensitive inquiries and progress on investigations and this is issued to the Corporate Director, Resources and the Assistant Chief Executive, Legal Services who pick up any significant issues raised, through their own regular meetings.
- 4.10 The Head of Audit Services has continued to meet monthly with the Assistant Chief Executive, Legal Services on Governance and Risk issues.
- 4.11 Appendix B attached is a summary of the work of audit with an indicative value of anti fraud work carried out in 2009/10, including some findings for the NFI 2008/09.

## **5. The National Fraud Initiative (NFI)**

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

- 5.4 The work on the NFI is largely finalised with all reports having been examined and refined. Investigations have also been largely completed although there are still some investigations in progress.
- 5.5 The Audit service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.
- 5.6 The following is a summary of the results of the LBTH outcome from the NFI work -
- £341,455 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
  - £238,267 of overpaid Housing and Council tax benefits (currently being recovered)
  - £15,675 representing 9 deceased pensioners
  - 2 Housing properties were recovered.
  - 5 Staff members left the Council's employment following the NFI probity checks
- 5.7 In addition to the above there were
- Fifteen employees who have left the Council's employment following investigative work
- 5.8 The Council has enhanced the NFI outputs relating to Council tax single persons discounts and trade creditors potential duplicate payments. :-
- The Council Tax Service worked in partnership with external contractor which helped to identify over 1,000 cases of inappropriate single person's discounts; this has resulted in £400,000 being identified and currently being recovered.
  - A trade creditor's duplicate payments exercise was carried out by both Internal Audit and an external contractor which looked at the potential for duplicate payments to have been effected over the past three years. The resultant work identified some £500,000 of overpaid invoices and these sums have now been recovered.

## 6. Other Audit Activity

6.1 The following work areas have been undertaken, during 2009/10 by the Audit Service:-

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

## 7. Insurance Claims Experience

7.1 The Council operates a system for the management of its Insurance risks through a specific team within Risk Management. During 2009-10 the Council introduced a new case management system that lends itself to better reporting of claims activity and so for this year we have included the raw data on the Councils claims experience for information. It is envisaged that this will be a regularly reported to reflect trends and the outcome of anti fraud initiatives designed to minimise the insurance fund's exposure to fraudulent/ exaggerated claims.

7.2 The table below shows the claims experience that covers a three year cycle.

<i>Year</i>	<i>No. Claims</i>	<i>Closed (paid)</i>	<i>Closed (settled £0)</i>	<i>Open</i>	<i>Total Est Outstanding £</i>	<i>Total Paid £</i>	<i>Total Claim £</i>
2007/8	557	220	296	41	1,118,566	662,147	1,780,713
2008/9	570	221	249	100	804,782	232,821	1,037,603
2009/10	586	92	178	316	1,991,505	113,411	2,104,916

## 8. Housing Benefits Investigation Service

8.1 The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of local government benefit fraud, including:-

- Benefits Whistle-blowing hotline;
- Internal Referrals;
- External Referrals (Agencies and public);

- Joint working with Department of Work and Pensions (DWP);and
- Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

8.2 During 2009/10 the Service have had the following successes-

- 189 cases being dealt with;
- 26 convictions at court;
- 85 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- 78 Administrative Penalties; and
- Total Housing and Council Tax overpayments that represent the 189 cases equates to £607,392

## **9. Parking Services**

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

Of these:-

- 16 cases resulted in convictions with fines amounting to £4,310 and costs in the sum of £4,425 - both of which were awarded to the Council;
- two cases were disposed of via the application of a Caution; and
- three cases were withdrawn following representation on the grounds that there was no longer an economic prospect of conviction.

## APPENDIX A

### Tower Hamlets Homes

<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
7	Services Charges data cleansing	On-going support to the leaseholders service charges data cleansing and data migration
7	Rent Increase matters	Investigation into the failure to issue rent increase notices to all tenants
5	RTB valuation and litigation	On-going support on the litigation resulting from in-appropriate valuations of RTB's
2	THH Finance Committee	
3	4 Police and other external agency referrals	Joint working with other agencies concerning THH current and employees
5	2 Whistle bows under 5 days	Management of whistle blows and investigations as necessary
7	4 referrals under 2 days	Support to management on management referrals
12	NFI investigations work for the 2008-9 exercise	National fraud initiative 2008-9 meeting requirements for Section 151 officer under the Audit Commissions Code of Data matching Practice 2008 including Tenancy data set pilot
32	Social Housing Fraud	Management of social housing fraud team and carrying out investigations and recovery of properties
-		
<u>80</u>	<u>sub total</u>	

**LBTH Re-active**

<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
12	Advice to Management	Advice and support to management on internal enquiries and controls
6	Annual Governance Statement	Collation of evidence for the an preparation of annual governance statement 2009/10
10	Anti Fraud Forums and Training	Co-ordinating anti fraud forum groups, providing fraud training to employees and joint working with East London Solutions partners
20	Community Safety Unit	Review of the work and governance arrangements of the Community Safety Unit and specific issues concerning budgetary control
20	Bethnal Green Training Centre	Financial review of the BGTC to test the controls for income and expenditure and quality assessments of the accounts
15	Data integrity project	Debtors pilot with external organisation software to manage/link debts across the Council
8	Employee re verification	Support to management on specific employee re verification matter and review re-verification options to enhance governance
15	Joint working with Directorates on Internal referrals	Joint working and referrals from Payroll Services, Benefits Services and Trading Standards
7	LPSA 2	Audit of LPSA 2 activities to support claim
10	Money Laundering	Setting up referral system with the cash collecting services to ensure compliance with money laundering regulations. Including liaising with the police on potential breaches

