

Meeting of the

AUDIT COMMITTEE

Tuesday, 13 July 2010 at 7.00 p.m.

A G E N D A

VENUE

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

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair: Councillor Rabina Khan	
Councillor Abdul Asad Councillor Craig Aston Councillor Lutfa Begum Councillor Mizan Chaudhury Councillor Stephanie Eaton	Councillor Khales Uddin Ahmed, (Designated Deputy representing Councillors Carlo Gibbs, Rabina Khan, Abdul Asad, Lutfa Begum and Mizanur Rahman Chaudhury) Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)

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

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

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 13 July 2010

7.00 p.m.

1. APPOINTMENT OF VICE - CHAIR

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

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

	PAGE NUMBER	WARD(S) AFFECTED
4. UNRESTRICTED MINUTES	3 - 12	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 30 th March 2010.		
5. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP	13 - 20	
6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
6 .1 Annual Audit Letter 2008/09	21 - 36	
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7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
7 .1 Internal Audit Annual Report 2009/10	51 - 90	

7 .2	Annual Governance Statement 2009/10	91 - 114
7 .3	Treasury Management Activity for Period Ending 31 May 2010	115 - 130

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Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.30 P.M. ON TUESDAY, 30 MARCH 2010

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

Members Present:

Councillor Helal Abbas (Vice-Chair, in the Chair) (Leader of the Council)
Councillor Stephanie Eaton (Leader, Liberal Democrat Group)
Councillor Clair Hawkins
Councillor David Snowdon

Other Councillors Present:

None.

Officers Present:

Kate Bingham – (Acting Service Head (Resources) Children Schools and Families)
Jamie Blake – (Service Head of Public Realm, Communities Localities and Culture)
Alan Finch – (Service Head, Corporate Finance, Resources)
Abid Hussain – (Third Sector & External Funding Manager, Strategy and Performance)
Minesh Jani – (Service Head, Risk Management)
Chris Naylor – (Corporate Director, Resources)
Tony Qayum – (Head of Audit Services, Internal Audit, Resources)
Steve Vinall – (Service Manager, Deloitte & Touche)
Les Warren – (Director of Finance and Resources, Tower Hamlets Homes)
Caroline Chalklin – (Committee Officer, Chief Executives')

COUNCILLOR ABBAS IN THE CHAIR

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Denise Jones.

Noted.

2. DECLARATIONS OF INTEREST

Councillors Abbas, Snowdon, Hawkins and Eaton declared a Personal interest in the agenda. The declaration was made on the basis that the agenda contained references to Members' Expenses, and Councillors Abbas, Snowdon, Hawkins and Eaton are affected by this.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 15th December 2009 be approved.

Mr Abid Hussein gave an update on the Working Neighbourhoods Fund (WNF). The Cabinet had approved approximately £21 million, which are managed through Children, Schools & Families, Adult Health & Wellbeing and the overall management rests with the Chief Executive's Directorates.

The Third Sector Team were scoping an exit strategy for November 2010 and all projects were asked to prepare for the ending of the fund. From these, the projects were grouped into categories:

- One off projects
- Underperforming projects, with insufficient time to improve
- Council run projects that require gap funding.
- 3rd Sector projects; a strategy was being developed to work with other London boroughs and the flexible New Deal as well as looking for other funding opportunities.

Evaluations were being procured for business cases for funders of projects in the future to study the 4,000 jobs that were created (in terms of what the jobs were ie full time, part time, sustainable etc).

In response to Councillor Eaton, the mid-term evaluation would take place by mid- June, with the end of year evaluation by March 2011. Mr Naylor said this was a work in progress and would be brought to a future meeting of the Audit Committee.

In response to Councillor Eaton, there was concern that successful projects might be closed down, when there could be funding in the near future.

RESOLVED that the contents of the report be noted.

4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION AUDIT OPINION PLAN - LONDON BOROUGH OF TOWER HAMLETS 2009-10

Mr Jon Hayes from the Audit Commission introduced the report, and highlighted leases as the biggest part of the audit and PFIs and the biggest audit risk.

Mr Alan Finch said that he agreed with the risks identified in Table 1 (Specific risks pp 19-20).

In response to Councillor Eaton's question on the risks arising from failure to provide disclosure of senior officer's remuneration, Mr Hayes said there were risks if there was failure to comply with disclosure; he would have to consider if this affected the audit.

The Chair said that sensitivity was required about these matters.

Mr Hayes said that the concern was just around officers pay, as this is a new requirement.

Councillor Snowdon asked if the paper published by the Audit Commission on 15th March 2010 on Payoffs for Senior Officers had any effect. Mr Hayes said there was a need to be alert; he had used the example of the senior officer's pay as a contribution to a national report.

In response to Councillor Eaton's question about the fees charged by the Audit Commission, Mr Hayes referred her to the fee letter contained in the Agenda for the June 2009 meeting of the Committee.

In response to Councillor Eaton's question about the most worrying risk, Mr Hayes said that good working papers were most important. Mr Finch said that all the Council accounts are open to all; he will be bringing them to Audit Committee in June 2010.

RESOLVED: That a report on the statement of accounts be brought to the next meeting.

ACTION BY: Chris Naylor (Corporate Director of Resources)

In response to a question about the accounts for 2008-09, Mr Hayes said that the risks were about par for all Council accounts. Councillor Hawkins asked him to identify the riskiest areas, and Mr Hayes said fixed asset valuations in schools. He stated that the most significant issue identified during the audit had been the accounting treatment of schools. Mr Naylor said that there was now a rigorous accounting timetable, which gives an opportunity to carryout quality assurance on the accounts. The teams are focusing and acquiring discipline.

RESOLVED: That the report be noted.

5. AUDIT OPINION PLAN - LONDON BOROUGH OF TOWER HAMLETS PENSION FUND 2009-10

The report was introduced by Mr Hayes, who said it showed the key topics for this year's audit of the Council's Pension Fund.

Councillor Eaton said that there had been a failure to comply with recommended practice. Mr Hayes said there had been a strengthening of quality assurance, and the closure programme for the 2009/10 accounts was on target. Mr Naylor said that the errors were more in the Notes to the Accounts, rather than the accounts themselves.

6. CERTIFICATION OF CLAIMS AND RETURNS - LONDON BOROUGH OF TOWER HAMLETS 2008-09

The Certification of Claims and Returns Annual report was introduced by Mr Hayes, who explained that this only covered the claims and returns to Government departments were required to be audited. Attempts were being made to rationalise the process; there were now only 11-12 claims, down from 40. The report highlighted similar numbers of errors and recommendations as other boroughs. The Audit Commission was trying to raise standards across the board.

Mr Finch commented that he had been disappointed that there had been 11 recommendations, but last year the Grants Co-Ordination Officer had been promoted from this role, leaving a vacancy during the audit period. The Council's response was contained in the Action Plan, and the vacant post had been filled.

Mr Naylor said that there had been a major reorganisation in Corporate Finance, and there was now a new team in place.

Councillor Eaton said that Members look for improvement; was the Audit Commission concerned about the NDC funding. Ms Milton explained that the losses were relatively small amounts, such as a few thousand pounds.

Councillor Eaton said that this was a general problem in quality assurance, and asked why mistakes were being made. Mr Finch responded that the preparation of the accounts was a big complicated process. It was important that the accounts were checked. The accounting process was being reviewed for efficiencies and effectiveness.

In response to Councillor Eaton's question about invalid expenditure (page 49, para. 20), Mr Naylor responded that this came back to timetabling, and the interface between the finance community and the other parts of the Council. There was now much greater ownership of accounting practices at corporate management level.

In response to Councillor Snowdon, Mr Hayes confirmed that Recommendation 1 'Respond to all audit queries within three working days, wherever possible.' in the report was best practice. Mr Naylor said it was best to have a single point of contact.

Councillor Hawkins asked what impact the improperly recorded expenditure had. Mr Hayes said that the Government may claw back the funding for that expenditure; further, its expenditure is properly accounted for, there is less work for the Audit Commission and costs the Council less in fees, and makes a contribution to efficiency.

The amount clawed back by the Government was £109,000 out of £220 million in funding. Mr Naylor said that the Housing Benefit Subsidy is enormous, and he was least concerned about this money clawed back. The Housing Benefit Subsidy claim was so complex that most councils make errors. There was a balance to be made between the investment in risk management and the impact of the error rate.

Mr Naylor said that an agency could have provided a temporary member of staff in the Grants Co-ordination role, but it might not have been of much benefit. Mr Naylor anticipated improvement next year.

Councillor Eaton said that she was concerned about detection of fraud, and also why the former Grants Co-ordination officer was not consulted as the person still worked for the Council.

Noted.

**7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION
QUARTERLY INTERNAL AUDIT ASSURANCE REPORT DECEMBER
2009-10**

The report was introduced by Mr Jani, who said that the Internal Audit team were on target to complete the Audit Plan. Efforts were being made to bring the percentage of Substantial Assurances up, and there had been improvement, but more needed to be done.

Councillor Eaton expressed concern that the Council might be subject to Judicial Review over the legal processes for Child Protection. Mr Jani responded that the audit had been requested by management as Legal Services were setting up something new. Internal Audit had found that the financial infrastructure was there, but some of the administrative areas that were not working, for example, social workers were not signing and dating reports.

Councillor Eaton said that omitting dates and signatures could affect reaching targets, and this is very important.

Councillor Eaton expressed concern about the variations in payments to the Council's contractor for recycling, and this should be Nil Assurance. Mr Jani said that this assessment was based on findings, and Members should also consider the number of recommendations. Councillor Eaton said that the scale of the service meant that it needed to be right; there needed to be a formalised approach to holding contractors to account. Mr Blake said that the contractor, Veolia, had many contracts; but there was now robust contract

management. The variations were due to newly built properties, such as a block of flats and newly introduced services.

In response to Councillor Snowdon, Mr Jani said he would report back on the last audit of Control and Monitoring of Parking Permits. Mr Jones reported that approximately 220 parking permits had been legitimately acquired by non Tower Hamlets residents. Mr Naylor said that the Council's Parking Policy had allowed these people to acquire permits, and the Policy had now been changed to prevent this situation in future. Mr Naylor confirmed that there was no connection with car-free developments.

ACTION: Mr Jani to report date of last audit of Control & Monitoring of Parking Permits to the next meeting of the Committee.

In response to Councillor Snowdon, Mr Hayes said that he had seen some audits under Full Assurance. Mr Naylor added that there had been some in Tower Hamlets.

Councillor Hawkins said that there were many processes of administration and bureaucracy in the funding and managing of schools. The Councillor expressed concern that the Nil Assurance audit of Langdon Park School might be followed by Nil Assurance audits of other schools, there needed to be training of school governors. Ms Bingham said that the Children, Schools & Families Directorate used Internal Audit to assess the financial probity of schools; schools were encouraged to set up Service Level Agreements with the Council for provision of specialist accounting services, and the external providers used by schools were assessed by the Council to ensure they met the appropriate standards. Forums exist for Governors and administrators, and the Council tried to target those who needed help.

In response to Councillor Eaton's question on the Council's financial support for Tower Hamlets Homes (THH), in terms of the £ 500,000 overspend, Mr Warren said that THH was a wholly owned subsidiary of the Council, but was an arms length management organisation (ALMO). THH has its own 'Finance & Audit Committee'. Members could draw comfort from this. The Ocean Estate is subject to a significant regeneration project with £200 m to be spend on demolition, rebuilding and sale of property. This is not part of THH's remit, so additional funding was required to reimburse THH for additional costs to support the programme, for example, dog patrols etc of empty properties.

Mr Naylor said that all of this needed to be resolved by THH, but as a wholly owned subsidiary, final responsibility ends with the Council. This would be managed through the client side of Development & Renewal (D & R), so scrutiny will not just be through the THH Board. Mr Naylor said he was aware of the problem through the client side arrangement, and had been kept informed. Councillor Eaton said that the ownership of security of the Ocean Estate project rested with D & R and THH, and £500,000 was a sizeable sum of money not to be managed.. Mr Naylor said this had only gone to Strategy & Development Committee in the previous fortnight; he would bring officers to the Committee to report on the situation.

In response to Councillor Eaton's concern about where the £500,000 would come from, Mr Warren said that it was unsatisfactory that THH was going to the Council after the event; this could have been predicted. Internal Audit are working on budget management of the potential overspend; the THH Finance & Audit Committee were also asking why this happened.

Mr Naylor said he had written to the Chief Executive of THH asking for assurances that THH was going to reduce the overspend and ensure this did not happen in future. D & R also needed to assume there were effective processes in place.

RESOLVED: That an update on the THH overspend be brought to the next meeting of the Committee.

Councillor Hawkins said that part of the Ocean Estate was now safer to walk through. Mr Naylor said that the reason the cost arose was to protect vacant properties from squatters and vandals. The project was planned to a tight timetable. Questions would need to be asked about risks in a project environment, rather than a day to day environment, as there will be many big projects in future, so that lessons could be learnt.

Noted.

8. ANNUAL INTERNAL AUDIT PLAN 2010-11

The report was introduced by Mr Jani, who highlighted the two strands flowing through the report:

- How effective are the controls in place, and
- The audit of the key financial processes

Mr Jani said that the Audit Team were trying to reduce the number of days spent on similar processes, which would mean they could do more work elsewhere, and were working with colleagues across Directorates.

