

Meeting of the

# AUDIT COMMITTEE

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Tuesday, 22 March 2011 at 7.00 p.m.

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## A G E N D A

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### VENUE

ROOM M71 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE  
CRESCENT, LONDON, E14 2BG

Members:	Deputies (if any):
<b>Chair: Councillor Carlo Gibbs</b> <b>Vice Chair: Councillor Stephanie Eaton</b>	
<b>Councillor Abdul Asad</b> <b>Councillor Craig Aston</b> <b>Councillor Mizan Chaudhury</b> <b>Councillor David Edgar</b> <b>1 Vacancy</b>	Councillor Khales Uddin Ahmed, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar) Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar) Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Bill Turner, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar)

**[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, 22 March 2011

7.00 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

	<b>PAGE NUMBER</b>	<b>WARD(S) AFFECTED</b>
<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 14 <sup>th</sup> December 2010.		
<b>4. DEPUTATIONS AND PETITIONS</b>		
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<b>6 .6</b>	<b>Update on Implementation of International Financial Reporting Standards (IFRS)</b>	<b>213 - 220</b>

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# Agenda Item 2

## DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

### Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.00 P.M. ON TUESDAY, 14 DECEMBER 2010**

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

**Members Present:**

Councillor Carlo Gibbs (Chair)  
Councillor Stephanie Eaton  
Councillor David Edgar

**Others Present:**

Jon Hayes	District Auditor, Audit Commission
Sally-Ann Eldridge	Senior Audit Manager, Audit Commission
Steve Vinall	Deloitte PSIA Ltd

**Officers Present:**

Alan Finch	– (Service Head Corporate Finance, Resources)
Minesh Jani	– (Service Head, Risk Management)
Tony Qayum	– (Head of Audit Services, Internal Audit, Resources)
Jill Bell	– (Service Head, Legal Services – Environment)
Jackie Odunoye	– (Service Head, Innovation & Sustainability)
David Tully	– (Interim Head of Finance – Children, Schools & Families)
Caroline Chalklin	– (Committee Officer, Chief Executives')

**1. APPOINTMENT OF VICE-CHAIR FOR THE REMAINDER OF THE MUNICIPAL YEAR 2010/11**

Councillor Eaton was nominated for the position of Vice-Chair of the Committee and duly elected unanimously.

**2. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Asad and Chaudhury.

### 3. DECLARATIONS OF INTEREST

No declarations of interest were made.

### 4. UNRESTRICTED MINUTES

**RESOLVED:** That the minutes of the ordinary meeting held on 21st September 2010 be confirmed as a correct record of the proceedings.

### 5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

#### 5.1 Annual Audit Letter 2009 - 2010

Mr Hayes from the Audit Commission presented the report and also drew Member's attention to the Annual Governance report Addendum on page 245 of the Agenda.

Included in the 'Overall Conclusion from the Audit' in the report (page 16-17 of the Agenda) were some issues over timeliness of responses to queries, and meetings were in train to ensure deadlines would be met in future and to make the audit process smoother.

The audit relating to Value for Money (VFM) went well, and the future focus would be on planning and resilience.

The Government had announced the abolition of the Audit Commission; staff would be setting up a mutual audit practice and would be offering their services to Councils.

Mr Hayes said the Council needed to focus on the International Financial Reporting Standards (IFRS) going forward, and he commented that the Housing Benefit claim had been very well managed, and was the best one he had audited this year.

In response to a request by Councillor Eaton, Mr Hayes said that weaknesses included: some reconciliations were not completed, and this meant controls could not be tested to his satisfaction. More work was created for auditors, which meant more fees were payable; discussions were in train to fix these controls and help the auditors.

There was a need for more Quality Assurance on the accounts, the draft finished in June enabled auditors to do the more difficult testing but there were errors that needed correcting. Mr Hayes said it can often be difficult to get deeper questions answered quickly.



In response to the Chair's question about the Certification of Claims, Mr Hayes said that other matters have to take priority. Mr Finch said that there was a knock on effect; the extra time needed to finalise the accounts had delayed the Certification of Claims.

Councillor Edgar commented that the unqualified audit and VFM audit were good, but there was a sorry story of adjustments, which could be worrying, but he had been encouraged by the positive comments since then. Councillor Edgar asked if the substantial cuts had informed the Audit Commission's work. Mr Hayes responded that resources were in place, and that future plans struck a balance between savings and retaining financial controls. In Appendix 3 was a good Action Plan, but the Council should not rest on its laurels; there was still the challenge of IFRS. In previous assessments, the team had been very pleased with forward planning, and the challenge was to retain what was good in previous situations: Mr Hayes was confident that it would remain robust. The Chief Executive and Corporate Director were fully informed and in touch.

The Chair drew attention to the projected overspends listed on page 20 of the agenda and asked how significant these were. Mr Finch said they were not huge in the context of the Council's overall budget (£1.1 million from the General Fund and £500,000 from the Housing Revenue Account (HRA)), but it was nevertheless important that they were dealt with. . The Corporate Management Team (CMT) were receiving monthly reports on the projected outturns. The main causes were Children's Services and Adult Social Care, both of which were demand led: both services were under review as part of the Council's response to the Comprehensive Spending Review (CSR). There were ongoing discussions with Tower Hamlets Housing (THH), who had responded positively, and the projected overspend was shrinking. The projected outturn figures were manageable with the current levels of reserves, but need to be reduced.

Councillor Eaton commented that in the 3<sup>rd</sup> Quarter of the Internal Audit Plan, self managed services could make a substantial saving, as the Council was often paying twice for the same service.

**RESOLVED:** That the Annual Audit Letter 2009-2010 be received and noted.

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

### **6.1 Quarterly Internal Audit Assurance Report**

Mr Jani introduced the report, saying that the Council was on schedule to deliver the audit plan. He drew Members' attention to the Performance Indicators (page 35 of the agenda), especially the percentage of Priority 1 Audit recommendations.

Mr Jani gave examples of systems audits assigned 'Limited Assurance', which included Climate Change (page 39). This involved control of the greenhouse gas emissions produced by the Council during service delivery, and the effectiveness of the Council in influencing the community to reduce its emissions. Ms Odunoye's team was working on mitigation and adaptations. It was 'limited' as some programmes were in place, but there were delays in implementing others; work was needed on the carbon impact assessment and the penalties the Council could incur for generating carbon emissions. Ms Odunoye said that it was hard to get a grip on the problem as it was not given a high priority, and the team was aiming for Corporate ownership. Ms Odunoye's team was working on demonstrating the savings that could be made by saving energy.

Ms Bell said that in the CSR the Government had changed the rules, and the Council had no details on how the Treasury was going to make them work. Ms Odunoye said that 2010-2011 would be the base year for all penalties. This created problems with schools, as the Local Education Authority was responsible for schools emissions.

Another systems audit assigned 'limited assurance' was the caretaking service (page 41), which comprises cleaning and site management. It was found that inspections were not being managed, and there was a weakness around stock control in the stores.

The final example Mr Jani gave was Management of Value Added Tax (VAT) (page 43): reconciliations had been done late, and it could be troublesome if they were delayed. Local Authorities had exemption of input VAT if the rate was 5% or below; it was important that the calculations be done regularly. In response to the Chair, Mr Jani said that no money had been lost due to delays.

Councillor Eaton asked about a large recent refund on VAT; Mr Finch responded that this over 30 years, and was separate from the monthly recovery of VAT described by Mr Jani, and was from a suspense account that had a small balance. The work reclaiming the money was done by a 'no win, no fee' firm and Her Majesty's Customs & Revenue (HMRC) were willing to entertain the claim which resulted in a £1 million refund due to a change in the rules.

In response to Councillor Edgar, HMRC last did an inspection last year, but the Council had not had a full inspection for 6 years; Mr Finch continued that he would be in discussion with HMRC shortly. London Boroughs were classified as 'Not low risk' by HMRC.

**RESOLVED:** That the content of the report be noted and the assurance opinion assigned to the systems reviewed during the period be taken account of.

## 6.2 Revised Internal Audit Plan 2010/11

The report was introduced by Mr Jani; the Plan was designed to capture the changes that may happen. Extra audit days had been spent on advising managers on robust systems, and this was now an important activity for internal audit.

In response to Councillor Eaton, Mr Jani explained that 15 days to investigate the RIPA Compliance was not over generous, the timescales were based on previous experience. If there was a high-risk exposure or it was important, testing would take longer. If there were only 9 transactions in RIPA, and the time required was small, the excess days would be used elsewhere.

Councillor Edgar commented that the Government was changing the framework for National Performance Indicators, and asked what discussions were taking place on how the Council was going to proceed. Mr Jani said that the indicators had been helpful for decision making, and the less extreme indicators would be retained. Where systems are changing, Mr Jani's team would be involved from the start and will be consulting on controls and systems. Systems that have worked are changing, and there may be a need for reprofiling; staff have a broad mix of skills available. Mr Vinall of Deloitte commented that the Audit Plan will shrink as the Council shrinks.

Mr Jani gave the example of the area of contract management; his staff were now engaged on improvements, and the work area and management will evolve. There is a myriad of ways changes can happen.

In response to Councillor Eaton, Mr Jani said that Corporate Complaints were fed into the audit. Mr Jani said that he did not know what effect the political leadership would have on indicators.

**RESOLVED:** That the revised 2010/11 internal audit plan and the supporting Audit Strategy and Terms of Reference be endorsed.

## 6.3 Annual Governance Statement for the 2009/10 Accounts Update

Mr Jani introduced the report. He informed the Committee that the report covered more than control issues, but included work on how to make Tower Hamlets better. A further statement would be made in June 2011.

An example given by Mr Jani was Disaster Recovery: in the event of a serious disaster, the Council's ICT might not work. The ICT section was now working on a plan to review this: 4 systems had been tested, 3 systems came back on, but one failed. Work continues on the failed system.

Another area was information governance: the Data Protection Commissioner can fine organisations for failures. Full encryption was needed to protect data on laptops and flash drives.

Councillor Eaton raised the example of confidential papers being faxed to the wrong telephone number; email was also vulnerable. Mr Jani said that human error cannot be entirely eliminated, but it can be minimised. There was currently an emphasis on GCSX email between GCSX addresses; this had a higher level of encryption. Councillor Eaton suggested staff scan documents and email them. Ms Bell said there was a system of a virtual room where documents could be deposited, and then accessed by those needing to see them.

**RESOLVED:** That the action in dealing with the issues raised on the annual governance contents of the report be noted.

#### **6.4 Annual Internal Audit Report for Schools - 2009/10**

The report was introduced by Mr Vinall of Deloitte.

There had been 32 school visits, which comprised a probity audit and FMSiS. A follow up audit was listed at 7a with 6 recommendations, and a full report would come to the next meeting of this Committee.

In response to Councillor Eaton, Mr Vinall said that schools should indelibly and permanently mark any items that might go missing, as these items would have to be replaced out of school budgets. Staff identify weaknesses, so that schools can remedy them, and staff also work with schools prior to audit.

The key points of FMSiS will be picked up, but the system will be reprofiled. Mr Vinall said FMSiS was over bureaucratic. Internal audit was just the messenger, and schools needed more than 3 visits a year. Councillor Edgar said that schools ought to have controls in place, this was part of the underestimation of the support schools receive from the Council. Mr Minesh said that the probity visit was prior to the FMSiS, so that schools had something to begin with. Governing bodies were supposed to receive an 'Assurance Statement' from the Headteacher, but Governors did not know what this was.

In response to Councillor Eaton, Mr Jani said that OFSTED may take assurance into account during an inspection. In response to the Chair, Mr Vinall said that the number of 'Limited Assurances' did not change much from year to year, but he felt schools took the process seriously. Mr Jani said that schools financial management needed to be raised to the next level.

**RESOLVED:** That the content of this report be noted and matters raised by audit in each of the 12 areas examined be taken account of.

### **6.5 Audited Statement of Accounts 2009-2010**

Mr Finch introduced the report which provided the Committee with a final set of accounts following the conclusion of the audit. All matters raised by the auditor had been adjusted for except for the treatment of the Tower Hamlets Homes pensions liability where officers remained of the view that there was no justification for treating the liability differently from the Council's main pension liability.

**RESOLVED:** That the final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2010 and the changes made from the draft accounts be noted.

### **6.6 Treasury Management Activity for Period Ending 31 October 2010**

Mr Finch said that the report detailed the Council's investments as at 31<sup>st</sup> October 2010, and officers were looking at ways of making the money work harder without extreme risk: the limit of any one investment was to be increased to £30 million from £25 million and overseas investment would be in highly credit rated (sovereign rated) countries.

Councillor Eaton pointed out a different rate of interest was payable on two investments made on consecutive days through the same institution. Mr Finch said this was quite feasible given the volatility of the markets.

The Chair said that there were 2 different deposits made on 3 June 2010; Mr Finch explained that there might be investment limits. The Chair also commented that the length of the investments was increasing; Mr Finch explained that the investment strategy was to find longer term investments when possible, but the Council needed cash to meet its obligations, so some cash would be put 'on call' or 'overnight'.

**RESOLVED:** That the contents of this report be noted.

The meeting ended at 8.35 p.m.

Chair, Councillor Carlo Gibbs  
Audit Committee

# Audit plan

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London Borough of Tower Hamlets

Audit 2010/11

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

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

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



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# Introduction

**1** This plan sets out the audit work that I propose to undertake for the 2010/11 audit of financial statements and the value for money conclusion.

**2** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

# Responsibilities

**3** The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

**4** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**5** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

6 The fee for the audit is £513,500, as set out in my letter of 13 April 2010. Further detail is provided at appendix 1.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Corporate Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

### **Specific actions the Council could take to reduce its audit fees**

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

# Auditors report on the financial statements

**10** I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

## Materiality

**12** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## Identifying opinion audit risks

**13** I need to understand fully the audited body to identify any risk of material misstatement, whether due to fraud or error, in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

## Identification of specific opinion risks

**14** I have considered the additional risks that are appropriate to the 2010/11 opinion audit and have set these out below.

Table 1:

<b>Risk</b>	<b>Response</b>
The Council is now required to prepare the 2010/11 accounts under International Financial Reporting Standards.	I will assess the Council's arrangements for implementing IFRS and confirm that the appropriate standards have been followed, both with regard to the opening balances and to changes implemented in 2010/11.
Poor quality assurance review of the financial statements prior to submission for audit.	I will undertake analytical and substantive testing procedures to gain assurance over the entries in the accounts.
My 2009/10 audit identified errors in the Council's accounting treatment of leases.	I will undertake substantive procedures on the leases disclosure to gain assurance over the entries in the accounts.
My 2009/10 audit found double counting of income and expenditure resulted in errors in the accounts.	I will review the Council's processes for identifying and removing internal recharges from the income and expenditure to be reported in the accounts.
My 2009/10 audit identified that the provision for the post-transfer service element of the ALMO pension liability was not accounted for in accordance with accounting standards.	I will test the accounting treatment of the post-transfer service element of the ALMO pension liability.

# Testing strategy

**15** On the basis of the risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at the year end.

**16** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**17** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- review of accounting policies;
- testing of income;
- bank reconciliations;
- year-end feeder system reconciliations; and
- review of the accounting treatment of the Barkantine CHP scheme.

**18** Where I identify other possible early testing, I will discuss it with officers. Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

**19** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas:

- auditors of the London Pension Fund Authority (Audit Commission); and
- auditors of Tower Hamlets Homes (KPMG).

**20** I also plan to rely on the work of experts in the following areas:

- Hymans, as the Council's actuary for FRS17 entries;
- Drivers Jonas, as the Council's valuers; and
- Sector as the Council's financial adviser on the valuation of financial instruments.

# Value for money conclusion

**21** I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

**22** The financial environment in which the Commission and its audited bodies operate has changed significantly in the last two years. In particular, the recession, the state of the UK's public finances, and the scale of funding cuts have led to increased pressure on public spending.

**23** In response to the changing financial environment, the Commission has introduced a new approach to local value for money (VFM) work at those bodies previously subject to a use of resources (UoR) assessment. The new, more focused and less costly approach will reduce the work auditors do to the minimum necessary to meet their statutory VFM responsibilities.

**24** The approach focuses on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- securing economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**25** I have considered the risks that are appropriate to the 2010/11 conclusion having regard to these criteria and have set these out below

Table 2:

Risk	Response
Weaknesses have been reported in the Council's material financial systems.	I will review the Council's response to the recommendations I made in my 2009/10 annual governance report.
The Council has made significant changes to its medium term financial plan in response to the recession, Comprehensive Spending Review (CSR) and the resulting increased financial pressures.	I will review the robustness of the Council's updated medium term financial plan.
In response to the move to a mayoral system, the Council has updated its governance arrangements.	I will review the Council's revised governance arrangements.



## Key milestones and deadlines

**26** The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

**27** The key stages in producing and auditing the financial statements are in table 3.

**28** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers and adequate responses to my audit queries.

**29** Every week, during the audit, the audit team will meet with the Chief Accountant and review the status of all queries. The meeting frequency will be varied depending on the need and the number of issues arising.