<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
105	National Fraud Initiative	Managing and co-ordinating NFI 2008/9 exercise (and NFI's in the 2009/10 rolling programme) work across Services and also investigating the matches with governance impact including employee associated matches and creditors
35	National Indicators	This output includes all internal Audit work on supporting data quality and joint working with the Performance Review Team including review and assurances on quality of services data sampling, testing and preparation of documentation for National indicators. It also includes comprehensive reviews of all the high risk NI's and retained BVPI's in preparation for the external audit, with additional emphasis on third party data which could impact on the CAA review.
10	Outside agencies	Requests for information, and whistle blow referrals from other local Authorities, DWP and other agencies, Banks, Building Societies, Health Authorities, etc.
8	Parking Services	Joint working with parking service and support on specific cases
12	Police Enquiries and police referrals	Joint working on police referrals and reactive support to police enquires from local Financial Investigation Units on recovery of assets and support to enquires to Metropolitan Police
7	Purchase cards	On going joint working with procurement on purchase card fraud (external)
71	Reactive work 3-5 days	19 jobs - include management inquiries and support on code of conduct matters arising
15	Reactive work/enquiries under 3 days	12 Reactive responses to internal inquiries under three days, these include review and response to appropriate Service Head.
23	Review of duplicate payments	Duplicates payments testing to identify level potential duplicate payments and recovery
18	Review of London Illegal Money Lending Team	Review of management arrangements, systems and procedures and recruitment arrangements
13	Review of use of Resources for CAA	Implementation of Red Book 2 requirements guidance by Audit Commission on managing, tackling and prevention of fraud
10	Servicing Committees and management support	

<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
10	Tackling Social Housing Fraud	Obtaining Government funding £50K, recruitment of Temporary Social Housing Fraud Team and publicising the Authority's action on tackling un lawful subletting of public housing stock
7	Whistle blow -Youth Service	Investigations into inappropriate payments to employees
12	Whistle blow -Youth Service	Investigations into appointments process
27	Whistle blowing and anti fraud email referrals under 5 days	Management of 45 Whistle blowing hotline and anti fraud email enquiries (excludes social housing fraud investigations on whistle-blows)
506	<i>sub total</i>	
<b>586</b>	<b><i>Total days</i></b>	



<b>APPENDIX B</b>					
	No.	Notional future savings value	Notional future savings value total	Actual Value	Total
<u>NFI 2008/9 (2 year outturn)</u>			-		
Identified value of overpayment/losses - recovery in the process			-	341,455	341,455
2 Housing properties were recovered.	2	75,000	150,000		150,000
5 Staff members left the Council's employment following the NFI probity checks	5	5,000	25,000		25,000
Council Tax single person discount cancelled to beginning of year	1000	250	250,000		250,000
Council Tax single person discount overpayments extending one year being also recovered			-	150,000	150,000
Duplicate payments work initiated by NFI but additionally work carried out by Audit and contractor identified and recovered			-	500,000	500,000
<u>Sub total</u>			<u>425,000</u>	<u>991,455</u>	<u>1,416,455</u>

	No.	Notional future savings value	Notional future savings value total	Actual Value	Total
<u>Value of other anti Fraud work carried out in 2008/09</u>					
Employees leaving after identity checks and dismissal following code of conduct (all relatively low grade employees)	32	5,000	160,000		160,000
Benefits Prosecutions	189	3,200	604,800		604,800
Benefits Cautions	85	1,200	102,000		102,000
Benefits Administrative penalties	26	1,200	31,200		31,200
Housing benefits overpayments under recovery				607,392	607,392
Parking Fraud Prosecutions	16	1000	16,000		16,000
Parking Fraud –Formal Caution	1	500	500		500
<u>Page sub total</u>			<u>914,500</u>	<u>607,392</u>	<u>1,521,892</u>
<u>overall totals</u>			<u>1,339,500</u>	<u>1,598,847</u>	<u>2,938,347</u>

# Agenda Item 54

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	<b>21 September 2010</b>			
REPORT OF:  <b>Corporate Director, Resources</b>	<b><i>The National Fraud Initiative 2010-11 (NFI 2010/11)</i></b>			
ORIGINATING OFFICER(S):  <b>Tony Qayum, Head of Audit Services</b>	<b><i>Ward(s) Affected: N/A</i></b>			

## 1. Introduction

- 1.1 This report provides the Audit Committee with the background and evolution of the London Fraud Initiative into the National Fraud Initiative (NFI) and launch of the current NFI 2010-11 which have been managed by the Audit Commission.