Councillor Eaton asked whether Mr Jani attended the Leaders Advisory Board (LAB) and Cabinet. Mr Jani responded that he attended LAB and Cabinet, but to present reports, not as an observer. Mr Jani would consider if he should attend in the future. Mr Naylor said he was Mr Jani's eyes and ears on LAB and Cabinet, and there is a statutory conflict.

Councillor Snowdon asked Mr Jani if he had sufficient resources to do his job effectively, Mr Jani responded positively but explained that there was always more that could be done, but sometimes additional audit input was not cost effective. Mr Finch said that the effectiveness of Internal Audit was assessed by external audit. Mr Jani added that Tower Hamlets took part in peer reviews with other councils and belonged to a benchmark club. The new financial environment did impact, with strong financial controls, acute contract monitoring and value for money included. Mr Jani said he had stronger links with colleagues on other councils, allowing sharing of ideas. Mr Naylor said that the 2010-11 Financial Year was less of a problem than the 2011-12

Financial Year, when there would be risk management on investment to save: work would be focused on ensuring nothing thwarts the process.

Noted.

9. ANNUAL ANTI-FRAUD PLAN 2010-11

The report was introduced by Mr Qayum, who directed Members' attention to the key drivers (page 158, para. 3.3) and the key messages (page 159, para. 3.4). Mr Qayum said that the Tenants Audit had been done to ensure the systems were robust; and that work was continuing to providing assurance of data quality. Work was also continuing on the National Fraud Initiative, with pre-audits ensuring the system was effective. Mr Qayum was now having monthly meetings with Isabella Freeman, Assistant Chief Executive (Legal Services) and the Corporate Director of Resources.

In response to a question from Councillor Eaton, Mr Qayum said that the Government had given £50,000 to the Council to examine the tenancies of THH and registered social landlords (RSL) for signs of sub-letting. This money will permit the funding of a 3 person team for 100 days, with the objective of minimising abuse. Mr Naylor said that if the team can bring properties back into use, then he will consider continuing the team's funding. The Government was funding a pilot scheme.

10. ANTI--FRAUD AND CORRUPTION STRATEGY

The report was introduced by Mr Qayum, who commented that it would have been desirable to be fully compliant with the Strategy by the end of the year. Work was being done evaluating the Strategy with Human Resources and Legal Services, and the Enforcement Policy would be ready by June 2010, and it would be necessary to enhance the Sanctions Policy as recommended in the Red Book.

A contractor would be chosen for access profiling.

In response to concerns raised by Councillor Eaton, Mr Jani said that boxes had been ticked when the answer was closer to 'yes' than to 'no'. Mr Jani also said that the assessment had been harsher than necessary; processes were very transparent. Councillor Eaton said that the document appeared unsatisfactory. Mr Naylor suggested that the Strategy be brought to a future meeting as it was a 'work in progress'.

RESOLVED: That the Anti-Fraud & Corruption Strategy be on a future meeting and the report be on the agenda.

ACTION BY: **Mr Qayum (Head of Audit Services)**
Democratic Services

11. TREASURY ACTIVITY FOR THE PERIOD ENDING 28 FEBRUARY 2010

The report was introduced by Mr Finch, who said there had been little change from the situation outlined at the December 2009 meeting. Terms had to be balanced against risk, and managing the cash flow to provide for the Council's needs.

Officers were in discussions with the Council's financial advisors to ensure it was ready to take advantage of the rise in interest rates.

Noted.

12. CHANGES TO LOCAL GOVERNMENT REPORTING STANDARDS

The report was introduced by Mr Finch, who informed the Committee that the Treasury will require the Council to close its accounts and comply with international reporting standards. This was a compliance issue, and would make little difference to the people of Tower Hamlets.

Councillor Snowdon asked what impact the change in reporting standards would have; Mr Finch said that the level of reported assets and debts would appear higher, but it was more a matter of presentation.

Mr Naylor said that the change had required a great deal of work, for example, every lease has been examined.

In response to Councillor Snowdon, Mr Finch said that credential limits would be higher, but PFI deals would be unaffected.

Mr Naylor said that there would be a report on housing benefits, observing how individual officers process individual claims. Housing benefits work was increasing, and with it the possibility of errors. It was **RESOLVED** that training on housing benefits be incorporated in Members' Induction.

ACTION BY: Democratic Services

The Chair thanked all Members and Officers for attending the Committee throughout the year.

13. DATE OF NEXT MEETING

Tuesday 29th June 2010.

The meeting ended at 9.20pm.

Chair,
Audit Committee

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Agenda Item 5

Committee	Date	Classification	Report No.	Agenda Item No.
Audit Committee	13 th July 2010	Unrestricted		
Report of: Assistant Chief Executive		Title : Audit Committee Terms of Reference, Membership, Quorum and Dates of meetings		
Originating Officer(s) : Zoe Folley, Democratic Services		Ward(s) affected: N/A		

1. Summary

- 1.1 This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2010/11 for the information of members of the Committee.

2. Recommendation

- 2.1 That the Audit Committee note its Terms of Reference, Membership, Quorum and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.

3. Background

- 3.1 At the Annual General Meeting of the full Council held on 26th May 2010, the Authority approved the proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto.
- 3.2 It is traditional that following the Annual General Meeting of the Council at the start of the Municipal Year, at which various committees are established, that those committees note their terms of reference, Membership and Quorum for the forthcoming Municipal Year. These are set out in Appendix 1 and 2 to the report respectively.
- 3.3 The Committee's meetings for the remainder of the year, as agreed at the meeting of the Council on 24th March 2010, are as set out in Appendix 3 to this report.
- 3.4 Meetings are scheduled to take place at 7.30pm in accordance with the programme of meetings for principal meetings.

4. Comments of the Chief Financial Officer

There are no specific comments arising from the recommendations in the report.

5. Concurrent report of the Assistant Chief Executive (Legal)

The information provided for the Committee to note is in line with the Council's Constitution and the resolutions made by Full Council on 24th March 2010 and on 26th May 2010.

6. One Tower Hamlets Considerations

There are no specific One Tower Hamlets considerations arising from the recommendation in the report.

7. Sustainable Action for a Greener Environment

There are no specific SAGE implications arising from the recommendations in the report.

8. Risk Management Implications

There are no specific Risk Management implications arising from the recommendations in the report.

9. Crime and Disorder Reduction Implications

There are no Crime and Disorder Reduction implications arising from the recommendations in the report.

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

Brief description of "background paper"

If not supplied
Name and telephone
number of holder

Zoe Folley
020 7364 4877

Council AGM 26 May 2010 – Report and Decision –
Agenda item 11
"Appointment to Committees and Panels of the Council"
Council 26 May 2010 – Report and Decision - Agenda item 10.1
"Programme of Meetings 2010/11"

APPENDIX 1

3.3.11 Audit Committee

<p>Membership: Seven Members of the Council. Up to three substitutes may be appointed for each Member. The Audit Committee shall not be Chaired by a Member of the Executive.</p>	
Functions	Delegation of Functions
<p>1. To consider the Audit Plan and review the performance of Internal Audit against this target;</p> <p>2. To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary;</p> <p>3. To act as a forum for the Audit Commission (external audit) to bring issues to Members' attention including both specific reports and general item such as the Annual Audit Letter and the Annual Governance Report;</p> <p>4. To be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it;</p> <p>5. To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;</p> <p>6. To consider reports of audit activity together with specific investigations;</p> <p>7. To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates;</p> <p>8. To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds expect the appointment of the Chief Finance Officer which shall remain the duty of the Council; and</p> <p>9. To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).</p>	<p>No delegations</p>
<p>Quorum Three Members of the Committee</p>	

APPENDIX 2

Labour Group Nominations (and deputies)	Conservative Group Nominations (and deputies)	Other Nominations (and deputies)
Cllr Carlo Gibbs (Chair)	Cllr Craig Aston	Cllr Stephanie Eaton
Cllr Rabina Khan (Vice-Chair)	(Deputy:- Cllr David Snowdon)	
Cllr Abdul Asad		
Cllr Lutfu Begum		
Cllr Mizanur Rahman Chaudhury		
(Deputy:- Cllr Khales Uddin Ahmed)		

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APPENDIX 3

AUDIT COMMITTEE

SCHEDULE OF MEETING DATES 2010-11

- Tuesday 29th June 2010
- Tuesday 21st September 2010
- Tuesday 14th December 2010
 - 22nd March 2011

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Annual Audit Letter

London Borough of Tower Hamlets

Audit 2008/09

December 2009



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Status of our reports

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

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

Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I gave an unqualified opinion on the Council's financial statements and Pension Fund on 30 September 2009. I also issued a certificate closing the audit on this date.
 - 2 I issued an unqualified opinion on the Council's Whole of Government Accounts submission to Communities and Local Government on 26 October 2009.
-

Financial statements

- 3 The accounts were submitted for audit in accordance with the statutory timetable and were supported by adequate working papers. The accounts were complete but contained two material errors which were subsequently corrected. I reported the significant findings from my audit of the financial statements to the Audit Committee on 29 September 2009.
-

Value for money

- 4 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 30 September 2009.
 - 5 I also assessed how well the Authority uses its resources in line with the new methodology developed by the Audit Commission. I concluded that the Authority demonstrated sound performance in managing its use of resources.
 - 6 The Council has adequate arrangements across all nine areas assessed and these are delivering good outcomes in five key areas:
 - financial planning;
 - understanding costs and achieving efficiencies;
 - commissioning and procurement;
 - data quality and the use of information; and
 - risk management and internal control.
-

Audit fees

- 7 To meet my responsibilities under the Audit Commission Act, I had to undertake extra work which was not included in my audit plan. To meet the cost of this I increased my audit fee by £12,500.
-

Actions

- 8 Recommendations are shown within the body of this report and have been agreed with officers. The Council should monitor progress against the action plan in Appendix 2.
-

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 10 My audit identified two material misstatements in the draft financial statements, which were corrected by management.
- Following a verification exercise of its fixed asset database, the Council identified £120m of fixed assets that were incorrectly included in its balance sheet. The majority of this balance, £100m, related to voluntary aided schools. In the draft financial statements, these assets were removed in year via an entry for losses on disposal of fixed assets in the Income and Expenditure Account. Because the value of the assets removed was fundamental to the value of the Council's opening balance sheet, this should have been disclosed as a prior period adjustment.
 - £24.4m of long term debt in relation to deferred consideration for PFI had been incorrectly classified as a short-term debtor.
- 11 My audit also identified three non-trivial errors which I reported to the Audit Committee. All of the errors were corrected by management and none had an impact on the Council's available resources.
-

Material weaknesses in internal control

- 12 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, I found the following weaknesses in the operation of controls.
- My testing of a total sample of 40 journals found that in five cases, no evidence could be provided of appropriate authorisation.
 - My documentation of the payroll system found that there were no systematic checks in place to ensure that leavers are removed from the payroll correctly.
 - The Council has an internal target of issuing invoices within five days of receiving an invoice request. My testing of a sample of 20 invoices found that in five cases, this target was not met (in two of these cases, the invoices were not issued within 14 working days).

Accounting practice and financial reporting

- 13 I considered the qualitative aspects of your financial reporting. The Council has undertaken reviews of key aspects of its accounts and closedown arrangements and this work has led to improvements in the quality of the financial statements. However there remain some important areas where further work is required:
- not all working papers are subject to a robust quality review;
 - I identified un-reconciled items in control account reconciliations which indicates that authorisation controls are weak; and
 - I experienced some delays in receiving requested working papers, which resulted in audit work being completed late in the process.

Whole of government accounts

- 14 The Council is required to submit a Whole of Government Accounts (WGA) consolidation pack to Communities and Local Government (CLG). This is to support the central government objective of producing a set of accounts for the public sector as a whole. The Council is a schedule 1 body which means that its accounts are significant to the consolidation process. As such, it is important that the audited consolidation pack is submitted to CLG by the deadline.
- 15 The deadline for the submission of the audited pack to CLG was 1 October 2009. Due to late work on the accounts and amendments being made at a late stage, I received the un-audited consolidation pack on 25 September 2009. I issued my opinion on the consolidation pack on 26 October 2009.

International Financial Reporting Standards

- 16 The introduction of International Financial Reporting Standards (IFRS) into the public sector raises significant challenges for local government. Authorities must ensure arrangements are in place if they are to publish timely and accurate IFRS compliant accounts in 2010/11.
- 17 Our experience in other sectors has shown that despite a long lead-in time, it is important for organisations to have robust well managed plans to make the necessary adaptations.
- 18 The Council is making progress in the move to IFRS, however the work still has a limited profile and there is a risk that not all work will be completed on time.

Recommendations	
R1	Strengthen internal quality control procedures to facilitate a more efficient closedown and audit process.
R2	Raise the profile of the IFRS transition exercise and closely monitor the progress of the project against key milestones, taking remedial action where necessary.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 19 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 20 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21 The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

VFM conclusion

- 22 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The three themes of the framework are:
- managing finances;
 - governing the business; and
 - managing resources.