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Table 3: **Proposed timetable**

Activity	Date
Controls and early substantive testing	January - April 2011
Receipt of accounts	30 June 2011
Audit working papers available	30 June 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	TBC
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

30 Table 4 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	<a href="mailto:j-hayes@audit-commission.gov.uk">j-hayes@audit-commission.gov.uk</a> 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Sally-Anne Eldridge, Senior Audit Manager	<a href="mailto:s-eldridge@audit-commission.gov.uk">s-eldridge@audit-commission.gov.uk</a> 07815 954026	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Resources.
Shona Milton Audit Manager	<a href="mailto:s-milton@audit-commission.gov.uk">s-milton@audit-commission.gov.uk</a> 07812 157709	Manages and coordinates the day to day delivery of the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

## Independence and objectivity

31 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

32 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

## Meetings

33 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

## Quality of service

**34** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and do what he can to resolve the position.

**35** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**36** My team will discuss and agree reports with officers before issuing them to the Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	To be presented to the September Audit Committee
Auditor's report giving an opinion on the financial statements	By 30 September 2011
Annual audit letter	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to the following.

- My cumulative knowledge of the Council:
  - planning guidance issued by the Audit Commission; and
  - the specific results of previous and ongoing audit work.
- Interviews with Council officers.
- Liaison with Internal Audit.

Details of the 2010/11 audit fee as set out in my letter of 20 April 2010 are as follows.

Audit area	Fee 2010/11 (£)	Fee 2009/10 (£)
Financial statements	351,000	318,500
Value for money conclusion	162,500	161,500
Total audit fee	513,500 *	480,000

\* The Audit Commission gave a rebate of £33,712 in April 2010 towards the 'one off' costs of the transition to IFRS.

### Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.
- The fee for the value for money conclusion is the same as for 2009/10.
- You will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
  - good quality working papers and records to support the financial statements by 30 June 2011;
  - information asked for within agreed timescales; and

- prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

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- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

My proposal for regular meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Audit Committee	District Auditor and Senior Audit Manager, with Audit Manager as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"><li>■ Audit plan;</li><li>■ Annual governance report; and</li><li>■ other issues as appropriate.</li></ul>
Chief Executive and Corporate Director of Resources	District Auditor and Senior Audit Manager	Quarterly	General update plus: <ul style="list-style-type: none"><li>■ November - annual audit letter.</li></ul>
Service Head (Corporate Finance), Head of Internal Audit, Chief Accountant	Senior Audit Manager and Audit Manager	Monthly	General update plus: <ul style="list-style-type: none"><li>■ March - audit plan;</li><li>■ July - accounts progress; and</li><li>■ September - annual governance report.</li></ul>
Chief Accountant	Audit Manager and Team Leader	As required	Update on audit issues.

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce the audit's impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the Members of the body and its management (the senior officers of the body). Those charged with governance are the Members of the audited body. (See also 'Members' and 'Those charged with governance'.)

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The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, Members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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

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



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March 2011

# Audit plan

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London Borough of Tower Hamlets Pension Fund

Audit 2010/11

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

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

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

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# Introduction

**1** This plan sets out the audit work that I propose to undertake for my audit of the London Borough of Tower Hamlets Pension Fund's 2010/11 financial statements.

**2** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to the Pension Fund's local circumstances; and
- the Pension Fund's local risks.



# Responsibilities

**3** The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

**4** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**5** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**6** Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board Practice Note 15 on the audit of pension fund accounts.

## Fee for the audit

7 The fee for the financial statements audit is £35,000 as set out in my letter of 11 May 2010. Further detail is provided at appendix 1.

8 In setting the fee, I have assumed that:

- the level of risk in relation to Pension Fund financial statements is consistent with that for 2009/10; and
- good quality, accurate working papers are available at the start of the audit of the Pension Fund financial statements.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Corporate Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

### **Specific actions the Council could take to reduce the pension fund audit fees**

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

# Auditors report on the financial statements

**11** I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

**12** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

**13** I am also required to review the pension fund annual report, produced under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## Materiality

**14** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## Identifying opinion audit risks

**15** I need to understand fully the audited body to identify any risk of material misstatement, whether due to fraud or error, in the Pension Fund financial statements. I do this by:

- identifying the business risks facing the Council and specifically the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund's information systems.

## Identification of specific opinion risks

**16** I have considered the additional risks that are appropriate to the 2010/11 opinion audit and have set these out below.

Table 1:

Risk	Response
Poor quality assurance review of the Pension Fund financial statements prior to submission for audit.	I will undertake analytical and substantive testing procedures to gain assurance over the entries in the accounts.
My 2009/10 audit identified errors in the Councils accounting treatment of forward foreign exchange contracts and the classification of investments.	I will undertake substantive procedures on derivatives and investments to gain assurance over the entries in the accounts.
The Pension Fund is required under the LGPS Regulations 2009 to create a separate bank account for the Pension Fund by 1 April 2011.	I will monitor progress on the establishment of a separate bank account in meetings with key officers.

# Testing strategy

**17** On the basis of the risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at the year end.

**18** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**19** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- review of accounting policies;
- contributions;
- year-end feeder system reconciliations; and
- related party disclosures.

**20** Where I identify other possible early testing, I will discuss it with officers. Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

## Key milestones and deadlines

**21** The Council is required to prepare the Pension Fund financial statements by 30 June 2011. I am required to complete the audit and issue the opinion by 30 September 2011.

**22** The key stages in producing and auditing the financial statements are in table 2.

**23** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers and adequate responses to my audit queries.

**24** Every week, during the audit, the audit team will meet with the Chief Accountant and review the status of all queries. The meeting frequency will be varied depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

Activity	Date
Controls and early substantive testing	January - April 2011
Receipt of accounts	30 June 2011
Audit working papers available	30 June 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	TBC
Issue opinion	By 30 September 2011

# The audit team

25 Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	<a href="mailto:j-hayes@audit-commission.gov.uk">j-hayes@audit-commission.gov.uk</a> 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and liaison with the Chief Executive.
Sally-Anne Eldridge, Senior Audit Manager	<a href="mailto:s-eldridge@audit-commission.gov.uk">s-eldridge@audit-commission.gov.uk</a> 07815 954026	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Resources.
Shona Milton Audit Manager	<a href="mailto:s-milton@audit-commission.gov.uk">s-milton@audit-commission.gov.uk</a> 07812 157709	Manages and coordinates the day to day delivery of the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

## Independence and objectivity

26 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

27 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

## Meetings

28 The audit team will ensure we have knowledge of the issues affecting the audit of the Pension Fund financial statements to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

## Quality of service

**29** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and do what he can to resolve the position.

**30** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**31** My team will discuss and agree reports with officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	To be presented to the September Audit Committee
Auditor's report giving an opinion on the Pension Fund financial statements	By 30 September 2011
Final accounts memorandum	November 2011



## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council's Pension Fund with reference to the following.

- My cumulative knowledge of the Council and its Pension Fund:
  - planning guidance issued by the Audit Commission; and
  - the specific results of previous and ongoing audit work.
- Interviews with Council officers, especially those involved in the audit of the Pension Fund.
- Liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the Pension Fund financial statements is not significantly different from that identified for 2009/10.
- You will inform me of significant developments impacting on the audit.
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on systems that provide material figures in the Pension Fund financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
  - good quality working papers and records to support the Pension Fund financial statements by 30 June 2011;
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March 2011

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# **Certification of claims and returns - annual report**

London Borough of Tower Hamlets

Audit 2009/10

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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. The Council needs to be able to demonstrate to auditors that it has complied with the grant conditions. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** The London Borough of Tower Hamlets submitted claims and returns with a value of £608 million to grant paying departments. The grant paying departments attach conditions to these grants and the Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to me, as the auditor, that the relevant conditions have been met.

## Significant findings

**2** In 2009/10, eleven claims with a total value of £608 million required audit certification. I carried out a full review of all claims. Paragraph 11 explains the difference between a limited and full review.

**3** My work resulted in amendments being made to four claims before certification. For three claims, I was unable to fully certify the claim and issued a qualification letter to the grant-paying body. At the time of writing this report, the certification of one of the eleven claims was outstanding. Appendix 1 provides details of each grant submitted for certification.

**4** In my 2008/09 grant certification report, I reported weaknesses in the Council's arrangements for the certification of grants. Most significantly, there were delays in getting adequate responses to audit queries and there was insufficient quality review of grants and the supporting working papers.

**5** There has been some improvement in the grants provided for audit certification. In particular, there have been fewer amendments to grants before certification. My team has, however, continued to experience delays in getting adequate responses to queries. Delays in certification work result in higher fees for my work and can put funding from grant awarding bodies at risk.

**6** The Council's benefits team continues to manage the certification process of the Housing and Council Tax Benefit Subsidy Return well. This has resulted in efficiencies in the certification process and a reduction in the qualification issues in this high value, complex return.

## **Certification fees**

**7** The fee I charged for grant certification work in 2009/10 was £109,602. A further charge will be made for the work that is to be completed on the claim that has not yet been certified. I do not expect this charge to be significant.

# Background

**8** The income received from grants is a significant proportion of the Council's income therefore it is important that this process is properly managed. In particular this means:

- maintaining an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each grant.

**9** I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**10** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**11** The key features of the current arrangements for all claims other than the Housing and Council Tax Benefits return are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree the entries in the claim form to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000, auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree the entries in the claim form to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning several years, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work I carry out, placing more emphasis on the high value claims.

**12** The Housing and Council Tax Benefit Subsidy return is subject to a specified set of tests and detailed case testing is mandated. This approach reflects the high value of the return.

# Findings

## Control environment

**13** All eleven claims certified were over £500,000 and their control environment was subject to a risk assessment. In all cases, it was concluded that reliance could not be placed in the control environment and detailed testing was carried out.

**14** There is scope for the Council to improve the control environment and significantly reduce the subsequent audit work. Working papers should include a full analytical review with explanations for significant variances. Most files submitted for certification included evidence of quality review; however errors identified indicate that this could be more robust.

**15** My team continued to experience delays in receiving adequate responses to queries. Most notably there were delays in relation to the Pooling of Housing Capital Receipts, Housing Subsidy Base Data Return and New Deals for Communities claims. In some cases delays between requests for information and the response were more than three weeks in one case. It is recommended that, wherever possible, queries should be responded to within three working days.

**16** The number of amendments required suggests that the Council's internal quality control procedures are not as robust as they should be. If the Council addresses the issues highlighted above it will reduce the required time input from both Council and Audit Commission staff and the fee for certification work.

## Recommendation

- R1** Implement the recommendations made in my 2008/09 grant certification report. Specifically:
- respond to all audit queries within three working days where possible;
  - strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files; and
  - include a full and detailed analytical review consideration of all significant variances as part of working paper files.
-

## Specific claims

### Housing and council tax benefit subsidy return (BEN01)

**17** Our initial work identified errors with individual benefit claims which resulted in the need for additional testing. However the number of errors identified was in line with other authorities where the benefits team manages the certification process well. The errors related to:

- incorrect information or dates being used in income calculations;
- incorrect application of single person's discount;
- mis-classification of overpayments; and
- mis-classification of backdated payments.

**18** When errors in the initial sample can not be shown to be isolated errors, an additional sample of 40 cases is selected for testing from the cells affected by the errors. Our initial testing identified that four additional samples of 40 cases were required:

- Cell 11: Rent rebates (tenants of non-HRA properties) - total expenditure;
- Cell 55: Rent rebates (tenants of HRA properties) - total expenditure;
- Cell 94: Rent allowances - total expenditure; and
- Cell 142: Council tax benefit - total expenditure.

**19** Due to the nature of the results, it was not possible to amend the claim and for me to conclude that it was fairly stated. For this reason, the results of my testing were reported in a qualification letter.

**20** Additionally, when the Council was preparing the claim form it did not include a limited number of adjustments required by a system report. To correct this, amendments were made to cells 102,109 and 116.

**21** As a result of above changes the subsidy receivable was reduced by £10,437. This amendment is small in the context of the size of the claim: the reduction made represents 0.004 per cent of the £249,402,349 subsidy claimed.

**22** In 2008/09 seven cells were subject to further testing. In response to the matters reported in previous years, the Council set up a quality team to improve the quality of data in its benefits system. The work of this team includes detailed checks in areas of work that have been identified as high risk, such as, claims assessed by new team members. As a result, fewer cells have been subject to qualification than in each of the two previous years. The Council should continue this work to reduce the volume of errors in the claim.

**23** My audit team and Council officers carried out early work on the benefits subsidy return to manage the workload more effectively and provide further time to resolve issues identified and perform additional testing.

**24** The early work performed, combined with the results of the Council's investment in data quality for this return has contributed to a reduction in the fee for my work on this return.



## Recommendation

**R2** Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and to support the Housing Benefit claim.

---

### Pooling of Housing Capital Receipts (CFB06)

**25** During the audit of the return, an error of £162,000 was found between the aggregate of four quarterly returns and the annual return. The error did not have an impact on the amount to be remitted to the Department, however, it could have been avoided with a more rigorous quality checking process, before submission to audit.

**26** Testing of administration costs found invalid items of expenditure and excel formula errors. To correct both of these errors, the original estimate of £10,621 was revised upwards to £11,661, prior to certification. In this instance, the formula errors negated the impact of the invalid expenditure. Only eligible items of expenditure should be included and a review of the working papers should be undertaken to identify any formula errors.

**27** As in 2008/09, there were a number of delays in gaining evidence because explanations had to be obtained from officers in other departments. The claim preparer should ensure that where figures are provided by other officers that further information can be obtained in a timely manner.

## Recommendation

**R3** Strengthen arrangements to provide evidence to support claims and returns such as the housing capital receipts return.

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### Housing Subsidy Base Data Return (HOU02)

**28** During the audit of the Base Data return, issues were identified relating to a transposition error and the omission of a change in mortgage principal to be repaid resulting in overstatement of the claim by £1,500. Additionally, there were a number of delays in responding to queries on this audit and this resulted in the October return deadline being missed.

**29** The Council did not carry out a reconciliation of movements between years as part of the process of compiling the return. When the reconciliation was provided upon request, my team found that movements in year had been mis-classified in the return. The return was amended to correct these errors.

**30** The Base Data return includes entries which show the rental income the Council has lost because properties were empty during the year. Rental loss from properties unavailable for rent because, for example, they are awaiting major works, should be excluded from the return. Our testing found that of the £2,068,475 of rental loss included in the claim, the Council could only demonstrate that £454,219 should have been included. Due to the nature of the return, it was not possible to establish the impact of the error, therefore the return was qualified.

**31** An electronic system (LOGASNET) is used by the Department for Communities and Local Government (CLG) for Councils to submit returns and for auditors to certify the returns. Having obtained CLG permission to reopen the LOGASNET system, for a set period of time, to allow the Council to make amendments, the Council failed to amend and certify the claim. This was because the preparer had not agreed the amendments with the Council's certifying officer before the claim was unlocked. As a result, the claim had to be unlocked a second time and the submission was further delayed.

## Recommendations

- R4** Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.
  - R5** Gain an understanding of the reasons for properties being void and the corresponding loss of rental income.
  - R6** Make arrangements to amend and re-certify base data returns on the electronic data collection system within the window set by the awarding body.
- 

### London Development Agency (RG31)

**32** The claim forms for both RG31 grants included some administrative details which were not completed prior to submission to audit which resulted in amendments being required.

**33** For one of the claims under review, our testing identified three items of expenditure which had not been incurred in accordance with the Council's standing orders because the relevant contract had expired.

**34** Three items of expenditure relating to taxi fares with a combined value of £75.74 were tested. All three items were supported by invoices and were approved by the Council officers. My testing found that the nature of the expenditure on taxis was appropriate given the activities being funded by the grant.

**35** The total value of taxi fares charged to the claim is £5,479.35. Because the value of expenditure was over £5,000 it is subject to tendering under the Council's standing orders. The Council had previously awarded this contract in accordance with its standing orders, however the contract had expired. The Council continued to procure services in accordance with the terms of the expired contract and did not re-tender the contract. As the expenditure had not been incurred in accordance with the Council's standing orders, the claim was qualified.

## Recommendations

**R7** Strengthen quality checks to ensure that claim forms are fully completed prior to submission to Audit.

**R8** Review controls over procurement to ensure that expenditure is incurred in accordance with the Council's standing orders.

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### **New Deal for Communities (RG03)**

**36** The work on this claim is currently in progress. I have experienced delays in receiving explanations and supporting evidence from officers and, as a result, the certification deadline has been missed.

**37** I will continue to work with officers until the certification work is complete.

## Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing Benefit Subsidy	249,402,349	N/a	Yes	Yes
Pooling of Housing Capital Receipts	506,502	No	Yes	No
Sure Start Early Years and Childcare Grant	17,488,051	No	No	No
Housing Subsidy Return	15,057,048	No	No	No
Housing Subsidy Base Data Return	As above	No	Yes	Yes
Disabled Facilities Grant	651,000	No	No	No
National Non Domestic Rates Return	291,760,432	No	No	No
Teacher's Pension Return	20,835,494	No	Yes	No
New Deals for Communities	12,316,750	No	TBC**	TBC
London Development Agency	360,171*	No	No	Yes
London Development Agency	76,256*	No	No	No

\* The expected value of claim over life of the project is over £500,000.

\*\* Certification work is in progress at the time of drafting this report.

## Appendix 2 Action plan

### Recommendations

#### Recommendation 1

Implement the recommendations made in my 2008/09 grant certification report. Specifically:

- respond to all audit queries within three working days where possible;
- strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files;
- include a full and detailed analytical review consideration of all significant variances as part of working paper files.