## 2. Recommendations

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

## 3. Background

- 3.1 The NFI compares different sets of data, for example payroll and benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found, this means there may be an inconsistency that needs investigation.
- 3.2 The NFI is managed by the Audit Commission and the NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money.
- 3.3 The Audit Commission processes the NFI data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998). These powers put data matching on a statutory footing for local government and NHS bodies, as well as allowing the Audit Commission to extend the NFI to central government and private sector organisations that wish to take part

- 3.4 The London Borough of Tower Hamlets has been participating in the National Fraud Initiative (previously known as the London Fraud Initiative) since 1994.
- 3.5 The Serious Crime Act 2007 (SCA) gave the Audit Commission new powers to enable the benefits of NFI to be extended to central government and the private sector. The Serious Crime Act 2007 inserted a new Part 2A into the Audit Commission Act 1998 (ACA).
- 3.6 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the Commission's data matching exercises must by law, have regard to a statutory Code of Data Matching Practice.
- 3.7 The exercises have evolved over time and the Commission has extended its partners to all Local Authorities in England, Wales, Scotland, and Northern Ireland and pension details from the Health, Police, and Fire Services. To date the National Fraud Initiative has successfully detected fraud and overpayments totalling over £600 million since 1996. A copy of the 2008/09 NFI report is attached as Appendix A.

#### **4. Statutory Framework and Code of Data Matching Practice 2008**

- 4.1 The Commission conducts data matching exercises under its new statutory powers in the Audit Commission Act 1998, Part 2A.  
The Legislation requires the Commission to prepare a code of practice to govern its data matching exercises, and to consult over it before approving and laying it before Parliament. The Code of data matching practice 2008 was finalised, published, and laid before Parliament on 21 July 2008. The 2008 Code replaced the previous Code published by the Commission in May 2006. A copy of the 45 page Code can be found on the Audit Commission website on the following link <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/CodeDMPFinalJuly08.pdf>
- 4.2 The Commission may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise. The Commission may require certain bodies to provide data for data matching exercises. Currently these are all the bodies to which it appoints auditors or which it inspects other than registered social landlords. Other bodies may participate in its data matching exercises on a voluntary basis where the Commission considers it appropriate. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to the Commission. The requirements of the Data Protection Act 1998 continue to apply.
- 4.3 The processing of data by the Commission in a data matching exercise is carried out with statutory authority. It does not require the consent of the individuals concerned under the Data Protection Act 1998. However the Data

Protection Act 1998 normally requires participants to inform individuals that their data will be processed. Unless an exemption applies, for data processing to be fair, the first data protection principle requires data controllers to inform individuals whose data is to be processed of:

- the identity of the data controller;
- the purpose or purposes for which the data may be processed; and
- any further information that is necessary to enable the processing to be fair.

4.4 The Audit Commission's code of practice requires that the Director of Finance or equivalent senior named officer will act as Senior Responsible Officer for NFI purposes. The Director of Finance, or equivalent senior named officer acting as 'senior responsible officer' for NFI, has key responsibilities to ensure the statutory requirements for bodies participating in NFI are met, as follows:

- nominate a key contact
- ensure the key contact has access to the matches (via the secure NFI software) when they become available (January 2011)
- ensure that the key contact fulfils all data protection requirements

4.5 Key Contact role - The key contact will be responsible for:

- nomination of appropriate users to upload data submissions. This should be the person with the most knowledge of the system in question
- nominating appropriate dataset contacts
- ensuring that the data formats guidance and data specifications are adhered to
- fulfilling data protection requirements. The key contact should be in direct communication with their organisation's data protection officer or person with equivalent responsibility
- nominating appropriate users that will investigate the matches and act as point of contact for other bodies
- coordinating and monitoring the overall exercise
- providing feedback on the outcomes of the exercise

Participants should submit a declaration confirming compliance with the fair processing notification requirements (Fair processing compliance return).

4.6 Data submission - The user responsible for submission of the data should ensure that data:

- meets the specifications
- is in the correct format
- is submitted by the specified method (in other words, the data file upload facility (DFU))
- is received by the required deadline(s)

- 4.7 A secure Data File Upload (DFU) facility is available within the NFI software from the link on the home page or the left hand menu. This enables you to upload your data quickly and easily. A password can also be added to this data. This is the only acceptable method of providing data for NFI.
- 4.8 The code also requires the external auditor to 'provide reasonable assurance' that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.
- 4.9 Therefore, the code advises, where there is a significant number of over or underpayments identified using a data matching technique may give the auditor reason to believe that there has been a material misstatement of the accounts. This may lead to audit recommendations to improve the systems of internal control.
- 4.10 In preparation for the new code of Practice , Internal Audit have undertaken a detailed examination of the follow up made by services on the output of the last NFI to ensure all reports have been thoroughly reviewed and where necessary followed up.
- 4.11 Data matching in the NFI involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body to see how far they match. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found, it indicates that there is an inconsistency that requires further investigation. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.
- 4.12 The purpose of this Code is to help ensure that the Commission and its staff, auditors and all persons and bodies involved in data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998, and to promote good practice in data matching. It includes guidance on the notification process for letting individuals know why their data is matched and by whom, the standards that apply and where to find further information.
- 4.13 Layered notices –
- The Information Commissioner recommends a layered approach to fair processing notices. Usually there are three layers: summary notice, condensed text and full text. Taken together, the three layers comprise the fair processing notice. Participants should decide the content and means of issue of fair processing notices for themselves.