- 23 From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 24 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

- 25 The Council has demonstrated good outcomes from its financial planning and its understanding of costs. For example, the Council's Service and Resource Planning Process fully integrates service and financial planning and achieve robust financial plans. In addition, the Council continually challenges service delivery and efficiency savings of £6.2m were achieved in 2008/09.
- 26 PWC were commissioned by the Council to undertake a review of the Council's central finance function to ensure that it will support the Council in moving to World Class Financial Management. Improvements are being made as a result of the review, however work is at an early stage and has not yet delivered the expected outcomes.
- 27 In light of recent turbulence in the financial markets and national pressures on funding, the Council should continue to keep its finances under review. In particular, it should ensure that the level of available reserves is commensurate with the risks it faces.

Governing the business

- 28 The Council has a clear vision for procurement to deliver better and sustainable outcomes. Effective joint working has translated this vision into tangible value for money improvements. The Council has a clear approach to commissioning and staff and service users are involved in service design.
- 29 Data quality and the use of information is managed well by the Council. My work on the Council's accounts, financial systems, grants claims and housing benefits has not identified concerns regarding data quality. There is an integrated approach to performance information to inform strategic, partnership and operational planning. Performance against priorities is monitored well.
- 30 The Council has an embedded ethical framework and generally constructive Member/Officer relations. It is accepted that the departure of the previous Chief Executive could have been handled better.
- 31 Risk management and internal control is sound. Risk management is linked to strategic priorities and is used to secure improvements in all services including those delivered through partnerships. The Council's effective internal audit function delivers against its plan and satisfies CIPFA standards. Zero tolerance is demonstrated for fraud and there is an embedded anti-fraud culture.

Managing resources

- 32 In the past the Council did not consider its use of natural resources a priority. However, during 2008/09 the agenda has moved forward significantly. While there have been some 'quick wins', there is not yet sustained and improved performance in how the Council reduces its own environmental impact.

Value for money and use of resources

- 33 In previous years' assessments, asset management had been identified as only meeting minimum requirements. In 2008/09, the Council appointed a new Head of Corporate Property and improved resource allocation to the department. An improvement agenda has been driven forward but many of the benefits will not be realised until 2009/10 and beyond.

Recommendation

- R3** Continue to closely monitor the Council's financial position to ensure the Council retains a robust level of reserves commensurate with the risks it faces.

National Fraud Initiative

- 34 The Audit Commission's National Fraud Initiative (NFI) matches data across different organisations and identifies matches of data which could indicate fraudulent activity. The Authority has sound arrangements for responding to the results of the NFI project and has made good progress investigating the matches.

Your business at risk

- 35 IT security is a high profile issue in the public sector after a number of well publicised cases of poor management of electronic information. I undertook a survey of a sample of the Authority's staff to assess the strength of its IT security. The overall perception of most staff is that IT security at the London Borough of Tower Hamlets is adequate or better than adequate but staff are less clear about the precise role that they have to play in it.
- 36 Regular reminders to staff about all of the issues covered in our survey will be of benefit to the Council. The survey indicates that there are a number of key areas where the Council particularly needs to raise staff awareness.

Recommendation

- R4** Monitor the implementation of the recommendations in my Use of Resources report and in my Your Business at Risk report .

Closing remarks

- 37** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 30 March 2010 and will provide copies to all committee members.
- 38** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2

Report	Date issued
Audit plan	June 2008
Supplementary opinion plan letter	February 2009
Your business at risk	August 2009
Annual governance report	September 2009
Use of resources report	December 2009

-
- 39** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Jon Hayes
District Auditor
December 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three Use of Resources themes.

Managing finances

Theme score	3
KLOE 1.1 (financial planning)	3
<p>The Council fully integrates service and financial planning via a Service and Resource Planning (SARP) process. This is informed by a stock take of financial, human and capital asset use and related performance indicators. The corporate challenge process includes Members and enables resources to be targeted to priority areas to improve performance. SARP also achieves the following outcomes:</p> <ul style="list-style-type: none"> • efficient and timely approval of the annual budget; • a stable planning framework to take informed decisions over the medium-to-long term; • corporate efficiency gains; • a corporate ownership of service; and • robust financial planning. <p>The 2009/10 statutory budget consultation, in which Members played a lead role, identified concerns about the impact of the credit crunch. Further engagement takes place through the participatory budgeting process, for which the Council has been invited by Government to act as a South East learning hub. Community events were held at Local Area Partnership level. The turnout at the events has been high and feedback is very positive.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p>	<p>3</p>
<p>The Council continually challenges efficiency and service delivery and efficiency savings of £6.2m were achieved in 2008/09. The Council routinely challenges its costs and performance and demonstrates a sound understanding of their relationship. Benchmarking is an embedded process and helps prioritise areas for review. A major improvement project has been set up to re-engineer 'back-office' functions such as HR and IT.</p>	
<p>KLOE 1.3 (financial reporting)</p>	<p>2</p>
<p>The Council engaged PWC to undertake a review of its central finance function to ensure that it is fit for purpose and will support the Council in moving towards World Class Financial Management. While the review found no underlying system weaknesses, it did find that budget-holders rely heavily on directorate based finance officers to support budget-monitoring, because the general ledger is not user-friendly. This causes inefficiencies because finance officers spend a high proportion of their time on administrative activities. The review also found scope to increase the profile of Finance within the Council and to adopt a more 'business partnering' approach. The Council is taking this forward in 2009/10 and will be creating a dedicated financial reporting section and making improvements to the reporting tools on the ledger.</p>	
<p>The Council is making progress on preparing for implementation of IFRS. The draft 2008/09 accounts were presented on time, although there was slippage against the internal timetable, which impacted on internal quality checks. The draft accounts were approved by the Audit Committee, although the level of challenge was inhibited by the fact that a time limit was imposed on the meeting.</p>	

Governing the business

<p>Theme score</p>	<p>3</p>
<p>KLOE 2.1 (commissioning and procurement)</p>	<p>3</p>
<p>The Council has a clear vision for procurement to deliver better and sustainable outcomes. Effective joint working has translated this vision into tangible value for money improvements. The Council has a clear approach to commissioning and staff and service users are involved in service design.</p> <p>The Council works well with suppliers to further develop its understanding of the supply market. There is proactive ongoing evaluation of procurement options, including sustainability. The Competition Board commissions detailed options appraisals and business cases and drives cashable procurement savings. A systematic approach is in place to review service competitiveness. There is an emphasis on achieving efficiencies and savings.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p>	<p>3</p>
<p>Our spot check of a sample of four performance indicators found that there are effective systems in place for producing robust information. There is a risk-based review mechanism which incorporates internal audit and the corporate performance team. All indicators reviewed were found to be fairly stated demonstrating that these arrangements work in practice. Our work found that data provided by third parties is subject to challenge and internal review. Our work on the Council's accounts, financial systems, grants claims and housing benefits has not identified concerns regarding data quality.</p> <p>There is an integrated approach to performance information to inform strategic, partnership and operational department/service planning. Performance against priorities is monitored well. The SARP process integrates financial and performance planning and draws on benchmarking, satisfaction surveys and trends. Actions from the meetings of the Performance Review Group confirm a sound peer challenge approach. This addresses strategic and priority indicators which are off target in the Performance Digests.</p>	
<p>KLOE 2.3 (good governance)</p>	<p>2</p>
<p>The Council has an embedded ethical framework and generally constructive Member/Officer relations. A shared vision was apparent from interviews. The quality of governance is dependent on member and staff attitudes, behaviours and culture and work to ensure the arrangements continue to produce the right outcomes is in hand.</p>	
<p>KLOE 2.4 (risk management and internal control)</p>	<p>3</p>
<p>The Council has risk champions in every department and members demonstrated good risk awareness. Risk registers are in place at a departmental and corporate level and these link to the Council's priorities. The Council actively uses risk management to secure improvements in all services including those delivered through partnerships. Business continuity plans are in place and these are tested with Partner agencies.</p> <p>The Council has an embedded anti-fraud culture and demonstrates zero tolerance of fraud. The culture is underpinned by relevant codes, policies and strategies. The Council has completed an assessment of its anti-fraud arrangements against the Red Book and is implementing an action plan to address the few areas for improvement. There is also an active network of North East London internal auditors to share good practice on anti-fraud arrangements. A review of the NFI database demonstrates that the Council is proactive in working through the matches from NFI.</p> <p>The Council has an effective internal audit function that delivers against its plan on a timely basis and satisfies CIPFA standards. The Council's Audit Committee provides an effective contribution to the control environment. It is objective and asks challenging questions. The reports presented to the Committee allow it to discharge its role effectively. The Council's Annual Governance Statement is a concise and honest self-assessment of its arrangements and Members demonstrated ownership of the Statement.</p>	

Managing resources

	2
<p>Theme score</p>	2
<p>KLOE 3.1 (use of natural resources)</p> <p>In the past the Council did not consider its use of natural resources a priority. However, during 2008/09 the agenda has moved forward significantly. While there have been some quick wins there is not yet sustained and improved performance in how the Council reduces its own environmental impact.</p> <p>Additional funding of £150,000 has been allocated in 2008/09 to quantify the Council's use of natural resources and then develop plans to reduce the impact of its activities on the environment. Performance management of the green agenda has improved during 2008/09 by increased emphasis on data collection. Recycling and waste management, which had been an area of long-standing poor performance, is showing the benefits of additional investment and increased partnership working with the ALMO and Registered Social Landlords.</p> <p>Sustainability issues are starting to be mainstreamed, both in internal and external plans. Team planning events should now incorporate sustainability issues. The Council is establishing systems and processes to manage its own use of natural resources.</p>	2
<p>KLOE 3.2 (strategic asset management)</p> <p>In previous years' assessments, asset management had been identified as only meeting minimum requirements. In 2008/09, the Council appointed a new Head of Corporate Property and improved resource allocation to the department. An improvement agenda has been driven forward recently, although many of the benefits will not be realised until 2000/10 and beyond.</p> <p>The Council has a designated property department and Head of Service. Assets are now considered as 'corporate' rather than 'service' assets, replacing the fragmented approach that existed previously. This permits flexibility in asset use and helps identify estate rationalisation opportunities, leading to a more rigorous and unified approach to determining when assets are surplus to requirements. The quality of housing stock remains a key issue and the Council is not expected to reach the Decent Homes Standard by the target date, although the Council has been successful in recently securing funding to improve its stock.</p>	2

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Strengthen internal quality control procedures to facilitate a more efficient closedown and audit process.	3	Head of Corporate Finance	Yes	Work is in hand to achieve this for 2009/10.	30 September 2010
6	R2 Raise the profile of the IFRS transition exercise and closely monitor the progress of the project against key milestones, taking remedial action where necessary.	3	Head of Corporate Finance	Yes	The project team is being strengthened.	31 March 2010
9	R3 Continue to closely monitor the Council's financial position to ensure the Council retains a robust level of reserves commensurate with the risks it faces.	2	Director of Resources	Yes	This will be address as part of the budgeting process for 2009/10.	31 March 2010
9	R4 Monitor the implement of the recommendations in my Use of Resources report and in my Your Business at Risk report .	2	Director of Resources	Yes	This is being done.	30 September 2010

The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, 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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Progress Report

June 2010

London Borough of Tower Hamlets

Audit 2009/10

Audit Committee 29 June 2010

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Status of our reports

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

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

Audit progress

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress 2009/10

- 2 We agreed our outline 2009/10 Audit Plan and fee with officers in April 2009 and presented it to the Audit Committee in June 2009. Appendix 1 summarises the progress of our audit work.
- 3 Our 2009/10 audit is progressing well. We have maintained regular communication with the finance team to identify and resolve issues early. The work proposed remains as set out in the detailed 2009/10 opinion audit plan agreed by the Audit Committee in April 2010.
- 4 We have substantially completed our interim audit which involved updating our understanding of the Council's control environment, updating our documentation of the key financial systems and testing a selection of the key controls within those systems. We have not identified any matters to report to you at this stage. As in previous years, we will therefore be placing reliance on controls, and the work of Internal Audit.
- 5 In respect of use of resources, we reported our 2008/09 use of resources assessment to officers in February 2010 as part of the Annual Audit Letter. The Annual Audit Letter is reported to you separately at this meeting. Our 2009/10 work builds upon this assessment.
- 6 In light of the new government's announcement to abolish Comprehensive Area Assessment, the Audit Commission has announced that it will not be issuing new scores for the use of resources assessment. The use of resources work that we have already completed will inform our VFM conclusion.

2010/11 Audit Plan

- 7 As part of our initial 2010/11 planning, we have had discussions with officers on the issues that may impact on our work for that year. We wrote to the Chief Executive in April setting out the proposed fee covering all work related to the 2010/11 audit. This will be followed up with a detailed plan for the opinion audit later in the year. A separate letter covering the pension fund audit has also been issued. The initial fee letters are attached at Appendix 2.
- 8 The Audit Commission is undertaking a fundamental review of its approach to assessing VFM. At this stage, no decision has been made about any possible impact on future audit fees. We will consult on any amendments to the 2010/11 fee scales in our consultation on 2011/12 fees in July 2010.