<b>Responsibility</b>	Kevin Miles
<b>Priority</b>	High
<b>Date</b>	June 2011
<b>Comments</b>	<p>The Council has taken steps to implement the previous report but recognise more needs to be done.</p> <p>All efforts will be made to respond to audit queries within three days, however the nature of some questions may require a longer period of time to respond – officers will liaise with auditors if there may be problems in providing a speedy response to some questions to see if alternative assurances are suitable.</p> <p>Claim review processes prior to submission to audit will be conducted, both in the Directorate teams and the Chief Accountant's team.</p> <p>The procedure will be reviewed and re-issued to all relevant staff.</p>

#### Recommendation 2

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

<b>Responsibility</b>	Steve Hill, Benefits Service Manager
<b>Priority</b>	Medium
<b>Date</b>	June 2011
<b>Comments</b>	<p>The Benefits Service will continue to provide a quality review process.</p> <p>The Service will continue to perform random test checks and target areas for checking that merit development, to ensure accuracy of Benefits awards.</p>

### Recommendation 3

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

<b>Responsibility</b>	David Worthington
<b>Priority</b>	High
<b>Date</b>	June 2011
<b>Comments</b>	We agree with the recommendation and we will agree a procedure with colleagues in Tower Hamlets Homes to ensure that information requested will be supplied within the agreed deadlines and monitor to it.

### Recommendation 4

Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.

<b>Responsibility</b>	David Worthington
<b>Priority</b>	High
<b>Date</b>	August 2011
<b>Comments</b>	A full review of property classifications was undertaken following the audit of the previous years Base Data return. The audit of the 2011/12 Base Data return did not reveal any discrepancies in the data base. The audit did reveal discrepancies in the analytical review arising from stock movements during the year. A review of property classifications has been completed.

### Recommendation 5

Gain an understanding of the reasons for properties being void and the corresponding loss of rental income.

<b>Responsibility</b>	David Worthington
<b>Priority</b>	High
<b>Date</b>	September 2011
<b>Comments</b>	<p>The reasons why a property becomes void and the corresponding loss of rental income is understood. The difficulty arises because following the formal decision to decant and demolish there is a considerable time delay before the actual demolition takes place. During this period some dwellings are used for short term tenancies to provide housing to the community. In view of this we calculated the loss of rent income up to the day that the property was handed over to the developer.</p> <p>The auditor did not accept our interpretation and this was the basis of the qualification.</p>

In the forthcoming coming Base Data return information in relation to demolitions will be crucial because it will have significant implications for the valuation of the business under self financing. It is also anticipated that the supporting evidence will be more onerous than in previous years. A meeting will be held with the auditors at an early stage in order to gain a mutual understanding of the definitions and the evidence required.

### Recommendation 6

Make arrangements to amend and re-certify base data returns on the electronic data collection system within the window set by the awarding body.

<b>Responsibility</b>	David Worthington
<b>Priority</b>	High
<b>Date</b>	September 2011
<b>Comments</b>	The amendments were not made and the claim re-certified because during the time the window was opened the draft subsidy determination was received. Details of the amendments were fed into the draft determination and it was discovered that as a result of the amendment a significant amount of subsidy would be lost, The amendment related to the loss of income from void properties and as this was disputed the window to make amendments were missed. Early dialogue with our auditors should prevent this situation from occurring again.

### Recommendation 7

Strengthen quality checks to ensure that claim forms are completed prior to submission to Audit.

<b>Responsibility</b>	Kevin Miles
<b>Priority</b>	High
<b>Date</b>	June 2011
<b>Comments</b>	Directorate finance teams complete the claim forms for their services based on transactions originating in their area. Finance Managers to review the claim's details and complete a check-list prior to submitting to Chief Accountant's team for review. Chief Accountants team conduct a high level check of claims before submitted to auditors – these checking arrangements will be discussed with Directorate teams.

## Recommendation 8

Review controls over procurement to ensure that expenditure is incurred in accordance with the Council's standing orders.

<b>Responsibility</b>	Richard Parsons/Alan Finch
<b>Priority</b>	High
<b>Date</b>	June 2011
<b>Comments</b>	The Council operates with a system of devolved management responsibility which requires senior managers to comply with procurement procedures. The corporate Competition Board is considering whether an internal system of training and accrediting certain officers to undertake procurements is appropriate. The Head of Procurement will continue to communicate the requirements of the procurement procedures to responsible officers via the corporate Competition Board and by other means. The Head of Corporate Finance will write to Corporate Directors and Directorate Finance Managers setting out the facts of this particular case and explaining the risk of grant qualification.



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March 2011

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# Agenda Item 61

<b>REPORT TO:</b>	<b>DATE</b>	<b>CLASSIFICATION</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>Audit Committee</b>	<b>22<sup>nd</sup> March 2011</b>			
REPORT OF: <b>Corporate Director, Resources</b> ORIGINATING OFFICER(S): <i>Minesh Jani, Service Head, Risk Management and Audit</i>		<b>Quarterly Internal Audit Assurance Report</b>  <b>Ward(s) Affected: N/A</b>		

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period January and February 2011.
- 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 December 2010, 17 final reports have been issued. The findings of these audits are presented as follows:

The chart below summarises the assurance rating assigned by the level of significance of each report.

Appendix 1 provides a list of the audits organised by assurance rating and significance.

Appendix 2 provides a brief summary of each audit.

- 5.2. **The Audit Committee is 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**

<b>SUMMARY</b>		<b>Assurance</b>				
		Full	Substantial	Limited	Nil	Total
<b>Significance</b>	Extensive	-	10	2	-	12
	Moderate	-	5	-	-	5
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	15	2	-	17
<b>Total %</b>		-	88%	12%	-	100%

- 5.4. From the table above it can be seen that of the twelve finalised audits which focused on high risk or high value areas; ten were assigned Substantial Assurance and two received Limited Assurance. A further five audits were of moderate significance and of these, all were assigned Substantial Assurance.
- 5.5. Overall, 88% of audits resulted in an adequate assurance (substantial or full). The remaining 12% 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 February 2011	80%	81%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	95% 19/20
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	95% 20/21

- 6.2. The table above shows that the proportion of internal audit work completed to January 2011 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 95%, whereas the percentage of priority 2 recommendations was 95%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3.

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

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

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

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

## **9. One Tower Hamlets**

9.1. There are no specific one Tower Hamlets considerations.

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

## **10. Risk Management Implications**

10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risk highlights risks for the attention of management so that effective governance can be put in place to manage the authority's exposure to risk.

## **11. Sustainable Action for a Greener Environment (SAGE)**

11.1. There are no specific SAGE implications.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

*N/A*

*Minesh Jani, 0207 364 0738*



APPENDIX 1

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>	Extensive	Corporate	Establishment Control – Systems Audit
	Extensive	Resources	Payment by CHAPS
<b>SUBSTANTIAL</b>			
	Extensive	Corporate	Management and Control of Leavers
	Extensive	Resources	Council Tax – Systems Audit
	Extensive	Resources	NNDR – Systems Audit
	Extensive	Resources	Debtors – Systems Audit
	Extensive	Tower Hamlets Homes	Gas Repairs and Maintenance
	Extensive	Tower Hamlets Homes	Control of Keys to Decanted Dwellings in Ocean Estate Follow Up Audit
	Extensive	Tower Hamlets Homes	Control of Keys to Void Dwellings Follow Up Audit
	Extensive	Tower Hamlets Homes	Service Charges (Recovery Aspects)  Systems Audit
	Extensive	Adults, Health and Wellbeing	Quality Assurance systems
	Extensive	Development and Renewal	St. Paul’s Way Current Contract Audit – Building for Schools Programme – Follow up Audit

## Summary of Audits Undertaken

## APPENDIX 1

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>SUBSTANTIAL</b>	Moderate	Communities, Localities and Culture	Parking permits Follow up audit
	Moderate	Communities, Localities and Culture	Management and Control of CCTV Room
	Moderate	Children, Schools and Families	Children's Social Care Commissioning – Follow Up Audit
	Moderate	Children, Schools and Families	Clara Grant Primary School
	Moderate	Children, Schools and Families	Bonner Primary School

**Summary of Audits Undertaken  
Limited Assurance**

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Establishment Control Systems Audit	Feb. 2011 (Final)	<p>The objective of this audit was to provide assurance that systems in place to control and manage the Council's Establishment Lists were sound and secure. The Council's Financial Regulations CR9 requires senior managers to ensure that staffing budget is an accurate forecast of staffing levels and that staffing budget is not exceeded without due authority. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• Audit testing in 12 service areas across six Directorates showed that the Council's Establishment List maintained by HR at the time of audit did not accurately reflect the true operating structure as at that date. There were a number of inconsistencies. For example, number of staff in post were different to the number of posts shown on the List; instances of pay grades being different to the actual grades; some cases of duplicate entries on the List; vacant posts were not correctly identified on the List; vacancies covered by agency staff were not identified; and officers moving across work areas were not reflected on the List. Therefore, Audit could not give assurance that the List accurately reflected the Council's operating structure.</li> <li>• A comprehensive system for creating and deleting posts from the List is needed.</li> <li>• There was also a need to identify long term vacancies on the Establishment List and deciding if the posts were still required or be removed from the structure.</li> <li>• Our analysis of budget reports for the 12 service areas in the audit sample showed that staffing budgets did not always reflect staffing levels, as required by the Council's Financial Regulation CR 9.3. This resulted in staffing budgets being either under funded and over funded in some cases.</li> </ul> <p>All findings and recommendations were agreed with the Service Head HR and WD. Final report was sent to the Corporate Director, Resources.</p>	Extensive	Limited

**Management Comments**

The Human Resources Improvement Programme (HRIP) commenced a process of strengthening the establishment mechanism within the authority. This has involved liaising with directorates to revise and update establishment maps to make the process more robust and has entailed the creation of a more centralised model to ensure consistency, timely and accurate data. New systems are being implemented to ensure that the establishment is monitored on a regular basis at the highest level in the organisation.

Monthly reports and reconciliation actions with Directorates and Finance will be conducted, quarterly reviews will be presented to CMT, an internal audit will be conducted in October 2012 and an annual review will be presented to CMT.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payments by CHAPS  Systems Audit	Feb. 2011	<p>The Clearing House Automated Payment System (CHAPS) is an electronic payments system for making payments via the Finance Director (FD) system controlled by the Co-Op Bank for values exceeding £1M. Upon requests by Directorate staff, CHAPS payments are initiated, processed and controlled by the Corporate Finance team. During the period April to September 2010, around £340M was paid to creditors via CHAPS by the Council. The objective of this audit was to ensure that systems and controls for initiating, processing, approving, reconciling and accounting for CHAPS payments were sound and secure. Our review showed that although there were adequate controls in place to safeguard the use of CHAPS, there were some key weaknesses in the current system:-</p> <ul style="list-style-type: none"> <li>• Although there was a system in place to reconcile CHAPS payments made via the FD system with the Council's General Ledger system, there was a period of 5 months (April 2010 to September 2010) during which reconciliations were not carried out due to the officer's workload.</li> <li>• As CHAPS payments do not interface with the Council's General Ledger system, a journal transfer has to be made for each payment. Our testing showed that journals were carried out, on average, 7.4 days after CHAPS transmission. The longest journal time in the sample was 18 days. We noted that the cumulative reconciliation for the period April 2010 to February 2011 between cash control account and JDE, showed that some £225.9M of transactions during this period were not posted. Delays in journal transfers can have budgetary control implications.</li> <li>• There was a clear policy and criteria for making CHAPS payments. However, payments which did not meet these criteria were processed via CHAPS. There was no standard system to ensure that each request was supported by an approved AP1 Voucher together with relevant evidence and back up documentation.</li> </ul> <p>All findings and recommendations were agreed with the Service Head, Corporate Finance and final report was issued to the Corporate Director, Resources.</p>	Extensive	Limited

**Management Comments from Service Head, Corporate Finance**

Ideally the CHAPS system needs to be used sparingly and in a controlled and planned way to make major payments to suppliers and other creditors. Some of the issues raised in the report arise from the fact that the system has tended to become a convenient way for officers to make payments quickly as a consequence of poor planning. For this reason, one of the outcomes of the review will be to introduce a small charge to Directorates to CHAPS payments which should discourage unreasonable demands on the system.

It is unacceptable for officers to fail to undertake key control processes on the basis of workload. If such occasions should arise unavoidably, they should always be reported upwards so that managers can respond appropriately, and Finance officers are now aware of this.

**Management Comments from Chief Financial Strategy Officer**

The majority of the recommendations have already been implemented and the remainder are being progressed actively. SMART targets have been set to ensure the remaining recommendations are implemented by the end of June 2011.

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and control of leavers</p> <p>Systems Audit</p>	<p>Feb. 2011</p>	<p>The objective of this audit was to provide assurance that systems of control around the Management and Control of Leavers were sound and secure.</p> <p>Our review showed that overall there were adequate controls in place. However, the following issues were raised:-</p> <ul style="list-style-type: none"> <li>• Policy and procedures for Leavers were contained in the document called “Exit Procedure” and “Exit Procedures – Guide for Managers”. These documents were dated August 2004 and required to be reviewed and updated to ensure that they reflect current procedures for managers. Moreover, the local procedures for administering leavers at HR level needed to be developed to help ensure coherency and standardisation.</li> <li>• There was no evidence on file to show that switchboard, IT, and procurement sections were notified of the leaver promptly. This increased the risk of a leaver still having access to the IT systems and the building. The ‘return of Council property’ section of the leavers form which is required to be completed by the line managers was incomplete/unavailable for review in 26 of 50 cases tested.</li> <li>• From our testing we established that in 44 of 50 cases the correct amount of salary was paid to the leaver based on their last working day. In the remaining six cases, there were four overpayments and two underpayments made to leavers. The reason was that line managers had failed to notify payroll of the leaver promptly. We have verified that all overpayments in our sample had been recovered and that all sums underpaid had been settled.</li> </ul> <p>All findings and recommendations were agreed with the Service Head, HR and WD. Final report was issued to the Corporate Director, Resources.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax – Systems Audit	Feb. 2011	<p>The objective of this audit was to provide assurance that systems and controls for collecting Council Tax were sound and secure.</p> <p>Our review showed that there was a service plan in place which documented the team's objectives. There was a procedure manual covering main aspects of the council tax process (i.e. billing, collection, discounts, exemptions, enforcement and recovery). However we noted that quality checks covering all officers within the Council Tax section were not being undertaken on a periodic basis.</p> <p>Procedures for amendments to standing data, billing, payments and recovering of arrears were adequate. Our testing of a sample of 40 cases of single persons discounts showed that controls were adequate in this area. In addition, testing of a sample of 40 cases of refunds showed that these were supported by notification by the taxpayer and all were appropriately approved and certified. Reconciliation of cash movements in respect of council tax was undertaken on a daily basis and the working papers were signed by the Senior Revenues Officer and the Revenues Support Manager. Management information was being produced on a regular basis. Collection as at the end of October 2010 was 54.05% against 55.15% when compared to the same period last year.</p> <p>We raised one recommendation which was agreed with the Head of Revenues and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR Systems Audit	Feb. 2011	<p>This audit was designed to provide assurance that controls around raising of NNDR accounts and for collecting and recovering NNDR payments were sound and secure.</p> <p>Our review showed that there was a team plan in place which documented the team's key activities and performance objectives. The team's key processes covering main aspects such as billing, collection, discounts, exemptions, enforcement and recovery were clearly documented. However we noted that quality checks covering all officers within the team were not being undertaken on a periodic basis.</p> <p>Procedures for setting up NNDR account and for amending standing data and account details were adequate. Our testing of a sample of 40 cases of refunds showed that these were correctly processed. In all cases each account was in credit (i.e. recording a balance due) before the refund was paid. Prior to payment of each refund, the NNDR team had received documentation from the ratepayer and necessary documentation (an AP1 form) was completed by one officer who was responsible for calculating the overpayment and checked and signed by a more senior officer. All refunds were correctly assessed in accordance with procedures. Systems for assessing liability and relief were adequate. Recovery of arrears and write-offs were in accordance with procedures. Regular reconciliations were undertaken with the general ledger system and management information was being produced on a regular basis. Collection rate as at the end of October 2010 was 68.58% against a target of 57.4%.</p> <p>We raised one recommendation which was agreed with the Head of Revenues and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sundry Debtors Systems Audit	Feb. 2011	<p>The objective of this audit was to provide assurance that systems for raising sundry debtors, collection of debt income and recovering of arrears are sound and secure. The Council's Financial Procedures provide an overarching framework for debt management. These are supported by local procedures for invoicing, collection, reconciliation, recovery and write off. Our testing showed that accurate invoices had been raised in all 20 cases we reviewed. Invoices had been raised in a timely manner with correct debtor name, amount and general ledger code. Testing of a sample of 20 credit notes showed that cancellation notifications were referenced to original invoices, and credit notes were appropriately raised. The control account balance on JDE was being reconciled to balances on IBS Income System on a monthly basis. Working papers were signed by the officer preparing the reconciliation, however, these were not signed to confirm independent review.</p> <p>We found adequate segregation of duties between officers raising invoices, officers receipting the payments and officers accounting for payments. A sample of 20 receipts was selected to assess the effectiveness of the interface between AIMS and IBS system and we found that all receipts had been correctly allocated to the debtor account. Unallocated items had been posted to suspense and cleared to the right account. Recovery of arrears was adequate, each debt sampled had been allocated various codes over the recovery process. A sample of 20 write offs was tested and all had been appropriately authorised.</p> <p>Adequate management information was being produced. Collection rates as at October 2010 showed that the Council remained on target to achieve the end of year target of 88%.</p> <p>We raised one recommendation which was agreed with the Head of Revenues and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Gas Repairs and Maintenance  Systems Audit	Dec. 2010	<p>The objective of this audit was to provide assurance that systems for ordering, inspecting, paying and monitoring the repairs and service works are sound and secure.</p> <p>Our review showed that generally there were adequate systems in place to control and monitor gas servicing and repairs works. At the time of audit, 99.98% of all properties had a valid CP12 Gas Safety certificate. The systems for scheduling servicing and for ordering repairs works were satisfactory. Works were generally specified and charged in accordance with the contract conditions. However, we were unable to verify the Schedule of Rates items used for gas servicing repairs on demand and gas servicing to occupied properties, as the documentation which supported these items as being an addendum to the contract was not available for inspection. There were no specific post-inspection criteria and thresholds for gas repairs and servicing works as post-inspections were carried out on the same basis as responsive repairs. Although there was some assurance that gas repairs and servicing works were carried out by accredited operatives, we found that the checking and monitoring of accreditation levels needed to be improved.</p> <p>We have recommended that the overall findings and recommendations made in this audit would apply to the new gas servicing contract which is due to commence in April 2011. Therefore, if the same workflows are transferred across to the new contract, the recommendations should be reflected within new monitoring procedures to support the new Clienting model.</p> <p>All findings and recommendations were agreed with the Director of Asset Management and final report was issued to the Chief Executive, THH.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Decanted Dwellings in Ocean Estate  Follow Up Audit	Nov. 2010	<p>The objective of this audit was to assess the progress made in implementing the recommendations made at the conclusion of the original audit finalised in January 2010.</p> <p>From our testing, it was confirmed that all seven recommendations had been progressed and implemented. Written procedures for securing and decommissioning dwellings earmarked for decanting had been put in place. The contract for providing 24 hour patrols at the Ocean Estate was regularised. The funding for the works was agreed with LBTH.</p> <p>All findings were agreed with the Director of Housing and Customer Services and final report was issued to the THH Chief Executive.</p>	Extensive	Substantial