## 5. National Fraud Initiative 2010/11

- 5.1 In accordance with the Code of Data matching Practice 2008 the Key Contact has been notified to the Audit Commission and the role at Tower Hamlets has been incorporated within the role of the NFI Co-ordinator. The main functions of this role in addition to those specified in Item 4.5 are -
- to ensure that the data has been obtained fairly so that it can be released for the exercise and submit the certificate of fair processing compliance
  - ensure that the data complies with the required formats and submitted to the Commission on time
  - Manage the output data on Audit Commissions web site and act as local administrator to the site to manage enrolment and training of investigators
  - Co-ordinate the Authority's results and liaise with the Commission
  - Provide advice, training and assistance to investigators
  - Carry out initial investigations that concern potential employee irregularity
- 5.2 A time table for the current NFI 2010/11 is attached as appendix B of this report with the following key deadlines-
- 27<sup>th</sup> September – Submission of Fair processing Compliance return
  - 4<sup>th</sup> October - Data extraction date
  - 4<sup>th</sup> October (or ASAP)- Data to be supplied to the Commission
  - 25<sup>th</sup> January 2011 – Output data expected from the Audit Commission
- 5.3 As previously advised the NFI is a national data matching exercise of data from Authority's key financial systems to identify potential fraud or error. For the NFI 2010/11 all Local Authorities are required to provide the mandatory data :-
- Payroll
  - Pensions
  - Trade creditors' payment history and Trade creditors' standing data
  - Housing
  - Housing benefits<sup>2</sup> \*\*
  - Council tax (not required until 2011)
  - Electoral register (not required until 2011)
  - Students eligible for a loan<sup>3</sup>\*\*
  - Private supported care home residents
  - Transport passes and permits (including residents' parking, blue badges and concessionary travel)
  - Insurance claimants
  - Licences - Market trader/operator, Taxi driver and (new) Personal licences to supply alcohol

(NB some data sets \*\* will be obtained from other sources i.e Benefits Department for Work and Pensions and Students data to be provided by Student Loan Company (SLC).

5.4 Whilst participation in the NFI's is mandatory all participants need to ensure that all information to be released for the NFI is fair processing compliant under the Data Protection Act 1998.

5.5 Tower Hamlets achieves fair processing compliance in two processes :-

- The fair processing statement is included in all key data collecting applications held by the Authority. All applications advise the applicants that the Authority has a duty to protect the public purse, and that as part of the declaration signed by applicants they understand that the Authority has this duty and that it will take steps to recover or redress abuse and share information with other Authorities or agencies for the prevention and detection of crime. This is consistent with the Authority's Anti Fraud and Corruption Strategy.
- In addition data subjects are notified of the Authority's participation in the current NFI's by a range of processes. These are detailed in the next part of this report under consultation processes.

5.6 A layered processing of notifications has been used in the past accordance with the code of Data Matching practice 2008 and this is currently in progress at time of writing the report, with the following :-

- First Layer to advise the data subjects that LBTH is taking part in the next national fraud initiative and the name of the officer at LBTH who should be contacted should you require more details and what it may mean to you
- So far we have achieved compliance with fair processing on Council Tax ( annual council tax statement in march 2010) and Pensioners via their annual newsletter in April 2010,
- employees should be notified with week commencing 23<sup>rd</sup> August 2010, Schools (including school governors) in early September after summer recess.
- Articles are also to be released in the Members bulletins, Managers briefing and staff newsletter before the deadline
- Tenants notifications will be made via local free publication "East End Life" press release this will also include translated articles for other local newsletters
- Second layer is a summary of what the NFI is about and who to contact at the Authority and provide link of the Audit Commission site for detailed information, this has been achieved by a summary outline of the exercise and who to contact for more information being publicised on the Council's web site on the following link [www.towerhamlets.gov.uk/nfi](http://www.towerhamlets.gov.uk/nfi)
- Third layer is the detailed information held on the Audit Commission web site. <http://www.audit-commission.gov.uk/nfi/Pages/default.aspx>