Other matters

- 9 The Codes of Audit Practice (the Codes) define the scope, nature and extent of local audit work.
- 10 The Codes were revised and approved by Parliament on 9 March 2010. The changes are minimal and are effective immediately. Details of the changes are included in appendix 3.

Appendix 1 – Audit plan outputs

Table 1 Progress on audit plan outputs

Product	Audit Commission Lead	Timing	Current Progress
Opinion on the Authority's 2009/10 financial statements			
Work on financial systems	Shona Milton Gohar Mirza	January - June 2010	Work substantially complete.
Financial statements; <ul style="list-style-type: none"> • opinion; • ISA 260 report; and • opinion memorandum 	Sally-Anne Eldridge Shona Milton	July - September 2010	Work to start in July once we receive the Council's draft Statement of Accounts.
Use of resources			
Use of resources assessment	Sally-Anne Eldridge Shona Milton	February - May 2010	Work to support our value for money conclusion is complete.
Value for money conclusion	Sally-Anne Eldridge	September 2010	In progress.

Appendix 2 – 2010/11 Fee Letters

Our reference TO00611A

13 April 2010

Kevan Collins
Chief Executive
London Borough of Tower Hamlets
Town Hall
Mulberry House
5 Clove Crescent
London
E14 2BG

Direct line
Email

0844 798 2877
j-hayes@audit-
commission.gov.uk

Dear Kevan

Annual audit fee 2010/11

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at the London Borough of Tower Hamlets. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Adewale will be writing to you separately on these fees.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £513,500 which compares to the planned fee of £480,000 for 2009/10. A summary of this is shown in the table below.

Audit Area	Planned fee 2010/11 (£)	Planned fee 2009/10 (£)
Financial Statements	342,500	310,000

Appendix 2 – 2010/11 Fee Letters

Use of Resources & VFM conclusion	162,500	161,500
Whole of Government Accounts	8,500	8,500
Total audit fee	513,500	480,000
IFRS rebate	(33,712)	
Certification of claims and returns	105,000	100,000

The Audit Commission has published its work programme and scales of fees for 2010/11. The

Audit Commission scale fee for the London Borough of Tower Hamlets is £524,700. The fee proposed for 2010/11 is -2.13% per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £33,712 in April 2010.

Changes in international auditing standards will also increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of those additional requirements.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate opinion plan for the audit for the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 audit are:

Sally-Anne Eldridge, Senior Audit Manager (s-eldridge@audit-commission.gov.uk)
Shona Milton, Audit Manager (s-milton@audit-commission.gov.uk)

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.

Alternatively you may wish to contact the London Head of Operations, Les Kidner (l-kidner@audit-commission.gov.uk).

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager

Appendix 1 - Planned Outputs

Output	Planned date
Opinion audit plan	December 2010
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of Resources report	October 2011
Final Accounts Memorandum (to the Director of Finance)	October 2011
Annual Audit Letter	December 2011

DRAFT

Our reference TO00611A

13 April 2010

Kevan Collins
Chief Executive
London Borough of Tower Hamlets
Town Hall
Mulberry House
5 Clove Crescent
London
E14 2BG

Direct line 0844 798 2877
Email j-hayes@audit-commission.gov.uk

Dear Kevan

**Tower Hamlets Pension Fund
Annual Audit fee 2010/11**

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year on the Tower Hamlets Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £38,500, which compares to the planned fee of £38,500 for 2009/10.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2009/10. A separate opinion plan for the audit of the Pension Fund will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for 2010/11 are:

Sally-Anne Eldridge, Senior Audit Manager (s-eldridge@audit-commission.gov.uk)
Shona Milton, Audit Manager (s-milton@audit-commission.gov.uk)

Appendix 2 – 2010/11 Fee Letters

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.

Alternatively you may wish to contact the London Head of Operations, Les Kidner (l-kidner@audit-commission.gov.uk).

Yours sincerely

Jon Hayes
District Auditor

cc

Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager

DRAFT

Appendix 3 - Other matters of interest

Code of audit practice

- 11 The Codes of Audit Practice (the Codes) define the scope, nature and extent of local audit work.
- 12 There is a separate [code of audit practice for local government](#) and a [code of audit practice for the NHS](#), primarily to reflect the increasingly divergent accounting, corporate governance and performance management frameworks in the two sectors.

Background

- 13 The Commission has a statutory duty to prepare, and keep under review, codes of audit practice prescribing the way in which auditors must carry out their functions under the Audit Commission Act 1998 (the Act). The Codes must embody what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The Act allows for separate codes to be produced for the audit of local government and NHS bodies.
- 14 The Codes have to be approved by both Houses of Parliament at five yearly intervals and auditors have a statutory duty to comply with it. As such, it constitutes secondary legislation, and the way it is drafted and the process for reviewing and revising it reflects this.
- 15 Parliament approved the current Codes on 9 March 2010. There are only minimal changes to the Codes which will come into effect immediately.
- 16 In preparing the Codes, the Commission consults widely, engaging key organisations that represent audited bodies in local government and the NHS, the accountancy profession and the public audit agencies at each stage.

The content of the Codes

- 17 In developing the current Codes, the Commission's principal aims were to bring about a more streamlined, risk based approach to audit, targeted to areas where auditors have the most to contribute to improvement, together with a stronger emphasis on value for money and clearer reporting of audit results. The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime.
- 18 Each Code:
 - sets out the general principles to be followed by auditors in delivering their objectives;

Appendix 3 – Other matters of interest

- outlines their responsibilities regarding the audit of financial statements and use of resources; and
 - sets out the range of outputs through which the results of audit are reported.
- 19 Auditors are required by the Code to report their conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion).

Statements of Responsibilities

- 20 The Commission's [Statements of Responsibilities of Auditors and Audited Bodies](#) support the Codes and have therefore been updated to align with the new Codes. The 'Statements of Responsibilities of Auditors and Audited Bodies' assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. As with the Codes, the Commission has prepared separate statements of responsibilities for local government and the NHS.

DRAFT

The Audit Commission

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

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Agenda Item 71

REPORT TO: Audit Committee	DATE 13th July 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Internal Audit Annual Report 2009/10			
ORIGINATING OFFICER(S): Service Head, Risk Management and Audit				
		Ward(s) Affected: N/A		

1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2009/10. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

- 2.1 The Audit Committee is asked to note the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

3. Introduction

- 3.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises that this report includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and presents a summary of the audit work undertaken to formulate the opinion.

3.2 This report is set out as follows:

- **Opinion and basis of opinion**
- **Summary of audit work undertaken in 2009/10**
- **Appendix 1 – Audit Resources**
- **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee.
- **Appendix 3 – List of audits undertaken in 2009/10**
- **Appendix 4 – Summary Head of Audit Opinion**
- **Appendix 5 – Detailed Head of Audit Opinion**
- **Appendix 6 – Peer review and benchmarking club.**

4. Statement of Responsibility

- 4.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 4.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

5. Opinion

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2009/10. The basis for this opinion is set out below.

6. Basis of Opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2009/10. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.

- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2009/10. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix one below. Internal Audit is provided in partnership with Deloitte & Touche Public Sector Ltd. An in-house team of nine auditors works with resources provided by Deloitte under the contract.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 5.3 days per person on average, compared to 6 days in 2008/09.
- 7.4 During the year, there was an emphasis on risk based audits, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2009/10 is attached to main body of the report at appendix 3 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.
- 8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2009/10.
- 8.3 A summary of the audit assurance resulting from audit reports in 2009/10 is provided in the table below.

Audits 09/10		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	0	42	10	
	Moderate	0	24	20	2
	Low	0	1	1	
Total		0	67	31	2

- 8.4 The table shows that of 100 systems audits, 67% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 33% of systems audited were rated as limited or nil assurance, and the remainder have their assurance to be confirmed.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.

- 8.6 From the Internal Audit work during 2009/10 financial year, we identified risks in the Council's systems for managing the climate change, managing absences, managing the contract for household recycling, control, monitoring of parking permits, planning of legal meetings and monitoring, management of the Working Neighbourhood Fund and Network control. Within Tower Hamlets Homes, risks were identified in the company's budgetary control systems, management of keys to void dwellings and management of a specific capital contract. Action plans have been agreed to address the key control weaknesses in these areas, and a programme of follow up audit work will be undertaken to assess the progress.
- 8.7 From our Internal Audit work during 2009/10, we can provide an overall assurance that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

9 Audit Performance

- 9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Committee. The performance for 2009/10 is set out in the table below.

Performance Measure	2009/10	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	100%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	96%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	82%

- 9.2 As at the 31st March 2010, 100% of the operational plan was completed in terms of days used. A number of audits were still in progress, but have now been completed/ or are awaiting management comment.

- 9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. At the point of follow-up, 96% of priority 1 recommendations had been implemented against a target of 100% and 82% of priority 2 recommendations had been implemented against a target of 95%. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.
- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2009/10 will be submitted and key points will be reported to a future CMT and Audit Committee.

Internal Audit – Resources 2009/10

<u>Available audit days</u>				
	Revised Plan	%	Outturn	%
In-house staff days	2,205	79%	2,105	73%
Deloitte / external	581	21%	756	27%
<hr/>				
Gross days	2,786	100%	2,861	100%
<i>less</i> Leave	278	10%	275	10%
<i>less</i> Sickness absence	56	2%	48	2%
<i>less</i> Non Operational Time	223	8%	192	7%
<hr/>				
Unproductive time	557	20%	515	19%
Net productive days	2,229	80%	2,346	81%

Internal Audit Budget 2009/10

	Budget £000	Actual £000	Variance £000
Salaries	559	554	(5)
Contract costs	213	213	0
Running costs	36	36	0
Central Recharges	115	115	0
<hr/>			
Gross cost recharged	923	918	(5)

Internal Audit Reports 2009/10 – Summary of Audit Reports

Assurance ratings

Level

- 1 Full Assurance** *Evaluation opinion* - There is a sound system of control designed to achieve the system objectives, and
Testing opinion - The controls are being consistently applied.
- 2 Substantial Assurance** *Evaluation opinion* - While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/ or
Testing opinion - There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 3 Limited Assurance** *Evaluation opinion* - Weakness in the system of controls are such as to put the system objectives at risk, and/or
Testing opinion - The level of non-compliance puts the system objectives at risk.
- 4 No Assurance** *Evaluation opinion* - Control is generally weak leaving the system open to significant error or abuse, and/or
Testing opinion - Significant non-compliance with basic controls leaves the system open to error or abuse.

Significance ratings

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

APPENDIX 2

Summaries of 2009/10 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title	
LIMITED	Extensive	Tower Hamlets Homes (THH)	THH Budgetary Control	
	Moderate	Children, Schools and Family (CSF)	Morpeth Secondary School	
	Moderate	Children, Schools and Family (CSF)	Phoenix Secondary School	
	Low	Tower Hamlets Homes (THH)	Phase 10 of Communal Aerial Installation Works – Current Contract Audit	
SUBSTANTIAL	Extensive	Tower Hamlets Homes (THH)	Governance of THH – Follow Up audit	
	Extensive	Community Locality and Culture (CLC)	Budgetary Control Systems Audi	
	Extensive	Adults, Health and Wellbeing (AHW)	Supporting People – Follow UP audit	
	Extensive	Children, Schools and Family (CSF)	Building Schools for the Future – St Paul’s Way School Current Contract Audit	
	Extensive	Resources	NNDR	
	Extensive	Resources	Council Tax	
	Extensive	Resources	Debtors	
	Extensive	Resources	Pensions	
	Moderate	Children, Schools and Family (CSF)	Cubitt Town Infants School	