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control of Keys to Void Dwellings  Follow Up Audit	Nov. 2010	<p>The objective of this audit was to assess the progress made in implementing the recommendations made at the conclusion of the original audit finalised in January 2010.</p> <p>From our testing, it was confirmed that of the twelve recommendations made, eleven had been implemented and one priority 1 recommendation was partly implemented. Overall, we found that improvement had been made in the control and security of void keys. Written procedures for guiding officers on key control issues and on logging and monitoring of keys had been developed. There was some monitoring of void keys. However, we recommended that the results of periodic audits and spot checks should be reported to the SMT and/or Voids Panel on a regular basis</p> <p>All findings were agreed with the Director of Housing and Customer Services and final report was issued to the THH Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Service Charges (Recovery Aspects)  Systems Audit	Oct. 2010	<p>The objective of this audit was to provide assurance to management on whether the systems of control around Service Charges (Recovery Aspects) at Tower Hamlets Homes (THH) were sound, secure and adequate.</p> <p>A 2010/11 Leaseholder Services Team Plan was compiled detailing key deliverables and milestones. Whilst it was noted that most of the milestones were on schedule to be achieved or had already been achieved ahead of target, there were some milestones which had slipped including resolving misallocations on SX3 Northgate, and increasing the number of standing orders and direct debit.</p> <p>It was noted that the Leaseholders Services Management team needed to continue to improve arrears performance so that it complied with the documented processes including the timeliness of chasing historical arrears. Due to systems incapability, automatic reminder letters for missed payments and other appropriate recovery action were not being sent to leaseholders to recover the arrears. This can have implications including not being able to pursue effective and efficient recovery options and that any non payment is not resolved accurately, adequately and in a timely manner.</p> <p>We also found examples of cases where due to the significant time taken to resolve a dispute, the write-off made on the account significantly exceeded the amount recovered from the leaseholder. Whilst it was acknowledged that the amount held in the suspense account had been reduced from £506,288.98 to £405,582.49, a substantial balance still remained on the system.</p> <p>All findings and recommendations were agreed with the Head of Leaseholder Services at THH and a final report was issued to the Director of Housing and Customer Services at THH.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Quality Assurance systems	Feb. 2011	<p>The objective of this audit was to provide assurance that the Quality Assurance Framework system within Adults, Health and Wellbeing Directorate was effective.</p> <p>The Directorate has clear governance framework for Quality Assurance at strategic and operational levels incorporating both a Quality Board and a Performance Board. A Quality Assurance Framework, which underpins the quality agenda has been developed. Policies and procedures supporting the quality agenda are being developed. A Quality Team has been set up to oversee, support and work with teams to ensure that quality is at the heart of good practice and excellent service delivery across the Directorate. The Quality Team has a clear team plan for 2010/11, which identifies a number of key activities, progress milestones and responsible officers to achieve the milestones. Regular monitoring of the progress in achieving the quality standards is being undertaken by the Team and reported to the Quality Board.</p> <p>However, our review showed that there may be some overlap between the two Boards and hence we have recommended that the arrangements for Performance Board be reviewed. Although policies and procedures for the whole Directorate were published on the LBTH intranet, some of these were out of date and needed to be reviewed. There was no formal risk assessment of the Quality Team's team plan and hence any operational and cross-Directorate risks had not been identified, assessed and placed in the appropriate Risk Register. While Service Standards were in place for the majority of front line services, the process of having Standards for all teams and services within the Directorate has yet to be completed. A wide range of quality control methods, including Audit Case Record (CRA) tool, have been identified and are being used for monitoring purposes. However, individual team managers and service managers were not fully compliant with the CRA process due to work pressure. We also noted that other quality control methods such as satisfaction surveys, mystery shopping and one-to-one service user interviews have yet to be developed.</p> <p>All findings and recommendations were agreed with the Interim Service Head, Disabilities and Health and final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St. Paul's Way School  BSF Contract Audit  Follow Up	Dec. 2010	<p>This review followed up recommendations made at the conclusion of the original audit finalised in April 2010. Our review has shown that of the four priority 2 recommendations we followed up, all of these had been implemented.</p> <p>Our review showed that reports on monthly progress of works completed to verify the validity of the milestone payments were included within the monthly financial review reports from the Independent Certifier. The Head of Building Schools for the Future had advised the Independent Certifier that contract certificates were to be issued in sequential order to ensure that officers could easily verify payments for each contract within the BSF programme. The Independent Certifier was also advised that Variations should run sequentially to the contract to which they apply and not intermingled with variations for other contracts within the BSF programme. The Local Education Partnership was advised on the procedures to be followed for future contracts administered by the Construction Design and Management (CDM) coordinators to ensure that written confirmations were received to confirm that the health and safety plan for each project had been sufficiently developed by the principal contractor before constructions work started on site to comply with the CDM Regulation 16, 22 (1) (c), 23 (1) (a) and 23 (2).</p> <p>The final report was sent to the Service Head, Building Schools for the Future and also the Corporate Director, Development and Renewal.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Parking permits Follow up audit</p>	<p>Jan. 2011</p>	<p>The objective of the audit was to assess the progress made in implementing the recommendations agreed at the conclusion of the original audit in February 2010.</p> <p>Our Follow-up review has found that of the seven priority 1 recommendations agreed at the conclusion of the original audit, six have been progressed. Of the four priority 2 recommendations made in the original audit report; three were fully implemented and one was currently in progress.</p> <p>The follow up review showed that there is a clear policy framework for Parking Services which incorporates clear delegation to officers to determine eligibility criteria for all Parking Permits. This Policy was approved by the Cabinet. There are clear procedures covering the systems for recording of spoils and cancellations of all permits as well as scratch cards. Comprehensive procedures have been developed for officers when suspected fraudulent applications are obtained. Two areas where further work was needed was ensuring that appropriate Service Level Agreements were formally agreed with Cashiers and One Stop Shops, and that a monitoring system was introduced to ensure that proper reconciliations were undertaken between the total net income collected on the Axis system against the daily collection.</p> <p>All findings and recommendations were agreed with Head of Parking and final report sent to the Corporate Director CLC.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of CCTV Room	Jan. 2011	<p>This audit sought to provide assurance that the systems of control around the CCTV Control Room were sound, secure and adequate.</p> <p>Overall, there were adequate systems in place for management of the CCTV control room. Our review showed that a CCTV Strategy covering the period 2007-2010 had been compiled. A Code of Practice and Procedures Manual in respect of the operation of the LBTH CCTV control room was in place. The Code of Practice and Procedures Manual was last reviewed and revised in April 2010 and included sections covering the aims and purposes of the CCTV system. The Corporate H&amp;S Risk Assessment had been completed for the CCTV control room and mitigating actions were in place. However, a record of key operational and strategic risks specifically relating to the CCTV control room was not being maintained. We have therefore recommended a service specific risk assessment should be carried out to include all strategic and operational risks to the service area. Measures by which the CCTV control room's performance was assessed had been identified in the CCTV Strategy. However, the monitoring and review of performance against the KPIs needed to be strengthened.</p> <p>All findings and recommendations were agreed with the Service Head - Crime Reduction and final report was issued to the Corporate Director, CLC.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children's Social Care- Commissioning and Monitoring  Follow Up Audit	Dec. 2010	<p>The objective of this audit was to provide assurance that the agreed recommended actions at the conclusion of the original audit in November 2009 had been implemented. Out of the seven recommendations made, all two Priority 1 and all five Priority 2 recommendations had been implemented.</p> <p>Our follow-up review showed that clear guidelines and procedures were put in place for the new commissioning functions following the restructure of the service. Comprehensive record of activities was maintained for every project entered into. Records of staff declarations of interest had been maintained. Official orders were raised in every case for goods and services ordered, and budget monitoring meetings were being minuted with action points and updates included.</p> <p>Final report was issued to the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Clara Grant Primary School	Feb. 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that controls were adequate in School Bank Accounts, Accounting of Income and Expenditure, Personnel and Payroll Management, School Meals, Security of the IT Infrastructure, Disaster Recovery and Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Declarations of interest had not been submitted by one Governor and some staff with financial responsibilities. Review of the Governing Body meeting minutes for the previous 12 months revealed that there was no evidence to show that the School Development Plan had been formally approved by the Governing Body.</li> <li>• Sample testing of 10 transactions identified that purchase orders had not been authorised in two cases, and in three cases the purchase orders had been authorised by an officer who was not delegated to authorise.</li> <li>• Banking was being done by an individual who was not an employee of the school. Transfer of money between staff had not been signed for by both parties involved in the transfer.</li> <li>• No income and expenditure account had been produced to ascertain the end of year financial position for the School Fund Account.</li> <li>• An annual inventory check had not been carried out at the school to verify the physical existence of assets. Sample testing revealed that not all equipment had been adequately 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
Bonner Primary School	Oct. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Financial Planning and Budgetary Control, Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Inconsistencies/omissions were identified within the scheme of delegation and financial rules for business. For instance the scheme of delegation stated that the Head Teacher is responsible for accepting all quotations up to £5000, however the delegated responsibility for the Office Manager to approve expenditure was not stated. The financial rules for business stated that the Head Teacher and the Office Manager were able to authorise expenditure for day to day goods, however it did not outline their upper financial limits.</li> <li>• The school did not retain an up to date bank mandate for the disbursement and school journey bank accounts.</li> <li>• Sample testing of transactions identified that purchase order requisition forms had not been raised and authorised before the receipt of invoice.</li> <li>• Testing of invoices and orders corresponding to 10 purchases found that goods/services received checks were not documented in 6 instances.</li> <li>• Testing of 10 invoices found that all did not have evidence of approval.</li> <li>• Transfer of money between staff had not been signed for by both parties involved in the transfer.</li> <li>• The Pay Policy had not been subject to annual review.</li> <li>• An annual inventory check had not been carried out at the school to verify the physical existence of assets. Sample testing revealed that not all equipment had been adequately 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

**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>
Control and Monitoring of Parking Permits	Clear guidance should be issued to all One Stop Shops, to ensure that end of day reconciliations are undertaken between each type of permit issued and income recorded for this.	Bryan Jones	John Chilton

**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>
Control and Monitoring of Parking Permits	The Head of Parking should ensure that the Service Level Agreements are produced and formally agreed by all parties. These SLAs should incorporate clear performance indicators and targets.	Bryan Jones	John Chilton



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# Agenda Item 62

<b>REPORT TO:</b>	<b>DATE</b>	<b>CLASSIFICATION</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>Audit Committee</b>	<b>22<sup>nd</sup> March 2011</b>	<b>Unrestricted</b>		<b>6.2</b>
REPORT OF:  <b>Corporate Director, Resources</b>		<b>Internal Audit Plan for 2011/12 Financial Year</b>		
ORIGINATING OFFICER(S):  <b>Tony Qayum, Head of Audit Services</b>		<b>Ward(s) Affected: N/A</b>		

## **1. Introduction**

- 1.1 This report presents the proposed Annual Internal Audit Plan for 2011/12. The plan was compiled using the Internal Audit Strategy was last approved by CMT and the Audit Committee in March 2010 and endorsed each year thereafter as part of the annual planning process.
- 1.2 The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

## **2. Recommendation**

- 2.1 That Audit Committee endorse the Annual Internal Audit Plan for 2011/12 (Appendix 1) and the accompanying internal audit strategy.

### 3. **Background / Methodology**

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

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

- 3.3 Following this assessment, those systems with the highest score were added to the audit plan based on the resources available. In addition to the above assessment, auditable areas that have a low score, but in order to support the work of external audit or to provide assurance to key officers, are necessary also feature in this audit plan. These include areas such as the reviews of key financial systems and management requests.

#### **Resources**

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Deloitte.

<b>Audit Resources 2010/11</b>		<b>Days</b>	<b>Days</b>
<b>Deloitte</b>	Core Audits	477	
	Computer Audit	81	
			558
<b>In-house</b>	4 auditors @ 195 days pp	780	
	Management	150	930
<b>TOTAL</b>			<b>1,488</b>
<b>PLAN TOTAL</b>			<b>1,488</b>

## Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the significance of the systems (High, Medium or Low), and where relevant, the source of the auditable area and its link to the authority's corporate priorities.
- 3.6 In summary, for 2011/12, the Internal Audit Plan comprises of 1,488 days across all directorates, covering a range of audit activity including contract and computer audit. The table below shows the comparison with the original and revised audit plans for 2010/11, which includes a provision of 200 days for proactive audit work as discussed previously at CMT and Audit Committee.

	Original plan 2010/11	Revised Plan 2010/11	Audit Plan 2011/12
Corporate systems	195	160	122
Chief Executive's	80	60	15
Children's Services	360	340	164
Communities, Localities and Culture	95	80	83
THH	145	145	133
Development & Renewal	115	95	76
Adult Health and Wellbeing	100	90	78
Resources	218	210	191
Contract audit	50	50	50
Computer audit	100	100	91
VFM & pro-active fraud	70	198	15
Follow-up	150	150	120
Management	100	100	50
Reactive fraud work	100	100	100
Management requests (Following Transformational change)	-	-	200
<b>Total</b>	<b>1,878</b>	<b>1,878</b>	<b>1,488</b>

**4. Comments of the Chief Financial Officer**

4.1 These are contained within the body of this report.

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

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

**6. One Tower Hamlets**

6.1 There are no specific one Tower Hamlets considerations.

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

**7. Risk Management Implications**

7.1 This report summarises the work internal audit plan to do based on the risk assessment carried out by the team. The purpose of the audit plan is highlight areas that audit will review to provide assurance over the systems and process of those areas highlighted in the plan.

**8. Sustainable Action for a Greener Environment (SAGE)**

8.1 There are no specific SAGE implications.

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Local Government Act, 1972 SECTION 100D (AS AMENDED)

***List of "Background Papers" used in the preparation of this report***

Brief description of "background papers"

**Contact :**

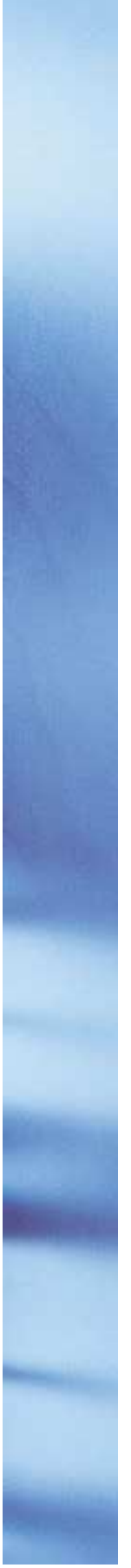
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*Minesh Jani, 0207 364 0738*



# London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2011-12



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# Foreword

The role of internal audit is becoming increasingly important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2011-12 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

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

**Minesh Jani**  
**Service Head – Risk Management and Audit**

# Context

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

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

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

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

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



# Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. There are 17 strategic risks currently (Dec 2010) which are being monitored by the CMT. The Council's key strategic risks and how it gets assurance from various sources is demonstrated below.