**6. National Fraud Initiative 2008/09**

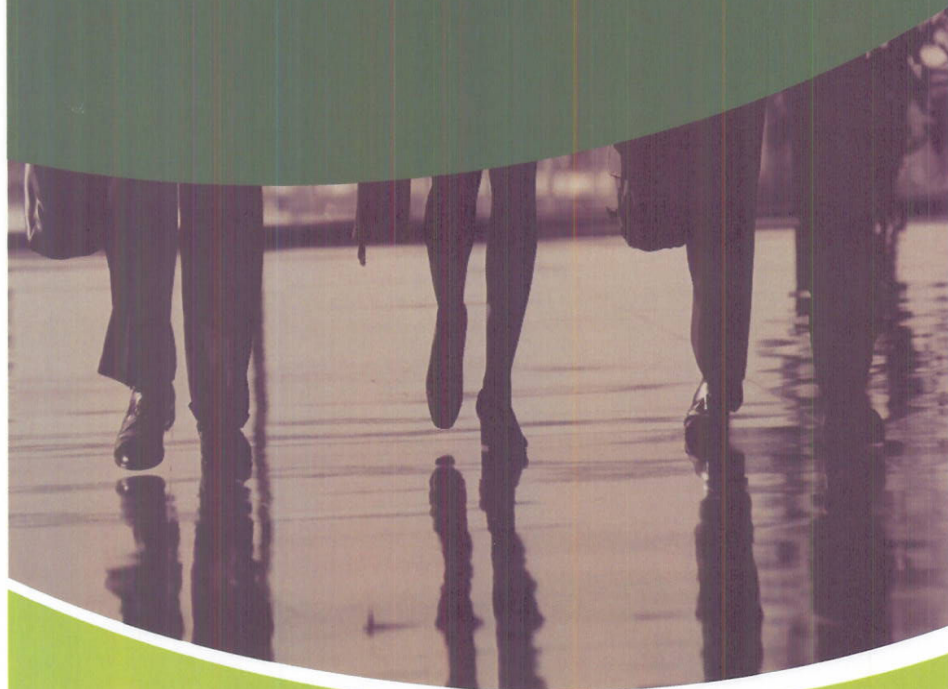
- 6.1 The NFI 2008/09 is being finalised. The detailed outcomes of the work carried out and the results are included the Annual Anti Fraud Report 2009/10 which is elsewhere on the agenda.

**APPENDIX A**

**See attached page**

# The National Fraud Initiative 2008/09

Summary of our national report published in May 2010



 **audit**  
commission

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

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

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

## Summary

### **Fraud is a serious and growing problem for the nation.**

- Fraud costs the UK £30 billion each year according to the National Fraud Authority.
- Tackling fraud should be a top priority for all organisations.

### **The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and error.**

- The NFI is a data matching exercise, using sophisticated computer techniques, which matches data within and between organisations.
- Our latest exercise in 2008/09 processed 8,000 datasets from 1,300 organisations.

### **The NFI 2008/09 found record levels of fraud, overpayments and error.**

- Data matching identified fraud, overpayments and error of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.
- This means that since its launch in 1996, the NFI matches have enabled the detection of fraud, overpayments and error totalling £664 million (Figure 1).<sup>i</sup>
- The Commission's exercise in England identified £183 million of fraud, overpayments and error. This comprises £90 million of savings already delivered as recorded by participating bodies and estimated savings of £93 million.

i The figures used throughout this report for fraud detections, overpayments and recoveries include both already delivered and estimated outcomes. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching. A more detailed explanation is included at Appendix 2.



- The NFI helped to uncover pension frauds and overpayments amounting to £78 million, and £56 million of council tax single person discount that was fraudulently or wrongfully received.

**The NFI 2008/09 produced other successful outcomes.**

- 181 employees were dismissed or asked to resign because they had no right to work in the UK.
- 269 people were prosecuted.
- 21,534 concessionary travel permits and 16,535 blue badges were cancelled.
- 97 properties were recovered for social housing.

**Most organisations taking part in the NFI perform well but some are not doing enough.**

- The £215 million of fraud, overpayments and errors detected reflects well on the efforts of most public bodies and other participants in the NFI 2008/09, who followed up effectively their data matches.
- The NFI is regarded as a periodic exercise, and is not linked to routine corporate counter-fraud arrangements.
- Elected members, non-executives and senior management are often unaware of the NFI.
- A small number of organisations had significant failings in the way they managed the NFI, for example, not submitting the data required or failing to follow up council tax matches effectively.

**Changes to the law in 2007, which allowed the NFI to extend to other organisations, have had success.**

- Local public bodies in Northern Ireland, Scotland<sup>i</sup> and Wales took part in the NFI 2008/09 on an extended basis and found frauds and overpayments of over £31 million (Figure 2).
- Almost 100 private sector companies and pension schemes are reaping the rewards of joining the NFI.