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Tower Hamlets Homes – Budgetary Control Systems Audit</p>	<p>April 2010</p>	<p>The objective of this audit was to provide assurance over the systems for budget setting, monitoring and overall budgetary control. The following findings were highlighted:-</p> <ul style="list-style-type: none"> • The Finance team produced the 2009/10 Budget book which provided a consolidated view on services and budgets managed by the company. Guidance was issued to budget holders for both Core and Delegated budgets. However, the existing budget monitoring and reporting procedures have not been formally documented. Budget holders were required to sign-off draft budgets, but this had not been done in all cases. • The system for Senior Management to check and approve amendments to original budget figures by means of virements or revised budgets needed to be improved to manage the risk of budgets being monitored against wrong figures and unclear assumptions. Our review showed that until October 2009, actual expenditure on Core budgets was being monitored against incorrect figures increasing the risk of budget overspend. We have recommended that the audit trail for loading budgets on the GL system should be improved and that all future budgets are agreed and signed off by THH and the Council, ensuring that budgets can be fully reconciled when uploaded on the General Ledger. • Control over carrying out and approving journals needed to be strengthened to ensure that there was sufficient narrative describing the purpose of the journal and each journal was supported by documentation on file. There were a number of journals covering income and expenditure between LBTH and THH, which should be regulated through formal invoicing arrangements to distinguish the company as a separate entity. <p>All findings and recommendations were agreed with the Director of Finance and Resources.</p>	<p>Extensive</p>	<p>Limited</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Tower Hamlets Homes – Budgetary Control Systems Audit</p>	<p>April 2010</p>	<p>Management Comments</p> <p>Budget holders have been requested to sign-off acknowledgement of their 2010-11 budget and also their budgetary control responsibilities. Most of these have been received. Outstanding returns are being chased.</p> <p>All revenue budgets for 2010-11 have been loaded on JD Edwards, the LBTH and THH financial ledger system</p> <p>Clear budget monitoring instructions have been provided and this has been reinforced through a series of presentations made to the Directorate Management Teams</p> <p>The reporting format for management accounts has been simplified and is now risk-based.</p> <p>The THH Financial Regulations were reviewed and additional controls approved by the THH Board at its May 2010 meeting</p> <p>A month-end accounts closedown checklist is being developed and expected to be in place by the end of June 2010. It will be a requirement of that this checklist is signed off on a monthly basis</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Morpeth Secondary School	May 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school.</p> <p>Controls were adequate in Financial Planning and Budgetary Control; Accounting for Income and Expenditure; Voluntary Fund and School Journey; Risk Management and Insurance. However, weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> • The school currently does not have a Financial Management Procedures manual approved by the full Governing Body. At the 5th October 2009 Finance Committee meeting, Governors adopted the LBTH model scheme of delegation; however the Financial Management Procedures manual was not adopted. • The current scheme of delegation did not state clear financial limits delegated for authorising payments on the school credit card, school journey account, and for the school fund account. • Declarations of interest had not been obtained from one governor and two staff members with financial management responsibilities. • Seven un-reconciled items on the December 2009 bank reconciliation related to cheques issued by the school in 2008. The cheques amounted to a total of £1,143.48. As the school was unaware of this, no action had been taken. Further, the Finance Officer who performs the bank reconciliations does not sign them off. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	£7.7.M	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Morpeth Secondary School	May 2010	<p>Management Comments; The school have acted immediately and agreed to complete all actions with a defined timeframe. The school and the governing body are fully committed to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • Tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • Confirming additional steps that the school are planning to take in light of the audit findings • Taking immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phoenix School	May 2010	<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 reported the following issues:-</p> <ul style="list-style-type: none"> • Declarations of business interest had not been obtained from two Governors. • The review of unreconciled items as at 15 December 2009 revealed items dating back to January 2009. These included an income item outstanding for £631.10 since March 2009, and five items of expenditure totalling some £1206.96. It is of concern as the outstanding income item for £631.10 appears to be income not banked in the school's bank account. • There was no evidence that reports from the payroll provider had been checked and reconciled with the school's records. Audit testing of salary payments of 5 staff members identified discrepancies of salaries paid to two staff members for the months of November and December 2009. • There are weaknesses in control over authorisation of virements within delegated financial authority. • The school had not always complied with the approved Financial Management Procedures for market testing. • Although there are inventory records in place, there was no evidence of an annual inventory check conducted. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	£3.5 M	Limited

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

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phase 10 of Community Aerial Installation Works Current Contract Audit Page 66	May 2010	<p>This audit sought to provide assurance over the systems in place for making interim payments; for controlling and issuing variation orders; for receiving and evaluating claims; and for monitoring cost and work programmes for the works contract. The following findings were reported:-</p> <ul style="list-style-type: none"> • The works could be issued to either of the two contractors partnering the Framework Agreement. However, it was not clear on what basis the works were issued to SSC International Ltd and not the other contractor as there were no clear criteria for allocating works to contractors under the partnering contract. • No contract document describing the nature of works, pricing, start date, completion date etc. was issued to the contractor as required by the main contract conditions. Only an order was issued covering the works for the value of £850k, although contract estimate was £800k. The build up to the contract estimate was not supported by working papers. No cost reports were being prepared and submitted to the monitoring officer. There was no performance bond in place for the scheme. Works commenced on site prior to the approval of the Health & Safety Plan, which resulted in a breach of Health & Safety regulations, although we understand that subsequent to Audit raising this issue, the H&S Plan had been approved. No starting and completion dates were specified against which works programme can be monitored. • In view of a number of non-compliance issues, we have recommended that the Director of Asset Management should investigate a number of aspects of contract administration around this contract. In addition, we have recommended that the Director of Asset Management should put monitoring systems in place to ensure that any non-compliance with controls and procedures is detected and prevented at an early stage in the life cycle of a contract. <p>All findings and recommendations were agreed with the Director of Asset Management.</p>	£850K	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phase 10 of Community Aerial Installation Works Current Contract Audit	May 2010	<p>Management Comments</p> <ol style="list-style-type: none"> 1. Individual recommendations have been implemented to ensure that the control environment improves to address the issues raised by Audit. 2. The Director of Asset Management has inspected the relevant sites. 3. External quantity surveyor is being commissioned to review this contract to obtain additional assurance over systems and procedures. 		

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Governance of Tower Hamlets Homes</p> <p>Follow Up audit</p>	<p>March 2010</p>	<p>This follow up audit assessed the progress made by THH in implementing the recommendations made at the conclusion of the full audit in May 2009.</p> <p>Our follow up review has shown that eight out of the nineteen previous audit recommendations have been fully implemented, six recommendations are in the process of being implemented and two have been partially implemented. Two priority 2 recommendations have not been implemented and these concern the implementation of an Anti- Fraud Strategy and the need to remind staff of the requirements set out in Financial Regulations when processing and certifying payments.</p> <p>All findings and recommendations were agreed with the Director of Finance and Resources.</p>	<p>Extensive</p>	<p>Substantial</p>
<p>Budgetary Control within CLC</p> <p>Systems Audit</p>	<p>April 2010</p>	<p>This audit sought to provide assurance over systems for budgetary control in place within the Communities, Leisure and Culture (CLC) directorate.</p> <p>Our review showed that systems for budget planning, budget setting, budget reporting and monitoring, and year end closure procedures were satisfactory.</p> <p>Improvement was required in systems for carrying out and approving journals. Testing found that all journals were supported by source documents such as invoices, recharge forms etc. However, the narrative in the form of textual attachments did not contain a reason for the journal in the vast majority of journals tested. Moreover, there was no guidance in respect of who should authorise Journal entry transactions and the expected limits of such authorisation. Four recommendations were raised following our review of this area.</p> <p>All findings and recommendations were agreed with the Finance Manger and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Supporting People Follow Up audit		<p>This audit followed up audit assessed the progress made in implementing the recommendations made at the conclusion of a full systems audit in May 2009.</p> <p>Our follow up review showed that both two previous audit recommendations had been implemented. It was established that all Providers who were on the lowest Level "D" on the Risk Register had either improved their grading to Level "C" or were in the process of being decommissioned. Our review showed that the Quality Assessment Framework (QAF) monitoring spreadsheet, which showed Providers QAF scores A to D, will now be reported to a Steering Group headed up by the Interim Corporate Director of Adults, Health & Wellbeing. The Quality Assessment Framework (QAF) monitoring spreadsheet, which showed Providers QAF scores would be presented to the Supporting People Steering Group and Providers on the lowest level QAF score were on the Supporting People Risk Register and were being monitored to improve their score or being decommissioned. The cross authority/sub regional procurement project has now been replaced by a new tendering strategy using the Tollgate process.</p> <p>The follow up report was issued to the Interim Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Building Schools for the Future St. Paul's Way Community School – Current Contract Audit	April 2010	<p>The objective of this audit was to provide assurance over the client-side systems in place for controlling and monitoring the cost and work programme. The Contract for the rebuilding of St Paul's Way School is based on a fixed price Design and Build Contract. Our review found that there was a structured monitoring regime in place to ensure that the controls associated with the currency of contract were monitored, recorded and reported upon. Client-side monitoring of the contract during the construction period had been established to ensure continuity over the Contract period. However, there required to be a structured process to ensure that the payment certificates and variations relate solely to the St Paul's Way contract and are not intermingled with the payments and variations issued to other works that Bouygues are undertaking as part of the BSF programme.</p> <p>Officers needed to ensure that prior to possession of site by the contractor, the Health and Safety plan was in place and was approved by the CDM coordinator, as there was risk of works starting on site without an approved H&S plan. We made 4 recommendations on this report, one of which is priority 1 and the rest priority two.</p> <p>All findings and recommendation were agreed with the Service Head – Building Schools for the Future.</p>	£36M	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	April 2010	<p>The Council collects approximately £290m of NNDR each year and the objective of the system is to ensure the prompt preparation and charging of NNDR to all liable businesses within the Borough, the prompt payment of NNDR and the proper management of NNDR debt.</p> <p>Overall, there were adequate controls in place over Amending of Standing Data and Valuation Lists, Discounts, Refunds, Arrears, Suspense Accounts and System Reconciliation and Management Information and Collection Rates. However, from our review we found that was no process in place to periodically assess the continued eligibility of a rate payer to NNDR relief (i.e. at the start of the year).</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial
Council Tax	April 2010	<p>The objectives of the Council Tax system are to ensure the prompt preparation and charging of Council Tax to all liable properties in the Borough, the prompt collection of Council Tax payments and the proper management of Council Tax debt. The Council collects approximately £66m annually.</p> <p>Overall, there were adequate controls in place over Amending of Standing Data and Valuation Lists, Refunds, Arrears, Suspense Accounts and System Reconciliation, and Management Information and Collection Rates. However our review found that the target for raising a bill within 10 working days (or fourteen days) following notification of occupancy was not being met. We also found that there was no process to assess the continued eligibility of persons claiming the Single Person's Discount or a void allowance and in some cases supporting documents were not available.</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	April 2010	<p>The objective of the Authority's Debtors system is to ensure that debtor income due to the authority is identified, recorded and collected accurately and in a timely manner.</p> <p>Our review showed that overall there were adequate control over Collection of Income, Recovery of Debt, Write Off and Access Controls. However, we reported that whilst recent reconciliations had been carried out, the reconciliation working papers had not been signed as reviewed by a more senior officer to verify accuracy. The Council has a performance management system, Excelis, which should be updated with performance targets and actual performance information. Our testing found that performance information had not been updated on a monthly basis. Although targets had been set, actual performance information had not been entered for the year.</p> <p>All findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial
Pensions	April 2010	<p>The objective of this audit was to provide assurance over the controls in place for effective and efficient administration of pensions. Our review found adequate control over Joiners and Leavers, Employee and Employer Contributions, Pension Payments, Maintenance of Pension Records and Reconciliation with General Ledger. We found that Member details are updated via an interface between Resource Link and AXIS, which is run on a weekly basis. We found that the interface was not run on a regular basis which can result in member details not being updated on a regular basis.</p> <p>All findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cubitt Town Infants	March 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in the management of Schools Bank Account; Accounting of Income and Expenditure; Charging Policy and Income Collection and Banking; School Meals; Security of the IT Infrastructure, Disaster Recovery, Data Protection; and Risk Management and Insurance. However, weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> • Budget virements had been performed, but no documentary evidence showing the budget virements made was retained by the school. Moreover, from review of the Governing Body and Finance Committee minutes there was a lack of documentary evidence to show that the virements had been presented for approval. • There was no threshold expenditure limits detailing the number of quotations required when procuring goods and services. Moreover, there was no evidence which demonstrated the school sought any quotations where necessary for large expenditure. From a sample of ten purchase orders selected for testing, five purchase order forms were not authorised by the authorised signatory. • There was no written statement of objectives for the school fund account. • The school was in the process of putting together complete inventory records at the time of the audit. No evidence was identified to confirm that an annual inventory check was undertaken. • The school did not have an approved disposal policy and did not maintain adequate records of disposals made since the last internal audit. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	Moderate	Limited

Internal Audit Coverage – 2009/10

Internal Audit Reports 2009/10 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Management of Climate Change	Extensive	Limited
Health and Safety at Work	Extensive	Substantial
Risk Management	Extensive	Substantial
Contract Management and Monitoring	Extensive	TBC
Absence Management	Extensive	Limited
Assistant Chief Executive's		
Members Allowances	Low	Substantial
Legal Planning Meetings	Extensive	Limited
Commissioning Approach to Mainstream Grants	Moderate	Limited
Management of Working Neighbourhood Fund	Extensive	Limited
Children, Schools and Family		
Building Schools for the Future - St Paul's Way Community School Current Contract Audit	Extensive	Substantial
Common Assessment Framework	Moderate	Substantial
Social Care Commissioning and Client Monitoring	Moderate	Substantial
Management and Control of Surplus balances	Extensive	Substantial
Manorfield School – Current Contract Audit	Extensive	Substantial
St Edmunds Primary	Moderate	Limited
Bethnal Green Technology College	Moderate	Substantial
Langdon Park Secondary	Moderate	Nil
Harry Roberts Nursery	Moderate	Limited
Seven Mills Primary	Moderate	Substantial
Stephen Hawkings Primary	Moderate	Limited
Phoenix School	Moderate	Limited
Morpeth Secondary	Moderate	Limited
Raines Secondary	Moderate	Limited