No.	Risk	Source of Assurance
DRA0009	Failure to deliver Decent Homes by 2016	Development and Renewal DMT
DRC0002	Significant uncertainty around key external funding sources that have either been reduced significantly or are not available or sustainable to deliver Council priorities.	Development and Renewal DMT
AH0027	Personalisation / Putting People First	2011-12 Audit Plan
CSD0011	Sustained financial pressure on the borough's child protection service due to recommendations arising out of the Laming report and the coalition government's review of child protection	Children's Schools and Family DMT
CEAC0003	Damage to Reputation of Council from the Council's response to a specific event	2011-12 Audit Plan
CLF0003	The Olympics may have an adverse impact on the Council's service delivery and its capacity to deliver statutory provision (during the Olympics)	Olympics Delivery Board
CLB0001	There is a risk that the waste strategy procurement project may not deliver a solution that is within budget	2011-12 Audit Plan

No.	Risk	Source of Assurance
BSF10002	Failure to agree a variation to the existing PFI Project Agreement	2011-12 Audit Plan
DRA0011	Insufficient resources are available, or committed, to deliver carbon reduction projects.	Carbon Management Board
DRDH0001	Reduction in the supply of affordable private sector rented accommodation in light of adverse changes to Local Housing Allowances	2011-12 Audit Plan
ICT0007	Data compromised	2011-12 Audit Plan
AH0026	Framework-I Financials - increased financial risk through poor data integrity and misreporting for budget monitoring	2011-12 Audit Plan
AH0025	Risk arising from accommodation changes in AHW.	Corporate Transformation Board
RSB0016	Developing an efficiency programme to take account of the likely reduction in future funding across public sector.	2010-11 Audit Plan
BSF10004	Government spending cuts to the BSF Programme affect the authority's capacity to fund a new school and/or disproportionately affect uncommitted schemes	2011-12 Audit Plan
HR0005	Workforce Planning - Failure to implement strategy and plans	Resources DMT
ICT0006	Failure of ICT Infrastructure and Telephony Service could have a significant impact on what the Council is able to do	2011-12 Audit Plan

# The Role of Internal Audit

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

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

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

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

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

# London Borough of Tower Hamlets 2011/12 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	122	8-10
Chief Executives'	15	11
Children, Schools and Families	164	12-13
Communities, Localities & Culture	83	14-15
Tower Hamlets Homes	133	16-18
Development & Renewal	76	19-20
Adult, Health and Wellbeing	78	21-22
Resources & core financial systems	191	23-25
Information technology audits	91	26
Building contract management	50	26
Value for money	15	26
Follow up, management, reactive fraud provision and management requests	470	27
<b>Total Provision</b>	<b>1,488</b>	<b>-</b>

## INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Corporate Systems &amp; Council Wide Reviews</u></b>					
Control and Monitoring of Hospitality and Gifts	This audit will provide assurance that Council has sound policy and procedures for staff hospitality and gifts and that the policy and procedures are complied with in practice across the organisation.	H	6	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Asset Management and Disposal	This audit will examine systems for managing the assets of the Council to ensure that its strategic objectives and priorities are achieved including arrangements for controlling and accounting for disposal of assets.	H	10	Directorate Risk Register DR0005 & DR0006	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
HR Improvement – Self Service and Claims	The Council requires the submission of overtime claims and the reimbursement of travel expenses and subsistence through HR Self Service system. The review will examine the controls for the submission, approval and payment of such claims.	H	9	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of Transformation Projects	This review will provide assurance that adequate controls are in place to manage and monitor the delivery of transformation projects across the Council.	H	15	Strategic Risk Register PPM0003	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

## INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Corporate Systems &amp; Council Wide Reviews</u></b>					
Construction Professional Services Framework contract	This audit will provide assurance around the use and control of the framework contract for commissioning professional services such as Quantity Surveying, Architectural, Building Engineering etc.	H	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Fees and Charges	To provide assurance that Council has a clear policy on levying fees and charges for services it provides to external customers across the Council and that fees and charges are annually reviewed and correctly charged to customers in accordance with Financial Regulations.	H	20	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
CRB Checks	The audit will focus on the Council's arrangements for managing and controlling the CRB checks ensuring that the legislative requirements and good practice standards are complied with.	H	9	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Central Purchasing Contracts	This audit will review systems for managing and monitoring contracts procured by the Central Purchasing unit.	H	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

## INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Corporate Systems &amp; Council Wide Reviews</u></b>					
Performance Management	The objective of this audit is to provide assurance over the Council's systems for managing and monitoring performance of its key services to ensure that the delivery of the strategic priorities of the Council are managed and monitored effectively	H	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Corporate Governance	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS	H	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of Asbestos and Water Installations	To provide assurance that the Council has sound arrangements for asbestos control and for management of legionella within the administrative and direct service buildings.	H	8	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
RIPA Compliance	The Regulation of Investigatory Powers Act 2000 came into force on 2 <sup>nd</sup> October 2000. It places a requirement to authorise certain types of covert surveillance during planned investigations. The review will examine the Councils compliance with RIPA and guidance issued under the Act.	H	5	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Chief Executive's</u></b> Members Enquiries	The objective of this audit is to provide assurance that systems and procedures for dealing with and managing and monitoring enquiries raised by elected members of the Council are sound and secure	H	5	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Freedom of Information Request	The objective of this audit will be to review the systems in place for recording and dealing with FOI request	H	10	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council





INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u><b>Children, Schools and Families</b></u>					
Schools Admissions and Exclusions	This review will examine the key controls in place for managing schools admissions and exclusions.	H	10	Audit needs analysis	<b>A Prosperous Community</b> Support lifelong learning opportunities for all.
Payments Control – S.17 of Children's Act 1989	The audit will provide assurance for controlling and monitoring Section 17 social care payments to children in need and their families.	H	10	Audit needs analysis	<b>A Safe and Supportive Community</b> Focus on Early Intervention Empower older and vulnerable people and support families
Contract Audits	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control.	H	15	Audit needs analysis	<b>A Prosperous Community</b> Support lifelong learning opportunities for all.
Quality Assurance Systems for Child Protection cases	This audit will examine systems and procedures for quality assurance around child protection.	H	10	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Contractors Final Accounts incl LAD's & Claims	The review will examine the key controls in relation to the controlling, monitoring, reviewing and approving the contractor's final accounts prior to the release of retention.	H	12	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Control of Special Education Fees Payments	To provide assurance that systems and controls for paying fees to special schools for children in their care are sound and secure.	M	9	Audit needs analysis	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Schools' Probity Audits	School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management.	H	90	From Audit Needs Assessment	<b>A Prosperous Community</b> Support lifelong learning opportunities for all. <b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Payments to Claims Based Staff	To review systems and controls for making and approving pay claims made by various claims based staff such as mother tongue tutors, youth workers etc.	H	8	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council



INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Trading Standards	The review will examine Trading Standards in respect of consumer protection matters and the promotion of and maintaining of a fair trading environment in the borough	H	10	Audit needs analysis	<b>A Healthy Community.</b> Reduce differences in people's health and promote healthy lifestyles
Management of Anti Social Behaviour	The scope of this review will include the system for managing and enforcing Anti-Social Behaviour Orders	H	8	Audit needs analysis	<b>A Healthy Community.</b> Reduce differences in people's health and promote healthy lifestyles
Life Long Learning	This audit will review the Council's arrangements for Adult Education to ensure that systems and controls are sound and adequate and in accordance with statutory requirements.	M	8	Audit needs analysis	<b>A Prosperous Community</b> Support lifelong learning opportunities for all.
Vehicle Removal – Contract Management	The scope of the review will include the control of the vehicle removal contract to ensure contract control and management arrangements are sound and secure.	M	10	Audit needs analysis	<b>A Great Place to Live</b> Improve the environment and tackle climate change

## INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Communities. Localities and Culture</u></b>					
Victoria Park – Construction Contract	To review systems and controls in place during the currency of the construction contract.	H	8	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Control & Monitoring of PCN Income	Penalty charge notices generate a substantial level of income. We plan to perform a review in this area with particular emphasis on how the Council collects and accounts for the income.	M	10	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Parking Appeals	This audit will provide assurance that systems for processing parking appeals are sound and secure.	M	9	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Waste Management Strategy	The review will examine the Waste Strategy Procurement Project and evaluate the systems of control to ensure that the project is being delivered on time and within budget	H	10	Strategic Risk Register CLB0001	<b>A Great Place to Live</b> Improve the environment and tackle climate change
Localisation	To review the governance arrangements for localisation to ensure that strategic aims and objectives are achieved,	M	10	Directorate Risk Register CLB0008	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

**INTERNAL AUDIT PLAN – 2011/12**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Priority</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
<b><u>Tower Hamlets Homes</u></b>					
Management of Framework contracts	To provide assurance that various framework contracts are managed and controlled properly.	H	18	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Right to Buy	This audit will examine systems of control for managing Right to Buy applications and compliance with appropriate legislation and regulations	H	9	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of TMO's	This review will examine arrangements for controlling and monitoring TMOs.	H	10	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Housing Repairs	This audit will examine systems for managing and controlling repairs to housing dwellings managed by THH. Arrangements for monitoring the performance of the repairs contractors will also be reviewed.	M	13	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Financial Systems	This audit will review the key financial systems as part of the annual assurance over the soundness of financial control across THH.	H	12	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u><b>Tower Hamlets Homes</b></u>					
Risk Management	This audit will review the ALMO's risk management arrangements and the embedding of this in service planning. We will take account of the findings arising from the Audit Commissions inspection undertaken in November 2010.	H	7	THH Risk register THH010028 and Audit Needs analysis risk register	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of ASB	To ensure that THH has a clear Strategy, Policy and Procedures for managing and controlling ASB, and that the policy and procedures are approved by the appropriate Committee and are kept under review	H	9	Audit Needs analysis and Risk register THH 010022	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Voids Management	This review will seek to provide assurance on the arrangements in place for managing void dwellings managed by THH	H	12	Audit Needs analysis	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Budgetary Control	Systems for planning controlling and monitoring budgets will be examined in this audit.	H	5	Audit Needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

**INTERNAL AUDIT PLAN – 2011/12**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Priority</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Building Contracts Audits	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control	H	18	Audit Needs analysis and Risk Register THH010009	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	18	Audit Needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u><b>Development and Renewal</b></u>					
Overcrowding Strategy	The review will focus on the planning, management, control and monitoring of the Council's Overcrowding strategy to ensure that key objectives and priorities are achieved	H	10	Audit needs analysis	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Community Building Portfolio Management	The objective is to provide assurance over the management and control in relation to the Council's Community Building Portfolio.	H	9	Directorate Risk register DR0001	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Procurement of Accommodation for Homeless	This audit will provide assurance over the soundness and adequacy of the Council's arrangements for procuring temporary accommodation for homeless families	H	11	Strategic Risk register DRDH0001	<b>A great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Cash Incentives	To review systems and controls for applying, processing and paying cash incentives to council tenants.	M	6	Audit needs analysis	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods
Homelessness	This audit will review the Council's arrangements for assessing homelessness in line with statute	H	10	Audit needs analysis	<b>A Great Place to Live</b> Provide affordable housing and develop strong neighbourhoods



**INTERNAL AUDIT PLAN – 2011/12**

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Priority</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Management of FM Contracts	This audit will examine systems for managing and monitoring facilities management contracts.	H	15	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
BSF – Current & Post Contracts	Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme to provide assurance that cost and programme controls are adequate during the currency of the contract.  Post contract audits will be carried out on completed sample schools to provide assurance that objectives of the building programme have been achieved, final accounts audited and lessons learnt are factored into the future development work.	H	15	Audit needs analysis	<b>A Prosperous Community</b> Support lifelong learning opportunities for all.

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Income Control	To provide assurance that the assessed charges for social care services are levied and recovered in accordance with procedures.	H	10	Audit needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Personal Budgets/Direct Payments	Through the Personalisation Agenda, direct payments made to clients for their care provisions will increase. This audit will review the arrangements for managing and controlling this area.	H	15	Strategic Risk Register AH0019 & Directorate Risk Register AHW0020001	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Commissioning – Home Care Services	This audit will review the management, control and monitoring of commissioning of Home Care services.	H	10	Audit needs analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Older People Commissioning	This audit will examine the management, control and monitoring of commissioning of services for older people	H	10	Audit needs analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People

## INTERNAL AUDIT PLAN – 2011/12

<b>Audit Name</b>	<b>Broad Scope</b>	<b>Priority</b>	<b>Audit Days</b>	<b>Source of Audit</b>	<b>Link with Corporate Priorities</b>
Court of Protection (Receivership)	This audit will review systems and controls for those individuals who are subject to Court of Protection.	H	8	Audit needs analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Occupational Therapy Service	This audit will review systems and controls for OT services to ensure that key aims and objectives are achieved.	M	7	Audit needs analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Older Peoples Day Centres	This will be a regularity audit of a sample of day centres for older people.	H	8	Audit needs analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Payments – Framework I	To review systems and controls for managing payments on the Framework I system	H	10	Directorate Risk register AH0014	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

## INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Resources</u></b>					
Bank Reconciliation	Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach.	M	5	Support the work of the audit commission	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Treasury Management		H	7		
HR/Payroll		H	15		
General Ledger		M	10		
Creditors/R2P		H	15		
Debtors		M	10		
N.N.D.R.		M	7		
Council Tax		M	10		
Capital Programming & Accounting (testing)		m	8		
Cashiers		H	8		
Pensions	M	5			
HB Overpayments & Recovery	H	8			

## INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Housing & Council Tax Benefit		M	15		
Housing Rents		M	10		
<b><u>Resources</u></b>					
Medium Term Financial Plan	The authority has in place a medium term financial strategy. Our review will examine key components of the strategy and assess the impact of potential costs pressures arising from unplanned demand for services	M	8	Audit Needs analysis	<b>One Tower Hamlets</b>  Working efficiently and effectively as One Council
Occupational Health	This audit will review systems for controlling and managing Occupational health services.	H	10	Audit Needs analysis	<b>One Tower Hamlets</b>  Working efficiently and effectively as One Council
Approved List, Rotation & Selection of Contractors	This review will seek to provide assurance over the soundness and adequacy of the Council's competitive tendering arrangements for procuring works, goods and services.	H	8	Audit Needs analysis	<b>One Tower Hamlets</b>  Working efficiently and effectively as One Council
Budgetary Control	Sound financial management is a critical area for any organisation, but is particularly important when there are significant budgetary pressures taking place. Our review will assess the budgetary control arrangements operating within Resources and ensure these are in line with the best practice.	H	15	Audit Needs analysis	<b>One Tower Hamlets</b>  Working efficiently and effectively as One Council

## INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management & Control of Mobile Phones	This review will focus on the Council's arrangements for procuring and managing mobile phones, ensuring that the arrangements meet the criteria of economy, efficiency and effectiveness	M	10	Audit Needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Grant Claim - Teachers Pensions Return	This is an annual audit which will examine the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	M	7	Audit Commission requirement	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Establishment controls - follow up	This audit will review the systems put in place to ensure the authority has a robust arrangement for the management of its establishment.	H	8	Audit Needs analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

**INTERNAL AUDIT PLAN – 2011/12**

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	-	91	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council.
<u>Contract Audit Reviews</u>					
Energy Management	These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations.	H	50	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
	To review Council's arrangements for energy management to ensure that energy is used efficiently and effectively.	H	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council



INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<b><u>Other</u></b>					
Management Requests	A provision for servicing various management requests for advice and other systems development work.	H	200	Management requests	<b>One Tower Hamlets</b> Working efficiently and effectively as One.
Follow Ups	Follow-up of reviews carried out in 10/11 to ensure implementation of audit recommendations	H	120	-	<b>One Tower Hamlets</b> Working efficiently and effectively as One.
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud	H	100	-	<b>One Tower Hamlets</b> Working efficiently and effectively as One.
Management time	This is a provision for management time required to direct, control and monitor the work of the audit team.	-	50	-	<b>One Tower Hamlets</b> Working efficiently and effectively as One.





## Governance-based Audit Assessment Methodology

### Assessment Categories

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

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

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

### Assessment Process

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

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

### Calculation of the Audit Risk Index

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

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

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

#### Results of the Audit Risk Assessment

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

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

### Internal Audit Risk Assessment Matrices

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

**Internal Audit Risk Assessment Matrices**

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

### Internal Audit Risk Assessment Matrices

<p><b>C Inherent Risk</b> This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.</p>						
Score	Inherent Risk – Vulnerability	Risk of Error due to System Complexity	Risk resulting from Pace of Change	Risk to Asset Security		
5	Low vulnerability	Simple system with low risk of error	No changes planned	Undesirable low value assets not at risk of fraud or loss		
6	Medium or low inherent risk	or	Limited changes planned with reasonable timescale			
7	Medium vulnerability	Moderately complex system with medium risk of error	Moderate level of change over medium term			
8	Medium to high inherent risk	or	Significant level of change with restricted timescale			
10	Highly vulnerable	Complex system with high risk of error	Extensive changes planned with short timescale	Highly desirable assets exposed to high risk of fraud or loss		

### Internal Audit Risk Assessment Matrices

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

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

## Internal Audit Strategy

### Introduction

#### **What is Internal Audit?**

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

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

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

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

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

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

#### **Why do we need an Internal Audit Strategy?**

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

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

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

**The Role and Purpose of Internal Audit**

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

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

**Strategic Aims**

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

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



## Appendix 2

1 Internal Audit will support the Authority in working to the values set out in its corporate plan by providing the Head of Risk Management, the Director of Resources and the Audit Committee with reports on the extent of compliance with the Authority's Code of Corporate Governance;

1 Internal Audit will contribute to the delivery of the Authority's community aims through professional audit reviews and effective recommendations for improving systems that support the Council's organisational aims;

1 Internal Audit will assist the Director of Resources in the discharge of his statutory responsibilities for ensuring the proper administration of the Authority's financial affairs and will contribute to the Authority's aim of maximising and making best use of its financial resources through:

- o Risk based reviews of financial systems;
- o Advice on the adequacy and effectiveness of controls in new and developing systems;
- o Promotion of best practice across the Authority;
- o Advice on the prevention and detection of fraud affecting the Authority and investigation of waste or abuse within the Council systems.