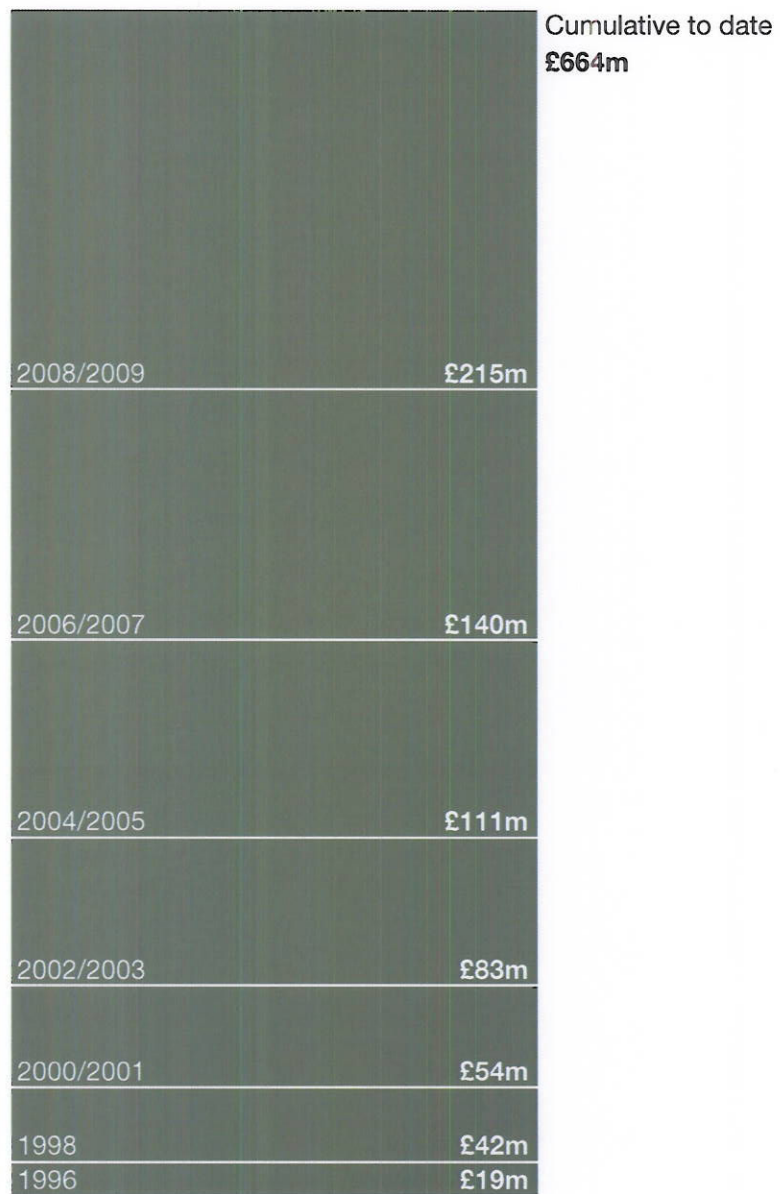
**The recommendations of the previous government's *Fraud Review* in 2006 have not been implemented effectively.**

- No government department, and only one government agency, took part in the NFI 2008/09.
- The previous government did not introduce the necessary Orders to extend the NFI to areas other than fraud, as provided for by the Serious Crime Act 2007.

i Audit Scotland did not benefit from the changes to the law in 2007. Although Scottish public bodies continued to participate as part of statutory audits there were additional restrictions on how the data could be used, for example, no cross-border matching was permitted.

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**Figure 1: Savings identified by the NFI as reported to the Audit Commission by participants**



Source: Audit Commission 2010

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## Recommendations

### Local government should:

- ensure that all data sets are submitted to the Commission on time;
- prioritise data matches and follow them up promptly and rigorously;
- promote awareness of the NFI among senior management and outside the finance directorate;
- engage elected members and non-executives more effectively in the NFI, for example, by nominating a lead member and through regular reporting;
- ensure that the NFI is integral to the overall corporate arrangements put in place for tackling fraud;
- improve their expertise when investigating immigration fraud to bring cases to a successful conclusion;
- recover previous years' discounts when council tax single person discount has been wrongly awarded; and
- improve communications between different departments, so that information about deceased persons is passed promptly to all those having contact with local residents.

### Pension funds should:

- prioritise and investigate promptly those data matches where pensions appear to be paid to deceased persons.

### The UK Border Agency should:

- share its expertise with councils and other organisations in helping them to tackle immigration fraud.

### The government should:

- exercise the existing statutory power to require government departments and their arm's-length bodies to take part in the NFI; and
- lay the Order to extend the NFI to areas other than fraud such as arrears recovery.

**Housing associations should:**

- take part in future NFI exercises to show their commitment to fighting fraud.

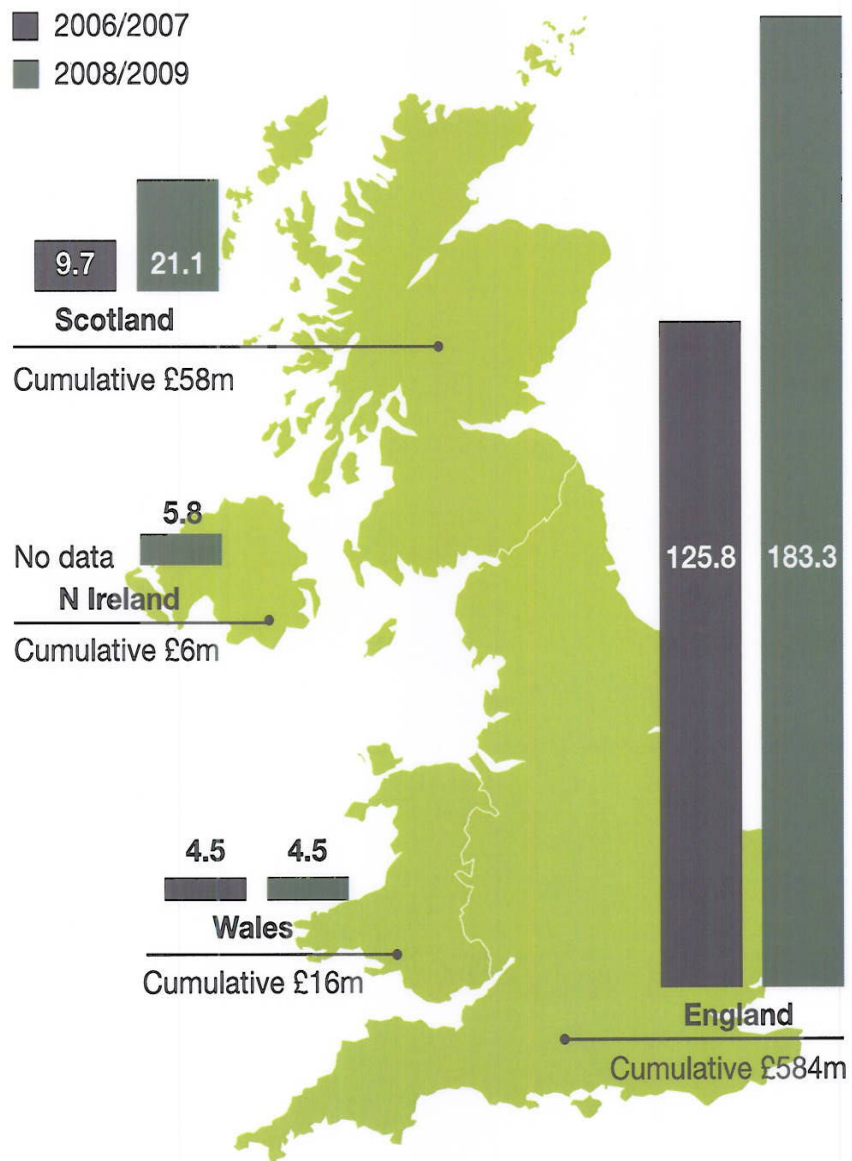
**The Tenants Services Authority should:**