Audit Description	Significance	Assurance
Thomas Buxton Infant	Moderate	Limited
Columbia Market Nursery	Moderate	Substantial
Bowden House	Moderate	Substantial
Boy Boys Secondary	Moderate	Limited
Mulberry Girls Secondary	Moderate	Substantial
St Johns CE Primary	Moderate	Substantial
Central Foundation Secondary	Moderate	Nil
Sir John Cass & Redcoat Secondary	Moderate	Substantial
Shapla Primary School	Moderate	Limited
Olga Primary School	Moderate	Limited
Swanlea Secondary School	Moderate	Limited
Harry Gosling Primary	Moderate	Limited
Old Church Nursery	Moderate	Limited
George Greens Secondary	Moderate	Substantial
Ian Mikardo Primary	Moderate	TBC
Rachel Keeling Nursery	Moderate	Limited
Childrens House Nursery	Moderate	Substantial
Bishop Challoner Girls	Moderate	Substantial
Bishop Challoner Boys	Moderate	Substantial
Stepney Green Secondary	Moderate	Limited
Oaklands Secondary	Moderate	Substantial
St Pauls Way Community School	Moderate	TBC
Communities, Localities and Culture		
Recycling of household waste – contract monitoring	Extensive	Limited
Brady Arts Centre – FU	Moderate	Substantial
ASBO Management and Enforcement	Extensive	Substantial
Governance of Tower Hamlets Partnership	Extensive	Substantial
Control and Monitoring of Parking Permits	Moderate	Limited
ASBO Management and Enforcement - FU	Moderate	Substantial
Management of Highways Works	Extensive	Substantial
Budgetary Control	Extensive	Substantial

Audit Description	Significance	Assurance
Tower Hamlets Homes		
Financial Systems	Extensive	Substantial
Performance Management	Extensive	Substantial
Budgetary Control	Extensive	Limited
Management and control of decants – Ocean Estate	Moderate	Limited
Management and control of keys to void dwellings	Moderate	Limited
Strategic Management of SLAs	Extensive	Substantial
Community Aerial Installation – Current Contract Audit	Low	Limited
Housing Repairs	Extensive	Limited
Unauthorised Occupants – Follow Up	Moderate	Substantial
Management of Voids – Follow Up	Extensive	Substantial
Governance	Extensive	Substantial
Horticulture Contract Monitoring - FU	Moderate	Substantial
Sydney Street – Central Heating Contract Audit	Moderate	Substantial
Development and Renewal		
Homeless and Temporary Accommodation	Extensive	Substantial
Budgetary Control	Extensive	Substantial
S. 106 Planning Obligations – FU	Extensive	Substantial
Client Monitoring of ALMO – FU	Extensive	Substantial
Commercial Property Management - FU	Extensive	Substantial
Managing of Planning Permissions	Extensive	TBC
Service Charges	Extensive	TBC

Audit Description	Significance	Assurance
Adults Health and Wellbeing		
Governance of Pooled Agreements	Moderate	Substantial
Supporting People – FU	Extensive	Substantial
Commissioning of Elderly Service - FU	Extensive	Substantial
Homelessness Assessment – FU	Extensive	Substantial
Resources		
Investments /Loans/Prudential Borrowing	Extensive	Substantial
Grant Claim of Teachers Pensions	Extensive	Substantial
VAT Management	Extensive	TBC
IFRS Implementation FU	Extensive	Substantial
Housing and Council Tax Benefit	Extensive	Substantial
General Ledger incl. Budgetary Control	Extensive	Substantial
Cashiers / Cash income	Extensive	Substantial
Council Tax	Extensive	Substantial
Sundry Debtors including Recovery and Write offs	Extensive	Substantial
Creditors	Extensive	TBC
Capital Accounting	Extensive	TBC
Pensions	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll	Extensive	Substantial
Housing Rents	Extensive	Substantial
Pensions Fund	Extensive	Substantial
Computer Audit		
Network Follow Up	Extensive	Limited
Internet & e-Mail	Extensive	Substantial
Business Continuity Planning	Extensive	Substantial
Change Management	Extensive	Substantial
Comino (Document Management)	Moderate	Limited
ICT Service Desk	Extensive	Substantial
JD Edwards Finance Application and AS400 Operating System	Extensive	Limited

Audit Description	Significance	Assurance
Icon Income Management and e-Payments	Extensive	Limited
Framework i (Childrens Social Care Application)	Extensive	TBC
Authority Public Protection Application	Extensive	Substantial
Software Licensing Follow up	Moderate	Substantial
Anti Virus and Spyware Follow up	Extensive	Substantial
Server Virtualisation Follow up	Moderate	Substantial
Acolaid Application Follow up	Moderate	Substantial
Information Security Policies and Procedures	Moderate	Substantial
Off Site Working	Moderate	Limited
DR Provisions	Moderate	Substantial
Data Back up and Data centre	Extensive	Substantial

Head of Audit Opinion - Summary

Background

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

The Code of Practice also states at Paragraph 10.4 that:

“The Head of Internal Audit should provide a written report to those charged with governance.”

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations. These state that:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2009/10

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2010.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore **only provide reasonable and not absolute assurance of effectiveness**. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Internal Control Environment

The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these three key areas.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2009/10, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2009/10 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

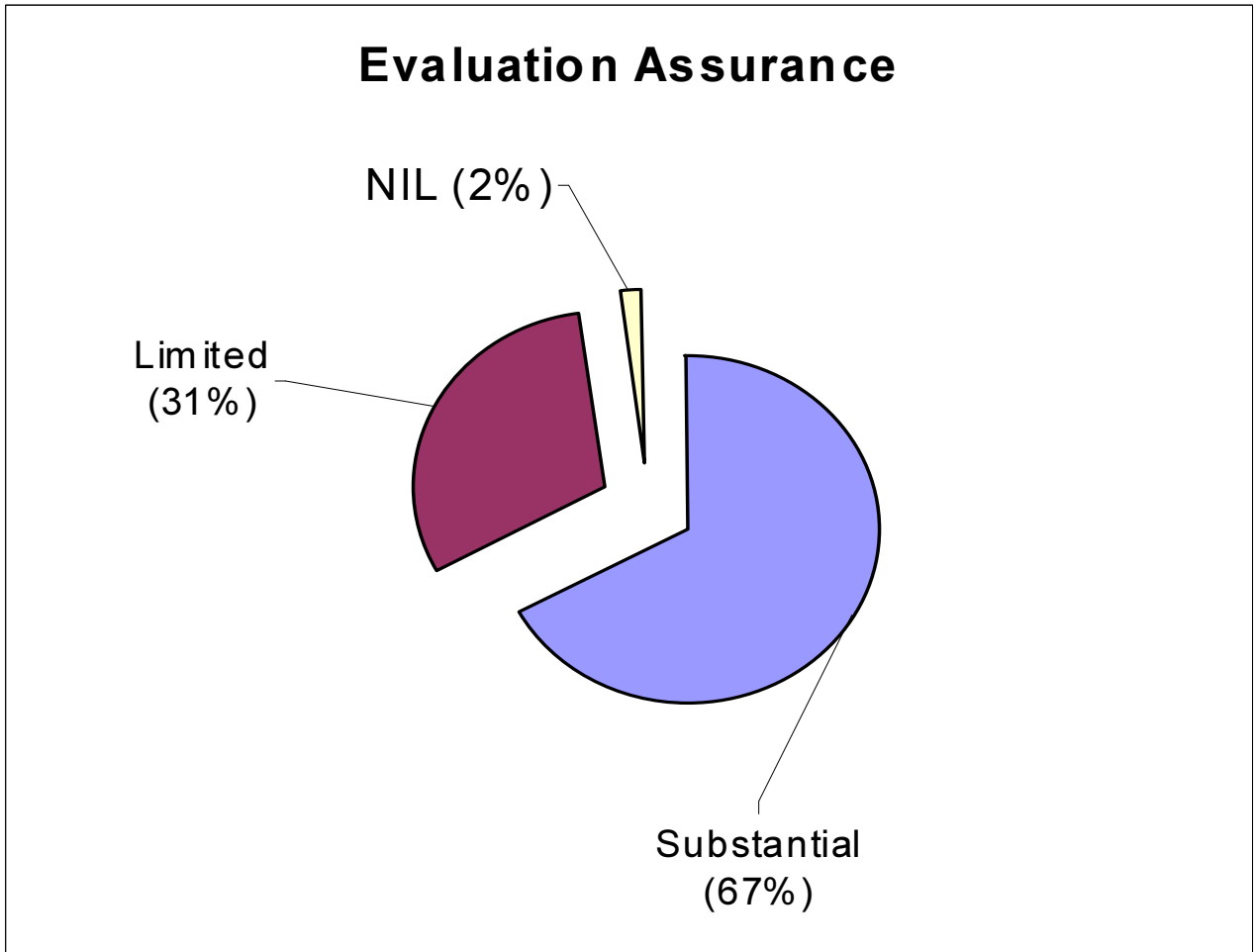
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 3](#).

My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisation's Assurance Framework, that are covered by Internal Audit's programme. Where principal risks are identified within the organisation's framework that do not fall under Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.

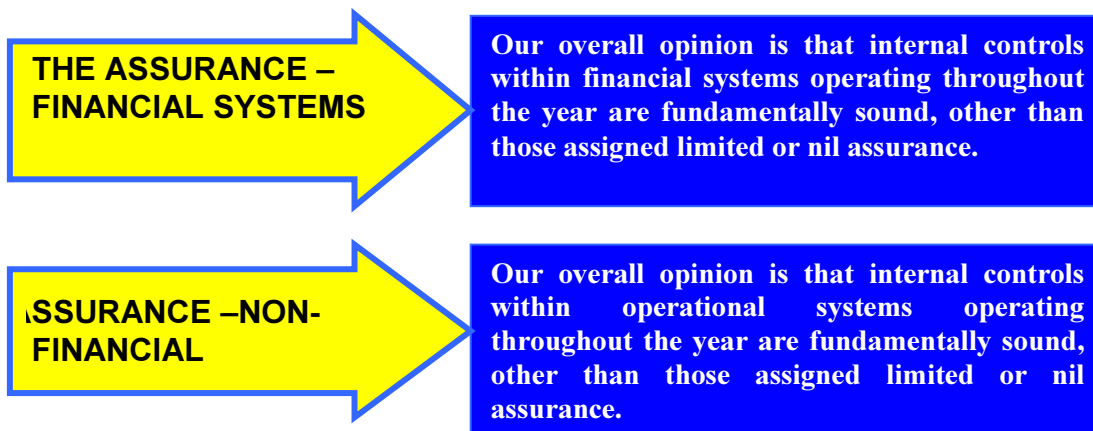
100% of Internal Audit work for the year to 31 March 2010 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted in 2009/10 are depicted in Graph 1 below. This shows **that 67%** of the systems audited achieved an assurance level of full or substantial assurance, whereas only **33%** of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a positive performance by the Council, particularly given that **96%** of priority 1 and 82% of priority 2 recommendations followed up had been implemented when the audit revisited the area. This is a significant improvement on last year's performance of 77% for all recommendations. I have therefore developed escalation procedures over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee. In particular, all priority 1 recommendations must be implemented as a matter of course.

Graph 1



From the Internal Audit work undertaken in 2009/10, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2010 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 35-36**. The assurance can be further broken down between financial and non-financial systems, as follows:



In reaching this opinion, the following factors were also taken into particular consideration:

- In its Annual Audit and Inspection Letter 2008/09, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission’s definition of the Council’s achievement of a score of three means that the Council is performing well and the direction of travel was positive.
- The Audit Commission’s CAA assessments on financial standing, systems of internal financial control, standards of financial conduct and the prevention and detection of fraud and corruption, and their opinion on the financial statements.
- Other review agencies
- *In the 2009 annual performance assessment of the service for Children and Young People, Ofsted rated the overall effectiveness of Children’s services as performing excellently, and in its commentary, said “Specialist provision and services for children and young people whose circumstances make them vulnerable is almost all good or outstanding. Nearly half of the special schools in the borough and services for looked after children, including the local authority’s fostering agency, are outstanding”.*
- *Adult Social Care Services was rated as “Performing Excellently” for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, by the Care Quality Commission in February 2010.*

Corporate Governance

In my opinion the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The External Auditors scored judgements under the CPA process, *particularly in relation to governance, standards of conduct and Performance Management*

Elements of governance and standards of conduct were included in the CAA review of Use of Resources that the Audit Commission scored at 3 out of 4.

Risk Management

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. In drawing together my opinion, I have relied upon the following:

- The of Use of Resources

Elements of Risk Management were included in the Use of Resources that the Audit Commission scored at 3 out of 4. The Council was also scored at 3 out of 4 for Internal Control, the element that specifically relates to risk management.

I would like to take this opportunity to formally record my thanks for the co-operation and support received from the management and staff during the year, and I look forward to this continuing over the coming years.

Minesh Jani – Service Head, Risk Management

June 2010

DETAILED REPORT**Introduction**

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2009/10 year against the original Internal Audit plan; and
- a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2009/10. Key issues included:

- Absence Management systems audit – we reported that managers' compliance with the Council procedures on absence management needed to be reinforced. Significant improvement was required in the systems for recording, reporting and monitoring of sicknesses to ensure that all absences are recorded and reported accurately and correctly to ensure data quality.
- Control of Parking Permits systems audit – our review highlighted the need for more effective control over the issue and control of parking permits to residents and business users to ensure that the administration of permit is based on clear policy and procedures.
- Recycling of household waste contract monitoring – the management and monitoring of the contract was weak. We reported that effective monitoring should be supported by a clear organisational structure and documented procedures and processes which are complied with in practice. Moreover, there was a need to increase contractor and client accountability in order to deliver the benefits from the contract.