### Internal Audit & Risk Management

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

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

**Identifying Audit Coverage**

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

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

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

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

**Delivering the Strategy**

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

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

**Audit Reporting**

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

**Quality**

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

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

# The Internal Audit Process

## **The Pre-Audit Stage**

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

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

## **During the Audit**

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

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

## **Post Audit Stage**

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

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

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

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

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

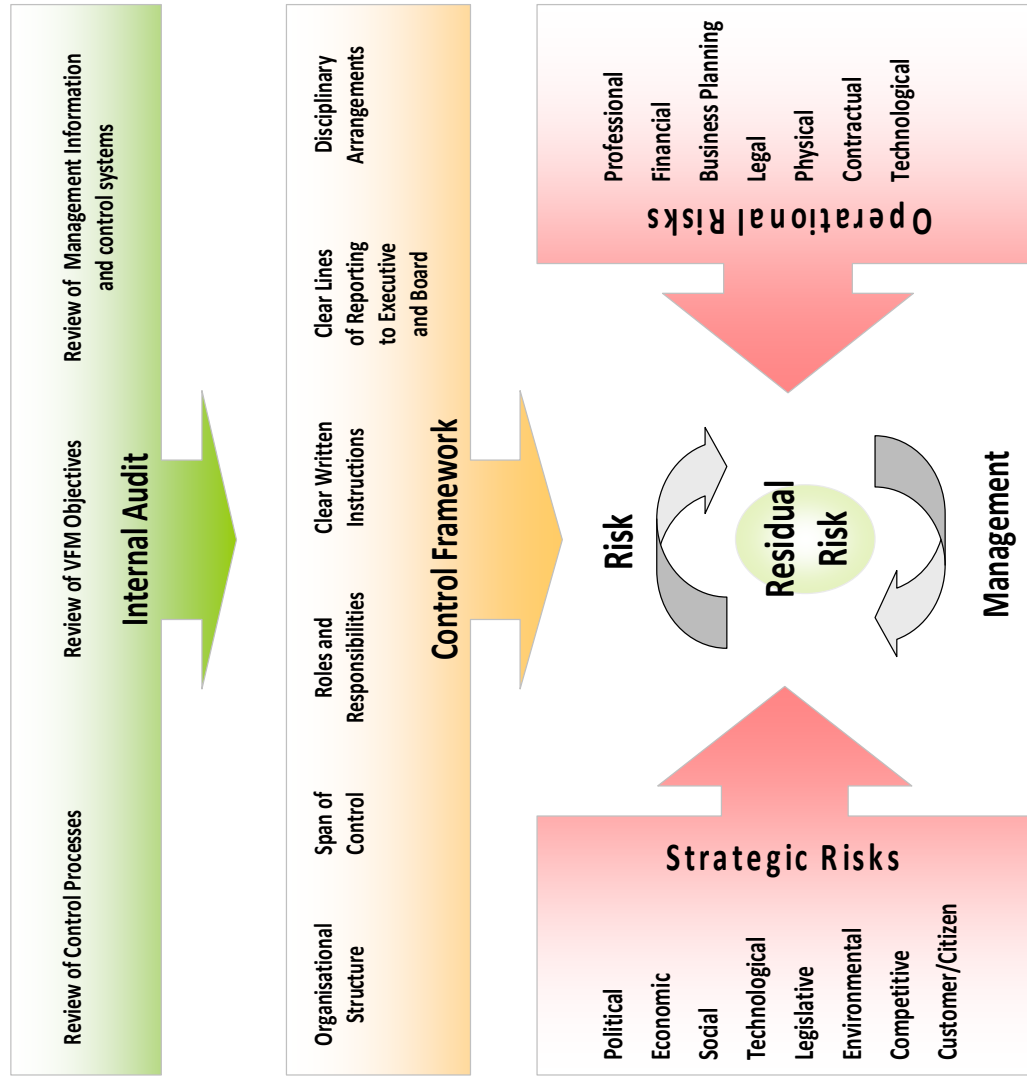
# The Monitoring Process

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

Internal Audit recommendations are classified as follows:

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

# Summary



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

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

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

# Appendix 3: Risk Management Framework

## Definitions

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

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

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

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



### **Objectives of Risk Management:**

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

### **These Objectives will be Achieved by:**

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

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

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

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

## Roles and Responsibilities

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

### **Risk Management Action Plans**

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

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

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

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

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

## Classification of Risk

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

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# Agenda Item 63

REPORT TO: <b>Audit Committee</b>	DATE <b>22<sup>nd</sup> March 2011</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>		<i>Anti Fraud and Corruption Strategy and Proactive Anti Fraud Plan 2011-12</i>		
ORIGINATING OFFICER(S): <b>Tony Qayum, Head of Audit Services</b>		<b>Ward(s) Affected: N/A</b>		

## 1. INTRODUCTION

- 1.1 This report provides the Audit Committee with an updated Anti Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti Fraud Plan for 2011-12.
- 1.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. This minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 1.3 The need for effective anti fraud work within local authorities has also been reflected by the Audit Commission, through the Use of Resources Assessment and Protecting the Public Purse publications as well as the CIPFA Better Governance Forum and more recently through the Cabinet Office. The requirements highlight the expectations around the framework local authorities have in place in respect of the prevention and detection of fraud. As such, it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption activities.
- 1.4 The work of the Anti Fraud Team will increase in 2011/12 with the transfer of the Parking Fraud Team resource to the Corporate Anti Fraud Team.

## 2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the contents of the report and to endorse the anti fraud plan.

### **3. ANTI FRAUD AND CORRUPTION STRATEGY**

3.1 As part of our ongoing efforts to ensure the strategy and systems in place within the Council remain relevant and meet best practice the Anti Fraud and Corruption Strategy has been reviewed and attached at Appendix 1 is the revised strategy that picks up key changes resultant from new legislation and best practice as identified by CIPFA.

3.2 The key areas of coverage are outlined by the following key tests that were set by the CIPFA Publication- Protecting the Public Purse Red Book 2 which was issued in 2009 and new legislation including the Bribery Act 2011 which will probably come into force in April 2011.

3.3 The key tests were:-

#### **3.3.1 Adopting the right strategy**

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

#### **3.3.2 Measuring Fraud and Corruption Losses**

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

#### **3.3.3 Creating and Maintaining a strong structure**

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

#### **3.3.4 Taking action to tackle the problem**

*Is the organisation undertaking the full range of necessary action.*

#### **3.3.5 Defining Success**

*Relevant officers and committees are made aware of investigations which may affect their Services.*

3.4 It is considered that by updating the Anti Fraud and Corruption Strategy in this way it will remain in compliance with best practice.



#### **4. ANNUAL CORPORATE ANTI FRAUD PLAN 2011/12**

- 4.1 This is the fourth year where we have provided an anti fraud plan highlighting anti fraud work, previously it had been subsumed within the Internal Audit Plan. This is to reflect the increasing priority of the service within the Council.
- 4.2 The overall aims and objectives of this plan reflect the Council's Anti Fraud and Corruption Strategy. The key aims are to:
- Highlight and promote the Council's commitment to stop fraud and corruption;
  - Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
  - Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
  - Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.
- 4.3 The key drivers used to compile the corporate anti fraud plan for 2011/12 has built on experience and takes account of the: -
- Fraud Risk Register (maintained by audit through training with services);
  - Transfer of Parking Fraud Team from Parking Services to Risk Management/Internal Audit
  - Management requests and priorities;
  - Local Knowledge;
  - Joint working arrangements - external (DWP, PCT, Police and other Local Authorities);
  - Resourcing the Government's initiative to examine instances of unlawful sub letting of Registered Social Landlord properties
  - Joint Working arrangements – internal (payroll, pensions, parking services, benefits services, housing services; and
  - Issues identified from planned audit work;
  - Good Practice checklists from the CIPFA Publication-Managing the risk of Fraud- Red Book 2 and The Audit Commissions- Protecting the Public Purse.
- 4.4 Our plan is attached as Appendix 2. The focus of the plan is to cover :-
- Planned activities for Tower Hamlets Homes that will include pro active and reactive work and along with review of access to accommodation, including nominations, transfers, successions and management determinations; as part of the on-going work of the Social Housing Fraud resource

- Manage the internal audit process and continue to support the Authority on providing assurance on data quality to the organisation and the External Auditor.
- Continue management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements under the Audit Commissions Code of Data Matching Practice and that the NFI exercise is appropriately resourced and finalised within prescribed deadlines;
- Ensure that the work of those engaged in Anti Fraud work supports the Council's Strategic Plan;
- Work jointly internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to lead on the Anti Fraud Forum which brings together all services within the Council and with the Police and PCT responsible for enforcement and financial governance thus maximising opportunities to share intelligence and joint working.
- Continue to provide anti fraud training and awareness to members and officers;
- Continue to hold monthly meetings with the Assistant Chief Executive (Legal Services) on Governance issues;
- Ensure that appropriate training and development on ethical governance matters is rolled out to staff and members as appropriate;
- Publicise all our successes;
- Ensure that all agreed timescales prescribed for the completion of investigation work are met and that all cases are adequately reported to senior management as part of our ongoing reporting procedures; and
- Develop mechanisms for categorising and quantify fraud for more accurate reporting to enable better informed risk assessments.

#### 4.5 Social Housing Fraud Team – Key activities

- to recover unlawfully let properties;
- Jointly investigate Housing Benefit Fraud where the accommodation is unlawfully let;
- Investigate and support THH on suspicious assignments, successions and Mutual exchanges;
- Investigate and support THH on suspicious right to buys where there may be unlawful letting issues;
- Work with RSLs on unlawful lettings and assist in recovery of property for releasing to Housing Pool; and
- Work with other LAs to enhance outcomes for Tower Hamlets.

A more detailed report on the work and success of the Social Housing Fraud Team is included elsewhere in the agenda.

#### 4.6 The Parking Fraud Team was transferred to Risk Management in February 2011 to undertake the day to day management and co-ordinate their work, the key activities, being

- Investigation, recovery and prosecution of blue badge abuse;
- Investigation, recovering and sanctions as appropriate on Parking permits (residents and business) and parking scratch cards abuse;
- Investigate and support parking services on persistent offenders; and
- Investigate and consider action as appropriate on abuse of parking meter income.

#### 4.7 The plan makes provision for the existing resource plus a buy in of circa 100 additional days to be utilised as emerging issues arise.

#### 4.8 The following table shows the Corporate Anti Fraud Team resources for 2011/12 and the resource required to complete the anti fraud work in 2011/12.

Reactive resources	Days
Fraud Manager	200
Fraud Co-ordinator	200
Allocation from Internal Audit Plan	100
	<b>500</b>
3 x Social Housing Fraud Officers	600
2 x Parking Fraud Officers (one term time)	315

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

These are contained within the body of this report.

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

There are no immediate legal implications arising from this report.

#### **6. One Tower Hamlets**

7.1 There are no specific one Tower Hamlets considerations.

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

#### **7. Risk Management Implications**

8.1 This report highlights how actions of the anti fraud team in dealing with the fraud risks that can arise from the abuse of public sector properties. There are no other risks that need to be considered in addition to those already highlighted within this report.

#### **8. Sustainable Action for a Greener Environment (SAGE)**

9.1 There are no specific SAGE implications.

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#### **Local Government Act, 1972 SECTION 100D (AS AMENDED) List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

**Contact :**

N/A

*Minesh Jani, 0207 364 0738*

## Appendix 1

### LONDON BOROUGH OF TOWER HAMLETS

#### ANTI FRAUD AND CORRUPTION STRATEGY

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

#### 1. INTRODUCTION

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

## **Definitions of Fraud and Corruption**

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

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

## **2. BACKGROUND**

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

### **Selflessness**

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

### **Integrity**

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

### **Objectivity**

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

### **Accountability**

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

### **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their

decisions and restrict information only when the wider public interest clearly demands.

### **Honesty**

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

### **Leadership**

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

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

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

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

### **3. THE LEGISLATIVE FRAMEWORK**

- 3.1 Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement was further reinforced by the Accounts and Audit Regulations 2003.
- 3.2 There is a requirement for the annual accounts to include a statement on internal control to be certified by the Chief Executive and Mayor.
- 3.3 From time to time there will be a need to examine allegations and incidents that may have regard to fraud, corruption or financial malpractice.
- 3.4 In these circumstances the Council will ensure that any inquiry is legal, meets professional standards and that whistleblowers raising a genuine concern are afforded protection in accordance with the law.

#### **3.5 Relevant Legislation**

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

- The Fraud Act 2006
- The Bribery Act 2010
- The Theft Acts 1968 and 1978 ( as amended)
- Social Security (Fraud) Act 1997
- Public Interest Disclosure Act 1998
- Audit Commission Act 1998
- Data Protection Act 1998
- Human Rights Act 1998
- Regulation of Investigatory Powers Act 2000 as amended
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2003
- The Identity Card Act 2006
- Local Government Act 2000

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



#### 4. The Council's Fraud Statement

*"We will not tolerate fraud by our clients, employees or members of the council.*

*All allegations of fraud will be investigated and where substantiated, the cases will be pursued thoroughly.*

*The action taken will depend on the level and circumstances of each case. In most instances, however, the action considered will involve disciplinary action (against council employees), prosecution and/or recovery of our assets and funds"*

#### 4. THE ANTI- FRAUD ENVIRONMENT

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

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

The most important of these are as follows:

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

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

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

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

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

- 4.7 We expect our Directors and Heads of Service to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive/Corporate Director, Resources in consultation with the Head of Audit Services may refer matters to the police if there is suspicion of any criminal activity having taken place.
- 4.8 The conduct of an investigation is a serious, expensive and disruptive business. Therefore where it is found that allegations are unfounded and vexatious or malicious, this will be taken very seriously and dealt with under the Council's disciplinary code.

## **5 PREVENTING FRAUD AND CORRUPTION**

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

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

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

### **5.2 Internal Controls**

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

### **5.3 Effective Action**

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

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

## **6. DETECTING, INVESTIGATING AND RECOVERY**

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

### **6. Data Matching**

- 6.6.1 As a proactive commitment to the prevention and detection of fraud the Authority has actively participated in the National Fraud Initiative, which is a data matching exercise carried out by the Audit Commission under their powers within the Audit Commission Act 1998. This data match looks at wide variety of data sources and compares them to each other to identify potential fraud and irregularity. The potential fraud and irregularity areas include:-

- Benefits
- Payroll and Pensions
- Creditors
- Street Traders
- Insurance
- Private and Voluntary Adult Homes
- Child Minders
- Blue badge misuse

6.6.2 In addition data matching is also carried out with the Benefit Agency (Department of Works and Pensions) and the Inland Revenue under their own statutory powers.

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

## **6.7 Housing or Council Tax Benefit Fraud**

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

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

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

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

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

## **7 Training and Awareness**

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

7.2 Future training will include ;-

- Organised workshops will continue to be delivered during for 2011/12
- Induction training to new Investigating Officers under the Council's Disciplinary Code.
- Departmental management team training
- Regular on-line alerts and training

## **8. Conclusion**

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

## **APPENDIX 1**

### **The Fraud Act 2006**

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

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

The offence can be committed in three different ways;

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

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

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

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

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

### **The Bribery Act 2010**

The Bribery Act will penalise companies whose employees engage in bribery if the company does not have appropriate policies in place to prevent it. The penalties are severe including fines and imprisonment. Companies should ensure that they have appropriate policies in place and that these are communicated to their employees. Significant fines and imprisonment of up to 10 years could be the result of a failure under the Act. SME's will often have more limited resources with which to take the challenges of resisting and countering bribery and the growing requirements made by large international companies for their suppliers to have appropriate anti-bribery policies and systems in place. We set out below a summary of the legislation.

## Key Points of the Bribery Act 2010 are

**Section 1** of the Act makes it an offence to bribe another person in the following two scenarios:

- Where the person offering the bribe intends the advantage received to bring about an improper performance of a relevant function or activity by another person or to reward such improper performance.
- Where the person offering the bribe knows or believes that the acceptance of the advantage offered, promised or given, in itself constitutes the improper performance of a relevant function or activity.

**Section 2** sets out the offences in relation to accepting bribes. The offences are set out in the form of 4 scenarios in which an individual requests, accepts or agrees to receive a financial advantage. These scenarios provide that the link between the advantage and improper performance may take 3 forms.

- The recipient of the bribe may intend the improper performance to follow as a consequence of the request, agreement to receive or acceptance of the advantage.
- Receiving, agreeing to receive or accepting the advantage may itself amount to the improper performance.
- The advantage may be a reward for the improper performance.

### Relevant Function or Activity

A relevant function or activity includes:

- All functions of a public nature;
- All activities connected with the business;
- Any activity performed in the course of employment; and
- Any activity performed by or on behalf of a body of persons.

### Foreign Public Officials

**Section 6** of the Act makes it an offence to bribe a foreign public official. A person is guilty of this if his intention is to influence the official in his capacity as a foreign public official. This offence only covers giving and offering bribes, not accepting.

### Commercial Organisations

The Act makes it an offence for a Commercial Organisation (CO) to fail to prevent bribery. A relevant CO will be guilty of this offence if a person associated with it bribes another person with the intention of obtaining or retaining business or a



business advantage for the CO. A CO can be guilty of this regardless of where the offence took place.

There is a defence open to the CO if it can show that it has in place adequate procedures to prevent bribery.

A relevant CO is:

- A body which is incorporated under the law of any part of the UK and which carries on a business anywhere.
- Any other body corporate (wherever incorporated) which carries on a business, or part of a business, in any part of the UK.
- A partnership which is formed under the law of any part of the UK and which carries on a business whether there or elsewhere.
- Any other partnership (wherever formed) which carries on a business, or part of the business in any part of the UK.