- continue to encourage all housing associations to take part in the NFI.

**The Audit Commission will develop the NFI by:**

- addressing new and emerging fraud risks, such as false claims for empty property discounts, abuse of blue badges (multiple badges) and incorrectly enhanced injury pension payments to retired police officers and firefighters;
- involving a wider range and larger number of organisations in future exercises; and
- placing greater emphasis on fraud prevention, such as including housing waiting list data to prevent persons not entitled to social housing from obtaining a tenancy.

Figure 2: **Successfully detected fraud, overpayments and errors (£m)**  
 Cumulative total over period of NFI (1996-2010) £664m



Source: Audit Commission 2010

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Both these documents are available on our website.

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)

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## Timetable

A timetable, from collection of data through to distribution of matches, is set out below.

2010/11 timetable			
Activity	Who	How	Timing
Issue the data specifications for each data set	NFI Team (AC)	The <a href="#">data specifications</a> are now permanently available on the NFI web page. An email link will also be sent to all Key Contacts as a reminder.	By Wednesday, 31 March 2010
Confirm users to be rolled over to 10/11 web application	Key Contact	Key Contact will be required to confirm which 2008/09 users will require access to 10/11 web application.	By 28 May 2010
Confirm contact details for the 2010/11 exercise	Director of Finance / Key Contact	<b>New participants:</b> The Director of Finance (or Senior responsible Officer) for your organisation should nominate an appropriate Key Contact by email to <a href="mailto:nfiqueries@audit-commission.gov.uk">nfiqueries@audit-commission.gov.uk</a> . <b>Existing participants:</b> Director of Finance (or Senior responsible Officer) will be required to confirm Key Contacts. Key Contacts will be required to confirm users.	From Wednesday, 16 June 2010 onwards
Force a password reset for the 2010/11 web application	NFI Team (AC)	The first time users log on to 2010/11 web application they will be forced to change their password.	From Wednesday, 16 June 2010 onwards
Issue the instructions to bodies participating in NFI 2010/11	NFI Team (AC)	The instructions are now permanently available on the NFI web page. An email link will also be sent to Directors of Finance and 2010/11 Key Contacts as a reminder.	By Friday, 25 June 2010
Check the list of expected data sets	NFI Key Contact	Log in to the 2010/2011 web application and check the list of expected datasets is accurate for your particular organisation (select 'DFU' from the Home page). Submit any changes to the list by Monday 2 August 2010.	By Monday 2 August 2010

**2010/11 timetable**

<b>Activity</b>	<b>Who</b>	<b>How</b>	<b>Timing</b>
Confirm who the web application users will be	NFI Key Contact	Key Contacts should ensure the person(s) responsible for uploading data has a user account on the web application. Users responsible for reviewing matches can also access the training modules in preparation for the 28 January 2011 release.	By Monday, 1 September 2010 and when changes occur
The fair processing compliance returns are submitted	Key contact	Submissions are made via the <a href="#">NFI website (external site)</a> . Submission guidance can be found within the help menu labelled 'Form 3 - Fair processing compliance return'.	By Monday, 27 September 2010
The data is extracted from the participant systems in accordance with the data specifications	Key contact / User (data upload)	There is a separate data specification for each data set collected. These specifications can be accessed from the detailed.	Monday, 4 October 2010
The live data is uploaded to the NFI web application	Key contact / User (data upload)	The data is uploaded within the web application via the 'Data file upload' function.	From Monday, 4 October 2010*
The 2010/11 exercise matches are available	NFI Team (AC)	An email link will also be sent to Directors of Finance and 2010/11 Key Contacts as a reminder informing them that the matches are available.	From Tuesday, 25 January 2011

\* A series of reminders will be issued from 11 October 2010.