- Management of Climate Change, corporate review – our review found that effective arrangements were required to be put in place to manage climate change and carbon reduction programme across the Council at corporate and directorate level to achieve the ambitious carbon reduction targets set by the Council. In addition, the Council should proactively promote carbon reduction within the authority, providing a clear vision and leadership in this area.
- Business Continuity – our review of the systems of control to ensure that the Council’s key services can continue to operate in case of interruption to its infrastructure, showed that the business continuity arrangements needed to be strengthened. Particularly, disaster recovery priority, critical recovery times and testing of recovery systems required addressing.
- Contract Management and Monitoring, corporate review– our audit of this area found that effective contract management and monitoring is required to ensure that there is clear corporate guidance on contract management of revenue contracts so that benefits are derived from improved monitoring.
- Follow Up Audits – we carried out a programme of follow up audits during the year to assess the progress made in implementing the agreed audit recommendations to improve systems of control. We were satisfied that progress was made in some cases, but we were generally concerned that some medium priority recommendations had not been implemented. In order to address the matter, an escalation procedure was introduced which involved the relevant Service Head and Corporate Director being alerted and we will keep this under review.

Qualifications to the Opinion

Internal Audit has had unfettered access to all areas and systems across the authority and has received appropriate co-operation from officers and members.

Other Assurance Bodies

In formulating the overall opinion on internal control, I took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) Audit Commission
- b) Benefit Fraud Inspectorate
- c) Care Quality Commission
- d) Ofsted

Risk Management Process

The principle features of the risk management process are described below:

Risk Management Strategy: The Council has established a Corporate Risk Management Strategy that sets out the Council's attitude to risk and to the achievement of business objectives and has been communicated to key employees. The policy:

- Explains the Council's underlying approach to risk management;
- Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- Outlines key aspects of the risk management process; and
- Identifies the main reporting procedures.

Corporate Risk Register: This register records significant risks that affect more than one directorate. The register also includes major corporate initiatives, procurement and projects.

Directorate Risk Registers: Each directorate maintains its own register recording the major risks that it faces.

Corporate Risk Group: The Group identifies and oversees the management of corporate risk, and reviews directorate registers to identify emerging corporate risks.

Comparison of Internal Audit Work

The Operational Plan for 2009/10 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

100% of audit fieldwork is complete for audits relating to the 2009/10 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2009. A summary of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

A table is provided at section 9 of the main body of report setting out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against the targets that were set in advance.

Internal audit was also subject to a peer review by the Head of Audit of London Borough of Redbridge and benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 6.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

Internal Audit has comprehensive quality control and assurance processes in place to confirm compliance with the CIPFA standards. Assurance is drawn from:

- The work of external audit; and
- My own internal quality reviews.

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

Internal Audit is compliant against the 11 code of the CIPFA code of Practice;

The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.

That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

Minor recommendations were raised which are being addressed.

Peer Review and Benchmarking Club Results

1. Peer Review

1.1. The Accounts and Audit (Amendment) (England) Regulations 2006

states that:

- (a) An authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
- (b) The authority shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.

1.2. Circular 03/2006 provided by the Department for Communities and Local Government states that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 would be acceptable as the appropriate professional guidance to determine what is “proper practice”.

1.3. In order to ensure that a robust review of the internal audit service has been carried out, Financial Directors (or equivalent) agreed that in addition to the internal reviews, peer reviews would be undertaken to ensure that internal audit service has been externally assessed as well. As a part of this reciprocal arrangement, in May 2010, the Head of Internal Audit from the London Borough of Redbridge conducted a peer review of the effectiveness of internal audit at LBTH. The review focused on compliance with the 11 Professional Standards set out in the CIPFA Code of Practice on Internal Audit. The review is currently on-going and any issues arising from this will be reported separately.

2. Benchmarking Club Results

2.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.

2.3. As part of the 2008/09 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities

selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.

- 2.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £345 compared with the comparator group average of £393 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.

Agenda Item 72

REPORT TO: Audit Committee	DATE 13th July 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Annual Governance Statement 2009/10			
ORIGINATING OFFICER(S): <i>Service Head Risk Management</i>				
		Ward(s) Affected: N/A		

1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

2. Recommendation

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2009/10 at Appendix 3.

3. Background

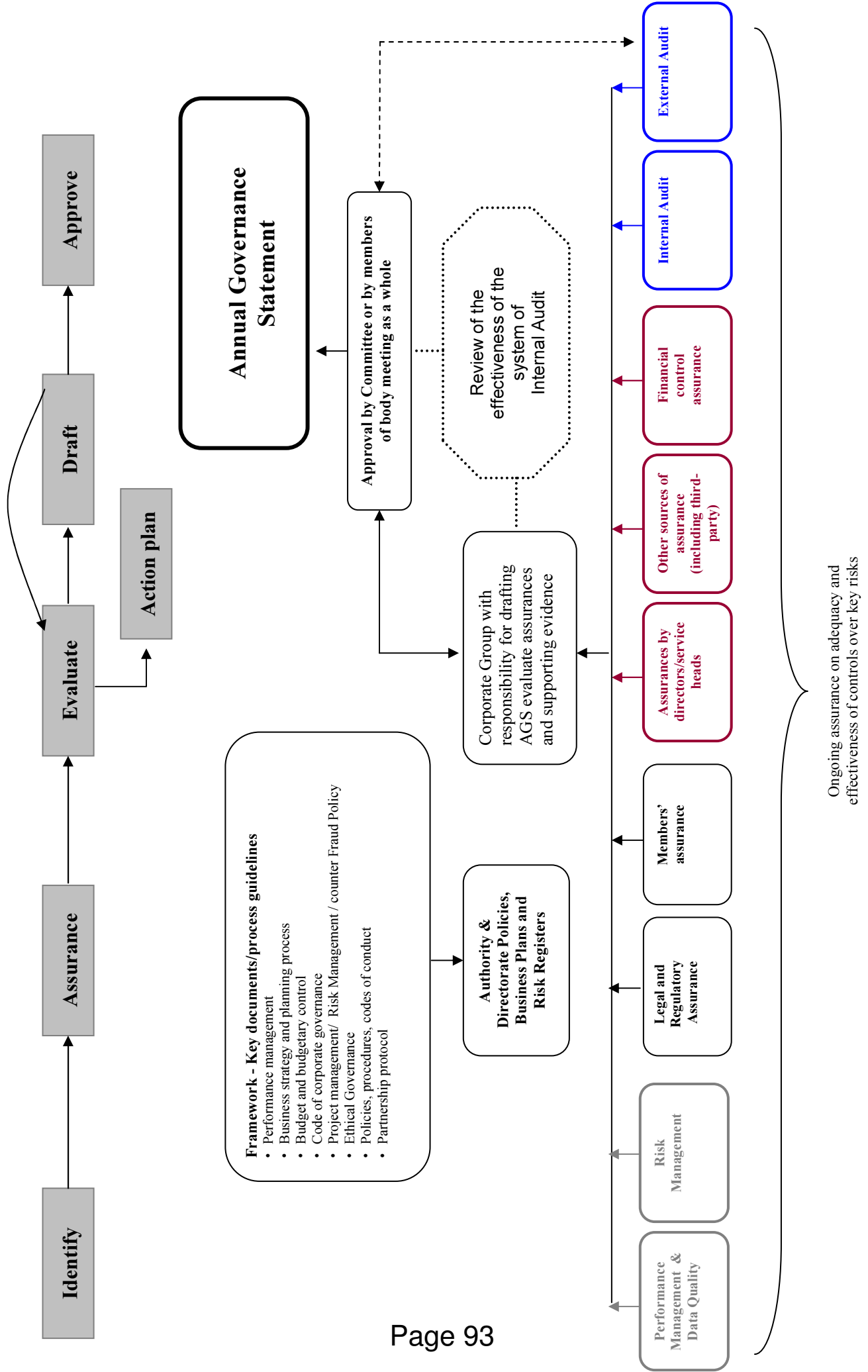
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2009 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

- 3.2 The statement will be signed by the Chief Executive and the Leader. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Leader.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30th June 2010).

4. Reviewing the Internal Control Environment

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
- Identify & review the internal control environment;
 - Obtain assurances on the effectiveness of those controls;
 - Evaluate those assurances and identify gaps in controls;
 - Plan actions to rectify those gaps; and
 - Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2008/09 statement.

Assurance Framework and the production of the Annual Governance Framework



5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
 - ◆ The processes for identifying the risks to the achievement of those objectives; and
 - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2009/10.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was approved in March. The Constitution has been subject to a review in 2009/10 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested in July and February 2010. The Corporate Procurement Strategy was approved by Cabinet in November 2006.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

6. Sources of Assurance

- 6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review

have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2008/09 are set out in the table below with an update showing the current status.

Issues in 2008/09 statement	Status
Optimise asset management across public services to enable Council assets to be utilised in the most effective way.	On-going. Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 & 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010.
To further enhance particularly in relation to disaster recovery.	On-going. Good progress continues to be made in establishing a sound framework, but further work is required to ensure the Business Continuity Plan can respond to a critical event.
Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.	On-going. The authority is actively working with its Arms Length Management Organisation to ensure it achieves two stars in the inspection planned for October. The Council is part of a London wide Decent Homes Task Force charged with finding ways to fund the programme in the future which is currently suspended by government. A joint Council and Tower Hamlets Homes Capital Board has been established to review the Capital Programme & funding sources and funding has been identified for a pilot Decent Homes Programme covering four blocks.
Ensure processes for managing sickness are effective.	Monitoring reports are produced for PRG and CMT on a quarterly basis with PRG identifying Service Heads with the highest levels of sickness in their team and requiring them to attend to explain how they are managing absence in their service. Names of managers who fail to complete their absence returns are

Issues in 2008/09 statement	Status
	<p>circulated to CMT to instruct managers in their Directorate to complete it. The Chief Executive raises any concerns with members of CMT during their 1-1s.</p> <p>Occupation Health has also been restructured on an internal rather than outsourced basis in order to ensure an improved level of service. A Healthy Workplace Manager has also been recruited to work across the Council and NHS tower Hamlets.</p>
<p>Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders.</p>	<p>Completed.</p>
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>On-going. Children Schools and Families service continue to focus and respond to the requirements of the Laming review. There remains significant financial implications for the council regarding the increase in demands around safeguarding.</p> <p>The directorate has undertaken a range of work to assist with some of the aspects of managing this increase in demand in safeguarding work, such as development and implementation of Integrated Pathway Support team, reshaping of family support work in children centres, developing a Tower Hamlets well being model to capture in one place our multi-agency assessment, threshold, and intervention regime.</p> <p>The Tower Hamlets Local Safeguarding Children's Board (LSCB) has undertaken an interagency audit across the board aspects of safeguarding. Both the LSCB and the Children's Trust have been refocused in light of recent guidance and statute.</p>

Issues in 2008/09 statement	Status
<p>Improve information governance across the authority.</p>	<p>On-going. Project now in place.</p> <p>The Council, following extensive analysis and discussion with industry experts, has prepared a solution which will ensure that all portable media such as laptops and data sticks, are encrypted. The procurement of the product has been completed and the solution is being rolled out by a project team within ICT.</p>
<p>To model an efficiency programme to take account of the likely reduction in future funding across public sector.</p>	<p>On-going. The Council is actively working to deliver substantial savings over the next three years. Considerable work has been carried out to assess the likely level of funding gap and work is underway to identify opportunities for securing the savings. The next step is to develop individual programmes and projects which will be monitored through the relevant Board and an overall dashboard approach to monitoring the efficiency programme is also being put in place.</p>
<p>Enhance the benefits derived from effective contract management of key contracts with the private sector.</p>	<p>On-going. Contract management is included as a core module of the internal procurement training programme, and the tollgate project assurance process provides a scrutiny of contract management proposals.</p>
<p>To review and ensure the delivery of additional housing to reduce overcrowding.</p>	<p>On-going with further actions planned in 2010/11.</p>

7.3 The penultimate section of the 2009/10 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows, in no particular order.

7.4 The CMT is invited to consider whether these represent the most significant issues affecting the Council.

Governance Issue	Source of Assurance
To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.	Corporate risk register, risk reference ORG0009 as reported to the Corporate Management Team on 30 March 2010.
Optimise asset management across public services to enable Council assets to be utilised in the most effective way.	Governance issue raised in 2008/09 and being progressed in 2009/10.
To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery	Governance issue raised in 2008/09 and being progressed in 2009/10.
Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars	Corporate risk register, risk reference ORG0005 as reported to the Corporate Management Team on 30 March 2010.
Arrangements for Safeguarding Children / Child Protection	Corporate risk register, risk reference ORG0015 as reported to the Corporate Management Team on 30 March 2010.
Improve information governance across the authority	Corporate risk register, risk reference ORG0014 as reported to the Corporate Management Team on 30 March 2010.
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts	Internal Audit work 2009/10.
Termination of Chief Officer's employment	Directorate assurance statement for Chief Executive directorate.
To review and ensure the delivery of additional housing to reduce overcrowding	Governance issue raised in 2008/09 and being progressed in 2009/10.
Pupil Place Planning - expanding school provision to meet rising demand for places.	Directorate assurance statement for Children Schools and Family.