A person is associated with a CO if they perform a service on behalf of the CO, it is irrelevant in what capacity the service is performed. It may be performed as an employee, agent or subsidiary.

### Offences

For offences under sections 1, 2 and 6 of the Act if this has been committed with the consent or collusion of a senior officer of a body corporate, the officer as well as the body corporate is guilty of the offence. This includes directors, senior managers and the company secretary.

### **Penalties**

#### Individuals

An individual found guilty of an offence under sections 1, 2 and 6 are liable to receive:

On summary conviction

- imprisonment for a maximum term of 12 months; or
- a maximum fine of £5,000; or
- to both imprisonment and a fine of up to £5,000.

On conviction on indictment:

- imprisonment for a maximum term of 10 years; or
- a fine; or
- to both imprisonment and a fine.

A company found guilty of an offence under sections 1, 2 and 6 is liable to:

On summary conviction:

- a fine not exceeding £5,000.

On indictment:

- to a fine.

### Practical Guidance

- All commercial and public sector organisations should prohibit bribery in any form whether direct or indirect and by or for the organisation.
- Commit to implementing systems to counter bribery.
- Review the adequacy of their internal procedures to prevent bribery.
- Put in place staff training and ensure you have written procedures available to staff and contracted consultants. Consider incorporating these into contracts of employment and service and enable the employer to terminate employment or engagement in the case of a breach.
- Carry out due diligence before entering into arrangements with other parties.
- Ensure that appropriate checks are carried out during the processing of payments.
- Have a strategy in place to deal with an allegation of bribery or corruption made within the company or in public. This should include ways of reducing the potential damage to the organisations reputation and how to use the media and other channels of communication to combat this.

### **The Identity Card Act 2006**

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

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

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

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

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

### **The Proceeds of Crime Act 2002**

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

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

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

### **Regulation of Investigatory Powers Act 2000**

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

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

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

Article 8 of the European Convention of Human Rights provides:

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

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

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

### **The Public Interest Disclosure Act 1998**

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

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

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

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

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

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

The relevant failure may be:-

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

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

## **APPENDIX 2**

### **Fraud Response Plan**

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

### **Internal Audit**

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

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

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

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

### **Reporting suspected Fraud and Corruption**

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

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

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

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

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

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

### **Action by employees**

Where fraud or corruption is suspected:

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

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

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

### **Action by Managers**

Where fraud or corruption is suspected:

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



## **APPENDIX 3**

### **Whistleblowing Process**

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

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

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

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

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

## **A Supplement not a Substitute – The Usual Channels for Complaint**

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

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

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

- ◆ The Council's Complaints Procedure
- ◆ The Grievance Procedure
- ◆ Line Management
- ◆ The Housing Benefit Fraud Hotline (0207 364 7443)
- ◆ The Audit Commission

### **Safeguards**

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

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

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

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

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

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

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

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

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

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

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

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

<ul style="list-style-type: none"> <li>• I think a fraud or unlawful act may have been committed</li> <li>• What should I do?</li> <li>• Who should I contact?</li> </ul>	<ul style="list-style-type: none"> <li>• Is it serious and well founded?</li> <li>• If Yes</li> <li>• You can raise your concerns in confidence on the Whistleblowing Hot Line (or write to Tony Qayum –Head of Audit Services – 4<sup>th</sup> Floor Mulberry Place)</li> </ul>
<ul style="list-style-type: none"> <li>• What will happen if I ring the Hotline</li> </ul>	<ul style="list-style-type: none"> <li>• You will be asked for details of your concern</li> </ul>
<ul style="list-style-type: none"> <li>• Will I have to give my name?</li> </ul>	<ul style="list-style-type: none"> <li>• NO</li> </ul>
<ul style="list-style-type: none"> <li>• So what will happen next?</li> </ul>	<ul style="list-style-type: none"> <li>• Your concern will be given a reference number. You can call in 10 days to check progress</li> </ul>
<ul style="list-style-type: none"> <li>• Who does anything about it?</li> </ul>	<ul style="list-style-type: none"> <li>• A Registration Officer will take details of your call, and a professional investigator will review and classify it.</li> <li>• A register of <u>all calls</u> will be kept, and the Registration Officer will report this to the Chief Executive</li> </ul>

	A final decision will be made and if appropriate an independent confidential investigation will be carried out
<ul style="list-style-type: none"> <li>• Won't it just be covered up?</li> </ul>	<ul style="list-style-type: none"> <li>• NO - there is independence between the Registration Officer and the Investigation Officer. The Investigation Officer is answerable to the Chief Executive, and the Chief Executive must ensure that justified action is reported back to the Registration Officer</li> <li>• An external registered body will independently audit the Registration and the Investigation of your concerns.</li> </ul>
<p><b><i>PLEASE CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested.</i></b></p>	

## **Appendix 4**

### **LONDON BOROUGH OF TOWER HAMLETS BENEFIT FRAUD ENFORCEMENT POLICY**

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#### **1) Background**

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

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

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

#### **2) Legislative framework**

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

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

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

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

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

The caution is offered in cases where the claimant has admitted the offence, and he/she has a choice in whether to accept or decline the caution. If the caution is declined the Authority should proceed with prosecution action. An accepted caution is recorded on the Department of Work and Pensions Central database and the record is kept for 5 years. Prior to offering Formal Cautions or Administrative Penalties the Central Database is checked. It would not be appropriate to issue more than one

caution or penalty to an individual. If the check shows they have accepted a caution or penalty previously the Authority should proceed with prosecution action against that individual.

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

### 3) **Prosecution**

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

### 4) **Suitability for Prosecution and Sanction Action**

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

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

#### A) ***Sufficiency of evidence***

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

#### B) ***Public interest test***

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

- Whether there has been unnecessary delays in carrying out the investigation (i.e. unexplained lapses of time).
- Whether the offender has any serious mental or physical health problems.
- The age of the offender.
- Whether the person has voluntarily disclosed the offence before the investigation discovered the fraud.
- Whether a vulnerable person would be put at risk by a prosecution (i.e. an informant).

C) ***Additional factors of the case***

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

Other factors taken into consideration are:

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

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

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

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

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

## **APPENDIX 5**

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

### **Tenancy Fraud**

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

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

### **Grants**

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

### **Insurance claims**

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

### **Parking permits including Blue Badge Scheme**

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



## **Identity theft/fraud**

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

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

## **Protect yourself!**

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

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

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

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

## **Protect yourself act quickly**

- Firstly do not ignore the problem it might not be you that has ordered some goods or opened an account but the debt falls to your name and address.

- Once blacklisted for credit it may take many years to fully recover the problem you might have difficulties in obtaining a mortgage or other bank credit.
- Contact your local Police and report the crime and ask for a crime reference number to quote to the companies that allege that you have opened an account with them.

Check out the Home Office identity theft website at [www.identity-theft.org.uk](http://www.identity-theft.org.uk) for more information

### **Advance fee fraud**

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

## Appendix 2

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b><u>Tower Hamlets Homes</u></b>							
Management Support and Advice	5		-	N/A	N/A	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Work carried forward, Whistle blows management referrals and proactive contingency	30	Management of Whistle blows, management referrals and reactive and proactive contingency	H	£140M	0.5% - 3%	Various	One Tower Hamlets Working efficiently and effectively as one Council.
Anti Fraud Arrangements/Joint Working	5	This work includes the Fraud Forums, training with the service on Anti Fraud and Corruption Strategy, Money Laundering etc. There is also provision for in year unplanned investigations and support to management.	H	£140M	0.5% - 3%	Legislative Requirement	One Tower Hamlets Working efficiently and effectively as one Council.
Social Housing Fraud Joint Working and Systems improvement	10	Feeding back and learning from systems issues identified by the Social housing fraud team from their working with THH as added value	H	£140M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
THH total	<u>50</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b><u>Proactive Training and Development</u></b>							
Anti fraud liaison groups development	5	This will involve close working with a number of our external partners including the Police, DWP and PCT.	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Anti fraud training and development for members and services	10	Provide continuous update and training to Members and Officers including lunchtime workshops for Directorate Staff	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>15</u>						
<b><u>Overall Governance</u></b>							
Audit Committee	10	Preparation and presentation of reports to the Audit Committee	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Standards Committee	5	Preparation and presentation of reports to the Standards Committee	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
FOI	5	Reactive responses to Freedom of Information requests for information.	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Money laundering Officer responsibilities	10	Identify and deliver training and act as the money laundering officer, providing advise, single point of contact on any issues and co-ordination with other agencies	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Performance management Local indicators	10	This is a first year review of the new National Indicators and will form a key evaluation within the CAA process.	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Single Data List	10	Support the corporate team on the systems controls providing the government returns	H	N/A	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Categorising and quantifying fraud	10	Continue the development of categorising and quantifying fraud to influence system controls and improvement	H	Over £1B	0.1% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
	<u>60</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b><u>NFI 2010/11</u></b>							
NFI 2010/11 management Key Contact Function	25	This work will involve managing the Audit Commission Web base site, provision of training and support and monitor progress. Managing NFI pilots as they arise	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
NFI 2010/11 Co-ordinator and Corporate Investigations	50	Manage the NFI output with corporate risk support/train other investigators as appropriate, respond the enquiries from other LA's or agencies	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>75</u>						
<b><u>Joint working with other agencies</u></b>							
Joint working and referrals DWP	7	Provide support to DWP referrals on staff related matters	H	Circa £140M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Joint working and referrals from the Police	8	Respond to Met Police referrals from both the local and specialist police functions	H	Unknown dependant on values of referrals	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>15</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b>Anti Fraud Forums</b>							
Anti Fraud and procurement controls forum	4	Set up regular forums with procurement managers to identify potential fraud risk to enable control weakness to influence the audit planning	H	Circa £300M	0.5% -3%	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Anti Fraud forums	5	Internal and external (other LA's, Police, DWP, PCT) anti fraud groups working on information sharing and joint working and fraud co-ordination	H	Unknown dependant on values of referrals	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
	<u>9</u>						
<b>Proactive</b>							
Duplicate Payments R2P and Creditors	10		H	Circa £300M	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Control of BAC's set up and changes	6		H	Over £400M	0.1% to 3%	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
PCI compliance	10		H	£30M	0.3% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
Data matching - corporate assurance	10		H	Unknown dependant on matching results	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Data matching - Benefits request	15		H	£270M	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Third Sector Grants	10	Working with third sector team	H	£5M	1%-5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Development of FMMs fraud modules case managements systems	15	Building developing the FMMs cases management systems for Social Housing Fraud, Parking Fraud and Corporate reactive modules	H	N/A	N/A	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Adult/ Childrens direct Payments and personalisation budgets	5	Review of risk and controls on direct payments for service	H	£15 M	To be evaluated	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Staff exit controls	10	Review of staff exit controls to ensure that access to data and buildings are promptly ceased and that LBTH property has been returned	H	N/A	To be evaluated	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>91</u>						



Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b><u>Fraud Teams Management</u></b>							
Management of the Social Housing Fraud Team	50	Supervision, management, guidance and support to the Parking Fraud Team in setting and achieving targets and objectives	H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Parking Fraud Team Management	40	Supervision, management, guidance and support to the Social Housing Fraud Team in setting and achieving targets and objectives	H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
	<u>90</u>						
<b><u>Contingencies</u></b>							
Anti Fraud Reactive contingency	<u>75</u>		H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
Management of Whistle blows	<u>20</u>		H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working effectively as one Council.
<b><u>Reactive (audit and anti fraud) total</u></b>	<b><u>500</u></b>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<b><u>Social Housing Fraud Team (3 full time resource)</u></b>	<b><u>600</u></b>	Working with THH and other RSL's on recovering of Unlawfully let properties, in appropriate successions, assignments, mutual exchanges RTBs. Joint working with LBTH to identify and learn from weaknesses. Co-ordinate associate fraud work with benefits, Council Tax, Parking Fraud, Electoral Role etc...	H	£140M plus	1% - 5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<b><u>Parking Fraud Team (one full time one P/T)</u></b>	<b><u>315</u></b>	Investigating blue badges, parking and permits associated abuses in line with SLA with CLC	H	£15M	0.5% to 10%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

# Agenda Item 64

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
<b>Audit Committee</b>	<b>22<sup>nd</sup> March 2011</b>	<b>Unrestricted</b>		<b>6.4</b>
REPORT OF:  <b>Corporate Director, Resources</b>  ORIGINATING OFFICER(S):  <b>Tony Qayum, Head of Audit Services</b>	<b>Social Housing Fraud Update</b>  <b>Ward(s) Affected: N/A</b>			

## 1. Introduction

- 1.1 This report provides the Audit Committee with an update on the work of the Social Housing Fraud team and its successes to date in the recovery of unlawfully let public sector dwellings.

## 2. Recommendations

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

## 3. Background

- 3.1 The Audit Committee has received reports previously on the creation of this team and its funding arrangements. The Audit Commission has continued to highlight the abuse of Social Housing and in its latest paper "Protecting the Public Purse" issued in October 2010. It reports that through the efforts of some sixty councils in England 1,600 properties with an asset value of £240 million were recovered from unlawful tenants.

- 3.2 Our work on tenancy fraud began in December 2009, when the government launched a new national crackdown on tenancy cheats. This was in response to the Audit Commission's report "Protecting the Public Purse" published in September 2009 (this is the first edition, the more up to date report was published in October 2010), which estimated that 2.5% of the total stock of council housing in London is subject to illegal sub-letting.

Anecdotal evidence suggested that in some London boroughs the proportion may be much higher, perhaps up to 5 - 10% of the total stock. The large gap between social rents and private sector rents, particularly in inner London, was considered to be driving a large black market in illegally sub-let council houses and flats. In some cases, local authority fraud teams uncovered large scale illegal operations involving multiple properties, sometimes brazenly advertised through high street letting agencies, although this has not been our experience to date.

- 3.3 The paper stated that fewer than 5% of those evicted from Sublet properties sought assistance from Homeless Services as in most cases they found alternative accommodation in the private rented sector. This does mirror our experience at Tower Hamlets.
- 3.4 The strategy advised that the councils doing the most to tackle the problem would be given additional funds to continue the drive on rooting out and dealing with unlawful subletting.

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

- 4.1 The Council has received £100,000 for the continuation of the function and intends to maximise effectiveness by extending the existing arrangements for a further twelve month period and utilising wherever possible the use of technology to risk assess potential cases for follow up. We continue to have good dialogue with the DCLG in promoting our successes and contributing to the national agenda.
- 4.2 The Team have enhanced the joint working arrangements with Tower Hamlets Homes and a team member is now located for one day a week at each of the three THH housing offices to provide advice and support along with identifying new cases.
- 4.3 For a more comprehensive service and “joined-up working” the Team are supporting the Letting Service on potential fraudulent housing applications and THH housing services on potential irregular mutual exchanges, assignments and successions to avert inappropriate access to property.
- 4.4 The Team are also looking into inappropriate “right-to-buy” applications or potential unlawful subletting property with live “RTB” applications. These are either from referrals from THH “Right-to-Buy” team or from whistle blows, to avert an in-appropriate disposal of property and consider prosecution action.

- 4.5 The East London Solutions working group of five local authorities and a number of RSLs now meets regularly and this has helped to share experience and intelligence on areas to target and how to work smarter.
- 4.6 We are now providing training on how we set up our team, its scope and working practices to other authorities within the East London Solutions group.
- 4.7 The publicity on the whistle blowing hotline and the anti-fraud email together with referrals through the Council and THH have proved effective with over 260 referrals for investigations being received.
- 4.8 The following is a summary of the team's case load, progress and successes to date:-

#### **Open Cases**

- 123 current cases
- Of these 70 have Housing Benefit and/or Council Tax Benefit in payment
- 97 of these cases are Tower Hamlets Homes managed properties.
- 15 cases are currently with Legal Services for action to recover

#### **Closed Cases**

- 138 closed cases (excluding recovered)
- Of these 94 had Housing Benefit and / or Council Tax Benefit in payment.
- 76 of which were Tower Hamlets Homes managed properties

#### **Recovered Cases**

- 36 properties recovered with an estimated value of £7 M.
- 15 had Housing Benefit and / or Council Tax Benefit in payment.
- 25 were managed by Tower Hamlets

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

These are contained within the body of this report.

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

6.1 The Council has a duty of Best Value under Section 3 of the Local Government Act 1999. By virtue of this duty it is required to ensure continuous improvement all its dealings. This includes ownership and use of property so it can organise the most cost effective method of delivering services to the public. Fraud prevents those in real need from accessing housing accommodation. The actions described in this report demonstrates how that is to be dealt with. The Council is taking action to recover the properties which have been identified as having been obtained by means of fraud. Legal proceedings are ongoing.

## **7. One Tower Hamlets**

7.1 There are no specific one Tower Hamlets considerations.

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

## **8. Risk Management Implications**

8.1 This report highlights how actions of the anti fraud team in dealing with the fraud risks that can arise from the abuse of public sector properties. There are no other risks that need to be considered in addition to those already highlighted within this report.