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# Agenda Item 55

<b>COMMITTEE:</b> <b>Audit Committee</b>	<b>DATE:</b> <b>24 September 2010</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b> <b>5.4</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b>		<b>TITLE:</b> <b>Treasury Management Activity for Period Ending 31 August 2010</b>		
<b>ORIGINATING OFFICER(S):</b> <b>Oladapo Shonola, Chief Financial Strategy Officer</b>		<b>Ward(s) affected:</b> N/A		

<b>Lead Member</b>	<b>Cllr David Edgar – Resources</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

## 1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 August 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 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 31 August 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 31 August 2010.

## 7 CREDIT CRITERIA

- 7.1 The following credit criteria for investment counterparties were established by the Council in February 2010 as part of the budget setting exercise. Explanation of credit ratings criteria is attached at Appendix I.

Institution	Minimum High Credit Criteria	Use
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house
Term deposits – Other Local Authorities	Not applicable	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	In-house
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating	In-house
Institutions with UK Government support.	Sovereign rating	In-house
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>		
Money Market Funds (MMF)	AAA rated	In-house

## **8 INVESTMENT STRATEGY**

- 8.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.
- 8.2 In addition to provide cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 8.3 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.
- 8.4 Sector initially calculated that the Council will have an effective investment balance of £100million for 2010-11. However, this is likely to be revised upwards, but average balances will vary throughout the year.
- 8.5 The current balance of £152.736M is higher than anticipated at the start of the year due to increased business rates collection in the early part of the financial year and funds that are as yet unspent but have been earmarked to fund the 2010-11 capital programme. It is envisaged that the cash balance will reduce in the medium term especially toward the end of the financial year.
- 8.6 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.
- 8.7 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	10.000	0.80%	Santander UK	Call	5.000	0.80%
Overnight	10.000	0.75%	Clydesdale Bank plc	Call	24.536	0.75%
Overnight		0.80%	Alliance & Leicester	Call	0.000	
Overnight		0.75%	Bank of Scotland plc	Call	8.900	0.75%
Overnight		0.25%	Debt Mgt Office (DMO)	01 June 2010	0.000	0.25%
			<b>SUB TOTAL</b>		<b>38.436</b>	
1 Month	5.000	0.45%	Bristol City Council	23 September 2010	4.300	0.30%
			Cardiff City Council	03 September 2010	15.000	0.33%
2 Months						
3 Months	20.000	0.85%				
6 Months	20.000	0.99%	Royal Bank of Scotland	10 November 2010	25.000	0.92%
			Nationwide	15 July 2010	5.000	0.95%
			Nationwide	15 October 2010	5.000	0.85%
			Barclays	03 December 2010	5.000	0.95%
9 Months	15.000	1.30%	Nationwide	10 January 2011	10.000	1.02%
			Barclays	10 February 2011	10.000	1.15%
12 Months	20.000	2.00%	Cater Allen (Santander)	13 May 2011	3.000	1.50%
			Cater Allen	18 August 2011	5.000	2.50%
			Cater Allen (Santander)	13 January 2011	5.000	2.20%
			Cater Allen (Santander)	11 April 2011	5.000	2.20%
			Cater Allen (Santander)	14 May 2011	2.000	2.10%
			Nationwide	03 June 2011	5.000	1.35%
			Barclays	03 June 2011	10.000	1.40%
			<b>SUB TOTAL</b>		<b>114.300</b>	
	<b>£100.000</b>		<b>TOTAL</b>		<b>£152.736</b>	

## **9 INVESTMENT RETURNS**

- 9.1 Investment returns since inception of the new arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance has improved from the last reporting date (31 May) from 0.93% average return to 1.03%.
- 9.2 Although there has been an improvement in return this year in the average return on investment at 1.03% (as at 31 August), this is below the benchmark of 1.25%. However, it is above the LIBID rate by 0.47% and represents good performance given the issues around level of additional funds that need to be invested under the current investment strategy.
- 9.3 Other factors affecting average return on investment include the increase in available for investment cash balances and the contraction in counterparty list due to stricter counterparty criteria. Consequently, a higher than envisaged percentage of the portfolio has had to be placed with DMO on an ongoing basis at low rates of return of 0.25%.
- 9.4 Officers are always looking to maximise returns on investment within the confines of the approved investment strategy. Following a recent review, it was decided that funds that would have previously been deposited with the DMO should now be invested in AAA rated UK money market funds. Investing in money market funds should push returns up by 0.25% when compared against placements with the DMO, whilst still maintaining a secure and liquid portfolio of short term investments.

## **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.

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

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

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

*Directorate Submissions*

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

*Oladapo Shonola Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*

## 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	<b>Highest credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	<b>Good credit quality.</b> 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	<b>Fair credit quality.</b> 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)
<b>AAA</b>	<b>Highest credit quality.</b> '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.
<b>AA</b>	<b>Very high credit quality.</b> '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.
<b>A</b>	<b>High credit quality.</b> '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.
<b>BBB</b>	<b>Good credit quality.</b> '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	
<b>A</b>	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
<b>B</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
<b>C</b>	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.
<b>D</b>	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.
<b>E</b>	A bank with very serious problems, which either requires or is likely to require external support.