## **9. Sustainable Action for a Greener Environment (SAGE)**

9.1 There are no specific SAGE implications.

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Local Government Act, 1972 SECTION 100D (AS AMENDED)

### ***List of "Background Papers" used in the preparation of this report***

Brief description of "background papers"

Contact :

N/A

Minesh Jani, 0207 364 0738

# Agenda Item 65

COMMITTEE: <b>Audit Committee</b>	DATE: <b>22 March 2011</b>	CLASSIFICATION: <b>Unrestricted</b>	REPORT N°	AGENDA NO. <b>6.5</b>
REPORT OF: <b>Corporate Director of Resources</b>		TITLE: <b>Treasury Management Activity for Period Ending 28 February 2011</b>		
ORIGINATING OFFICER(S): <b>Oladapo Shonola, Chief Financial Strategy Officer</b>		Ward(s) affected: <b>N/A</b>		

<b>Lead Member</b>	<b>Cllr Alibor Choudhury – 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 28 February 2011 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 Finance and Accounting) Regulations 2003 require 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) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

## 6. **TREASURY ACTIVITY FOR PERIOD 1 April to 28 February 2011**

6.1 This section of the report sets out:

- The current credit criteria being operated by the Council.
- The treasury investment strategy for the current financial year and the progress in implementing this.
- The transactions undertaken in the period and the investment portfolio outstanding as at 28 February 2011.

## 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.

<b>Institution</b>	<b>Minimum High Credit Criteria</b>	<b>Use</b>
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



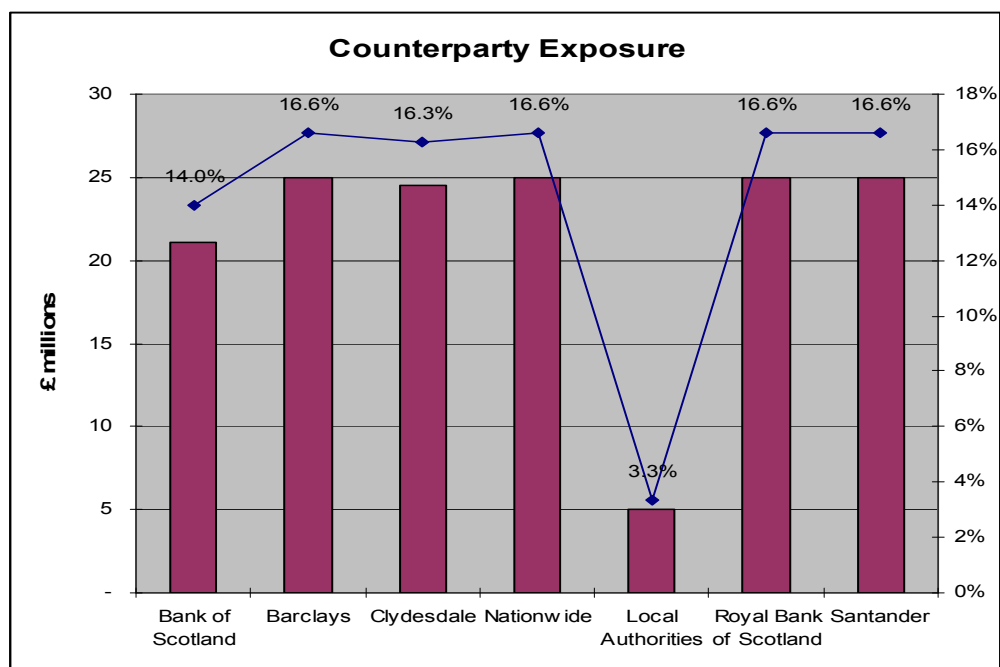
## **8 INVESTMENT STRATEGY**

- 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 providing 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 the second quarter of 2011. Against this 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 Council cash balances were initially projected to average £100m in 2010-11. This has now been revised upwards, so that average balances are projected to average £150m. Although, the daily balances will vary throughout the year.
- 8.5 The current balance of £150.636 million is higher than anticipated at the start of the year due to increased liquidity, additional funding that has been accessed by the Council to ensure it can maximise debt repayment under the Government's proposals for Housing Finance reform. and funds that are as yet unspent but have been earmarked to fund the 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		0.75%	Clydesdale Bank plc	Call	24.536	0.75%
Overnight		0.75%	Bank of Scotland plc	Call	11.100	0.75%
			<b>SUB TOTAL</b>		<b>40.636</b>	
1 Month	15.000	0.45%				
2 Months	0.000	0.60%	Nationwide	10-Mar-11	10.000	0.54%
3 Months	25.000	0.75%	Barclays	03-Mar-11	5.000	0.63%
			Bank of Scotland	26-Apr-11	5.000	1.17%
4 Months	0.000		Royal Bank of Scotland	10-Mar-11	25.000	0.76%
6 Months	30.000	0.99%	Bank of Scotland	25-Jul-11	5.000	1.30%
			Barclays	10-Aug-11	5.000	1.05%
9 Months	30.000	1.30%	Barclays	10-Nov-11	5.000	1.30%
12 Months	40.000	2.00%	Cater Allen (Santander)	13-May-11	3.000	1.50%
			Cater Allen	18-Jul-11	5.000	2.50%
			Cater Allen (Santander)	09-Apr-11	5.000	2.20%
			Cater Allen (Santander)	13-May-11	2.000	2.10%
			Nationwide	03-Jun-11	5.000	1.35%
			Barclays	03-Jun-11	10.000	1.40%
			Nationwide	14-Oct-11	5.000	1.37%
			Nationwide	17-Jan-12	5.000	1.43%
			Cater Allen	17-Jan-12	5.000	2.50%
			North Tyneside Council	20-Jan-12	5.000	1.20%
			<b>SUB TOTAL</b>		<b>110.000</b>	
	<b>150.000</b>		<b>TOTAL</b>		<b>150.636</b>	

- 8.8 The Council's exposure to any one counterparty/Group is represented by the below chart including exposure as a percentage of total assets invested as at 28 February 2011.



## 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 October 2011) from 1.09% average return to 1.13%.
- 9.2 Although there has been an improvement in return this year in the average return on investment at 1.13% (as at 28 February), this is below the benchmark of 1.25%. However, it is above the LIBID rate by 0.45% 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 cash balances and the contraction in counterparty list due to the very limited number of institutions and jurisdictions that now meet the counterparty ratings. Consequently, a higher than envisaged percentage of the portfolio has had to be placed with the Government's Debt Management Office (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. Although placements with the DMO are now much reduced, there are still instances where the DMO is used as a depositor of last resort. 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. Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 11.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 11.3. The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

## **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"***

*February 2011 Investment Portfolio Analysis Report*

***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'.

<b>5</b>	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.
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### Short-term Ratings

<b>Rating</b>	
<b>F1</b>	<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.
<b>F2</b>	<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.
<b>F3</b>	<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.

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# Agenda Item 66

COMMITTEE	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
<b>Audit Committee</b>	22 <sup>nd</sup> March 2011	<b>Unrestricted</b>		6.6
<i>REPORT OF:</i> <b>Chris Naylor - Director of Resources</b> <i>ORIGINATING OFFICER(S):</i> <b>Alan Finch – Service Head, Corporate Finance</b>		<i>TITLE:</i> <b>Update on Implementation of International Financial Reporting Standards (IFRS)</b> <i>Ward(s) affected:</i> All		

## 1. SUMMARY

- 1.1 This report provides an update on progress towards implementing International Financial Reporting Standard (IFRS) and a potential change to the timetable of Audit Committee considering the annual Statement of Accounts if draft legislation is agreed.

## 2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1 Note progress towards meeting the International Financial Reporting Standard (IFRS).
- 2.2 Note that if draft legislation is agreed, the audited Statement of Accounts may be submitted to a September Audit Committee for approval meeting rather submitting the unaudited accounts at the June meeting.

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

*Brief description of "background papers"*

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

*Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No. 533) as amended*

*Alan Finch (Tel 0207 364 4915)*

### **3. BACKGROUND**

In July 2011, officers reported on the requirement for the Council to adopt International Financial Reporting Standards (IFRS) to Full Council as part of their consideration of the Statement of Accounts. This report provides an update on the requirements and the Council's progress towards implementing the new standards. In addition, a potential change in the reporting of the Statement of Accounts is highlighted

### **4. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)**

- 4.1 With effect from the 2010/11 financial year, local authorities are required to prepare their financial statements in accordance with International Financial Reporting Standard (IFRS). This replaces the existing standards and the Generally Accepted Accounting Code of Practice for the UK (UKGAAP). IFRS, which has applied to Companies for some years, has already been introduced in central government and the NHS and the purpose is to have a single standard upon which all major organisations throughout the world are required to report. Adoption is mandatory for local authorities.
- 4.2. The IFRS introduces many changes to the way results are reported, but the main differences in the presentation of the accounts is as follows:
- New statements in the accounts: the income and expenditure account is now named the **comprehensive income and expenditure account** – as the name suggests, there are lots of similarities.
  - The **balance sheet** is largely unchanged though fixed assets become non-current assets and land, buildings and other equipment is rolled up into a new category of **Property, Plant and Equipment**.
  - A new statement is the **Movement in Reserves Statement** showing the **usable** (i.e. the general fund balance) and **un-usable reserves** (e.g. the revaluation reserve – the difference between the cost of a building and its assessed value). This combines the statement of movement on the general fund balance statement (this strips out certain charges such as depreciation so to not affect council tax levels) and the statement of total recognised gains and losses (this reconciles changes in balance sheet reserves) into one statement.
  - The **cash flow statement** is less detailed (the working papers supporting these are the same), however "**cash equivalents**" (deposits in call accounts easily convertible to cash) are now re-categorised from investment balances.

- Notes have to be included within the accounts showing how the 2009/10 accounts have been restated to comply with IFRS. It should be noted that the Council's usable general fund and HRA reserves resources have not changed as a result of the restatement.
- 4.3 The disclosure requirements within the accounts under IFRS are more demanding, so the complete accounts will be a bigger document. The main changes are:
- 4.3.1 **Lease accounting** – if the council rents an asset (i.e. a building or an item of equipment), then the accounts need to disclose the total amount of future payments that are due. Also, the asset may need to be included on the council's balance sheet under **Property, Plant and Equipment** if the council is using the asset for most of its useful life or the rentals due mean the council has more or less paid for the asset over the term of the lease.
  - 4.3.2 **PFI Contracts** – previously the Council didn't have to include PFI assets on the balance sheet; the change to IFRS rules has brought the council's PFI schools on balance sheet and the heating system on the Barkantine Housing estate. This change has taken place for the 2009/10 accounts.
  - 4.3.3 **Embedded Derivatives** – if a contract is for services over a number of years and the pricing terms mean future increases are different from normal price indexes used in this type of contract, then it may be that costs have been unfairly allocated to the end of the contract. If this is the case, an embedded derivative may be in place – this could require costs to be reallocated across future financial years if payment increases are much above relevant price increases. If the contract contains assets purely for council use, then these may have to come onto the balance sheet.
  - 4.3.4 **Component Accounting** – more emphasis has been placed on whether council assets contain separate components that have a remaining useful life that is different from the main asset it is within as this could mean depreciation charges are incorrectly calculated. Only assets with a value of over £0.5 million and those with possible components over 25% of the value are being considered.
  - 4.3.5 **Employee Benefits** – In cases where annual leave or other leave is rolled over into the next financial year this could mean that an officer may be off for a considerable period of time in the following year – in theory, this absence may mean work has to be covered with other resources, therefore IFRS requires that a monetary value is placed on annual leave carried forward. Arrangements are being put in place to collect details of outstanding leave at the end of March. The roll-over of annual leave will be subject to manager's approval and council regulations. The potential impact on general fund reserves is reversed through a new accumulated absences report. The reserve balance comprises the value of teacher's leave rolled over from one term to another at March end. Non teacher's leave details have been collected but are not considered material for inclusion.
  - 4.3.6 **Infrastructure assets** – infrastructure assets are currently shown as depreciated historical cost values in the accounts. Future guidance may require a different valuation method for infrastructure assets, (i.e. roads) taking account of replacement costs of constituent parts of assets (i.e.

foundations, road surfaces). Any changes would not come into effect until 2012/13 at the earliest. The relevant Highways officers are aware of these potential changes.

- 4.3.7 **Grant Accounting** – When the council receives a grant to fund an activity, the grant may be subject to **conditions** that require the grant is repaid if the funding body is not satisfied that the grant has been used as expected. If there are binding conditions that could require repayment, then the council has to reflect the income received as a **creditor or receipts in advance** on the balance sheet to represent the potential debt. If there are no specific repayment conditions (even if the grant payer has expressed a wish for money to be used for certain purposes) but the money has not been spent, a **reserve** has to be created to show the resource rolled over to the following year.
- 4.3.8 **Segmental Accounting** – the council now has to include details of income and expenditure for each directorate within the accounts in addition to providing details of spend per the headings specified by CIPFA's Best Value Accounting Code of Practice.
- 4.3.9 **Group Accounting** – the rules on including controlled entities in the council's group accounts haven't changed significantly, however if the council has the right to control an organisation without excerpting that power, then it may need to be considered. It is not expected that additional organisations will need to be included in the group accounts, but a review is being conducted for the 2010/11 accounts.
- 4.4. The Council's progress in preparing for IFRS is comparable to most other councils. Detailed discussions have taken place with other Councils on consistent approaches for implementation. The authority remains on schedule to complete the conversion in time for the 2010/11 closedown as the restated IFRS accounts have been drawn up for 2009/10 and passed to the auditors for consideration. **Appendix A** sets out more details of the conversion. A more detailed explanation of the changes under IFRS will be given when the 2010/11 accounts are submitted to Audit Committee.

## **5. PROPOSED CHANGES TO ACCOUNTS AND AUDIT REGULATIONS 2003 – ACCOUNTS APPROVAL TIMETABLE**

- 5.1 Redrafted Accounts and Audit Regulations have been received from CLG (Communities and Local Government) for consultation. Most changes concern other public bodies or the clarification of previous legislation, such as the requirements to publish details of salaries as per the publication in the 2009/10 accounts, however there is a proposal that will change the timetable for tabling the annual Statement of Accounts to Members in September once the statements have been audited to bring arrangements more in line with private companies.
- 5.2 In recent years, it has been necessary to table draft, unaudited accounts to Members by 30<sup>th</sup> June, however the new proposals will mean Members will approve the accounts in September once the auditors have completed their review. Council finance officers will still need to prepare draft accounts by the end of June to allow the auditors to start their audit.

- 5.3 It should be noted that Cabinet will still receive an outturn report for 2010/11 of expenditure in June or July – this will contain the key information on the Council's financial resources at year end.

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

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

## **7. RISK MANAGEMENT**

- 7.1 There are no specific risk management implications.

## **8. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER**

- 8.1 The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. This includes the relevant reporting standards. In the body of this report the Council's chief finance officer has demonstrated the measures he is taking in regard to the financial procedures to ensure the Council's proper financial administration

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

- 9.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.

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

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

## **11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)**

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

**APPENDIX A**

<b>INTERNATIONAL FINANCIAL REPORT STANDARDS PROJECT - PROGRESS REPORT</b>			
<b>Issue</b>	<b>RAG Status</b>	<b>Explanation</b>	<b>Progress to Date</b>
Contracts	<b>GREEN</b>	All major contracts must be reviewed to ensure that clauses which involve transfer of assets or risk are properly accounted for.	Material contracts have been reviewed – no embedded assets required for inclusion under the IFRS regulations have been identified. This has included a review of potential embedded derivatives.
Leases	<b>GREEN</b>	IFRS changes the rules which differentiate between a finance lease and an operational lease. All major leases must be reviewed to ensure they are properly classified	Leases identified have been reviewed and reclassified where necessary. An exercise is being conducted to identify any new agreements.
PFI	<b>GREEN</b>	IFRS will change the accounting arrangements for PFI, bringing assets obtained through this route onto the authority's balance sheet.	The authority has three extant PFI schemes; two relating to schools and one relating to the Barkantine estate. Asset valuations have been obtained and the necessary accounting transactions have been calculated for the restated accounts.
Employee Benefits	<b>GREEN</b>	The new accounting rules require authorities to value and account for liabilities in relation to non-financial staff benefits. The most obvious example is where staff carry forward leave at the end of financial year to be taken in a later year, this represents value owed to the member of staff to the authority.	Data was collected on staff leave carried forward at the end of 2008/09 and 2009/10. The accounts have been rested to accrue for teacher's leave (£3.9m). Non teachers accruals amount to around £260,000 a repeat exercise is being undertaken at the end of the current financial year to confirm the value is not material – this approach is in line with other similar councils.

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Infrastructure	<b>AMBER</b>	The rules on valuing infrastructure assets may change. For example in future the road network must be assessed according to the width of roads and their underlying fabric as well as road length.	Highways & Transportation are looking to ensure the relevant information can be obtained in setting infrastructure asset management plans. This will not impact upon the accounts until 2012/13 at the earliest, but data would though some general disclosures may be necessary for the WGA return.
Component Accounting	<b>GREEN</b>	IFRS requires future works to components of assets to be separately valued and accounted for if they are material in value and have a significantly different remaining useful life.	This will apply from April 2010. The Council has conducted a review of potential components in existing assets – potential components will be identified as new capital schemes are approved. The reviews conducted have not identified any significant assets with a materially different remaining lifespan to the underlying asset.
Segmental reporting	<b>GREEN</b>	Expenditure and income will need to be reported by Directorate by Directorate in future as well as by standard headings.	This information is already available in management reports.
Training	<b>GREEN</b>	Training of accountancy staff in all Directorates and selected others, notably Property Management staff, is necessary to embed IFRS	IFRS Training has been undertaken for officers. Any further training requests will be considered.
Restatement of Balance Sheet	<b>GREEN</b>	The balance sheet as at 1 <sup>st</sup> April 2009 is required to be restated on IFRS principles.	The restated balance sheets for 2008/09 and 2009/10 have been prepared. These have been sent to the auditors for review.

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