Internal Control Checklist (summary)

Step	Description	Assurance
Objective 1: Establishing principal statutory obligations and organisational objectives		
Step 1: Identification of principal statutory obligations	Constitution	Yes
	Committee terms of reference	Yes
	Scheme of delegation	Yes
	System to identify and disseminate changes in legislation	Yes
	Evidence of dissemination	Yes
Step 2: Establishment of corporate objectives	Community & strategic plans	Yes
	Consultation on plans	Yes
	Service planning framework	Yes
	communication strategy	Yes
Step 3: Corporate Governance arrangements	Local code of corporate governance	Yes
	Audit Commission Corporate Governance review	Yes
	CIPFA/Solace checklist action plan	Yes
	Committee charged with corporate governance	Yes
	Governance training for members	Yes
	Role of Chief Finance Officer	Yes
Step 4: Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	BVRs and benchmarking	Yes
	Inspection reports	Yes
Step 1:		
Risk Management strategy	Risk Management strategy	Yes
	Evidence of dissemination & review	Yes
Step 2: Risk Management systems & structures	Member forum	Yes
	Senior Mgmt Team reporting	Yes
	Member and officer lead	Yes
	Defined process for reviewing and reporting risk	Yes
	Corporate and departmental risk registers	Yes
	Insurance and self-insurance review	Yes
	RM training	Yes

Step 3:		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
	Objective 3 Identify key controls to manage principal risks	
Step 1:		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes

Summary of reports received in or pertaining to 2009/10

Reports	Reporting period	Report date
Annual Audit and Inspection plan	2009/10 accounts	June 2010
Opinion on Financial Statements	2009/10	September 2009
Approach to Value for Money	2009/10	November 2009
Use of Resources	2008/09	January 2009
Value for Money Conclusion	2009/10	September 2009
Data Quality	2009/10	Feb 2009
Final Accounts Memorandum	2009/10	Jan 2010
Grant Claim Report	2009/10	Feb 2010
Annual Governance Report	2009/10	September 2009
Other		
Ofsted – Childrens Services	2009/10	February 2010
Care Quality Assessment – Adult Social Care	2009/10	February 2010

Annual Governance Statement

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council and the Chief Executive.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. **The Council's Standards Committee members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.**

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

The Governance Framework

Vision and Priorities

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2009/10, 15 priorities were identified around all five Community Plan themes.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs) and the Local Area Steering Groups. The Council's Corporate Management Team (CMT) and the Cabinet and other members have also had contributed to the Vision and Priorities for the Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2009/10 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both lead and contribute to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's Strategic Plan fall within the Council's Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

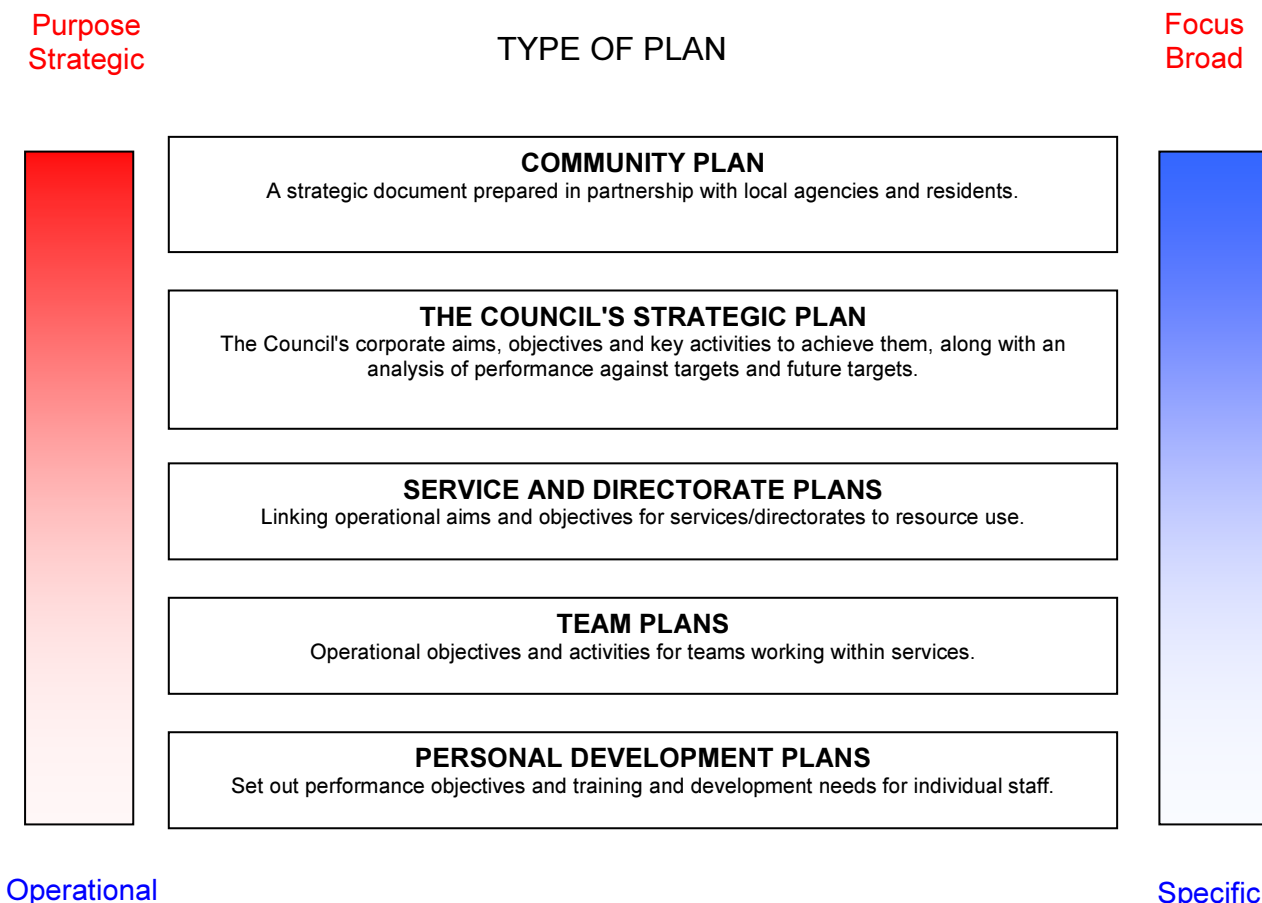
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.

Quality of Service

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2009/10 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

In a referendum over the borough having a directly elected Mayor, held on 6 May 2010, Tower Hamlets electorate voted for the mayoral model to govern the business of the Council. An election to appoint a mayor will take place in October 2010 and the Council's constitution and accompanying instructions and guidance will be updated to reflect the new model.

Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and training is available to ensure every staff member understands their responsibilities.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships in 2008/09. The Standards Committee was advised of the change and the revisions that were made to the code.

Compliance with Policies, Procedures, Laws and Regulations

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

Effective Audit Committee

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting

fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2009/10 as planned.

Whistle Blow and the Complaints Procedure

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

Risk Management

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

Financial Management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2009/10 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority confirms to the good practice identified within the code.

The Efficient and Effective Use of Resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2009/10, the Council continued work on its efficiency programme and has been making plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value reported an improvement in the way the Council seeks to delivery value for money.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency.

Learning and Organisational Development

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they can deliver excellent public service. These include a Leadership programme, specific training relating Recruitment and Selection, Risk Management, and other computer based training.

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly newspaper, East End life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government.

The Council also has important partnership arrangements with the local primary care trusts. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The independent assessment by six inspectorates as part of the Comprehensive Area Assessment identified one notable practice around Engaging and Empowering Local People. This measures the extent to which people believe they are able to influence decisions affecting their area. The assessment did not identify any significant concerns. The results of inspections of individual services continue to show improvements whilst Children's Services was rated as "Performs Excellently" by Ofsted in its report dated February 2010. Adult Social Care Services was rated as "Performing Excellently" for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, also published in February 2010.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2009/10 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the cabinet and raises proposals for the Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they consider performance information. They also have a

key role in reviewing and challenging the Cabinet's budget framework prior to consideration at full Council.

Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2009/10, the overall the control environment is adjudged to be satisfactory.

External Audit

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2009/10 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.	<p>The authority has identified a savings target of £18m a year the next three years arising from the Government action likely to be necessary to tackle the UK's public spending deficit. This is much greater than the target in previous years and the incremental approach adopted in the past does not lend itself to this scale of problem.</p> <p>The authority has established a Service Options Review which will examine the strategic opportunities for delivering the savings. A clear savings target has been set of £55m over the next three years.</p> <p>Directorates have been challenged to identify savings to the scale required and this information has been fed into</p>	Corporate Management Team

Governance Issue	Action taken and next steps	CMT Lead
	<p>the review. The Review will go on to supplement the proposals brought forward by Directorates and identify strategic savings opportunities, likely to include some of a transformational nature, which will be governed through the Council's Transformation Board.</p> <p>A key component of the programme will be to ensure that a system is in place to secure the financial benefits of the transformation in the form of cashable savings.</p> <p>{Priority 1.2 (5) Strategic Plan and priority 5 – Resource's Directorate Plan}.</p>	
Optimise asset management across public services to enable Council assets to be utilised in the most effective way.	Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 & 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010 {Priority 6 – Strategic Plan}.	Corporate Directors, Resources and Development and Renewal
To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery.	The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to a catastrophic disaster and its ability to access all essential IT applications {Priority Res011 – Resources Directorate Plan}.	Corporate Director, Resources and Corporate Director, Communities, Localities and Culture
Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.	Following a mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) in June 2009 a Service Improvement Plan was developed. This was refreshed in February 2010 and agreed with the Council as one of the suite of documents which govern the operations of the ALMO under the terms of the Management Agreement.	Corporate Director, Development and Renewal

Governance Issue	Action taken and next steps	CMT Lead
	<p>This allows the ALMO and the Council to focus on those areas where there is the greatest risk at inspection and where the need for a stronger customer focus is most intense.</p> <p>The clienting procedures within the Council have also been strengthened in recognition of the importance of the need to drive change in the ALMO</p> <p>As a Round 6 ALMO funding for this scheme is not fully committed at this stage. Discussions continue with the HCA and the need for such investment has been prioritised in the draft Borough Investment Plan which will be agreed with the HCA by September 2010 Other regeneration opportunities have been progressed and the Ocean estate scheme has achieved start on site and 40Million funding from HCA. {Priority 14 – Strategic Plan and 2.1.4.2 Directorate Plan}.</p>	
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council has reviewed referral and safeguarding arrangements with social care and where necessary strengthened current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework 1, the Council's case management system. The next steps involve implementing all appropriate remaining recommendations, in particular, assessing potential increase in social worker requirements and taking heed of further guidance. {Priority 60, Strategic Plan}.</p>	<p>Corporate Director, Children Services</p>

Governance Issue	Action taken and next steps	CMT Lead
Improve information governance across the authority.	Following loss of personal data by an employee last year, a number of steps were taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords. A Project is now in place to implement full encryption for all mobile devices. This will be implemented for the most vulnerable devices first and all remaining devices by September 2010 {Priority Res011 – Resources Directorate Plan}.	Assistant Chief Executive (Legal)
Directorate operational guidance on contract management; retention and filing of contract documentation & Unauthorised extension of contracts.	<p>Guidance is already available through the contracting toolkit. Work is underway to broaden and strengthen our approach and this will be submitted to Competition Board for approval in September. A proposal for a standard self-assessment approach to contract management is currently being developed, for approval by Competition Board and subsequent roll-out across the Council.</p> <p>Systems have been improved for recording and filing contract documentation. Work is underway with Legal for setting up a repository of contract documents. This will be finalised by end June 2010.</p> <p>Unauthorised contract extensions have largely been addressed through revision of the Procurement Procedures in 2009. The updating of the contracts register, which will be completed by end May 2010, will provide the assurance to prevent unauthorised extensions.</p> <p>{Priority 8 – Resource's Directorate Plan}.</p>	Corporate Management Team.
Termination of Chief Officer's employment.	Responding to the Audit Commission's recommendation the process will be clarified by introducing a protocol into the Constitution by July 2010. This makes the responsibilities of officers and members clear when the termination of a Chief Officer's	Assistant Chief Executive – Legal Services

Governance Issue	Action taken and next steps	CMT Lead
	employment is being considered. {Priority within Chief Executive Directorate Plan}.	
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>Action has been taken to identify short term primary place needs (for 2010/11 School Year) and develop technical feasibility of temporary school expansion. The pupil projections model has also been enhanced to ensure pupil place planning is based on robust data.</p> <p>Work in underway with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2010 and have in place Strategic provision of additional primary school places to 2019/20 school {Priority CYPP, ECS – Children Schools Family Directorate Plan}.</p>	Corporate Director, Children Services
To review and ensure the delivery of additional housing to reduce overcrowding.	<p>The council is committed to providing high quality housing in line with the needs of the community. An Overcrowding Strategy has been agreed, which involves all partner RSLs in the borough as well as Tower Hamlets Homes. A programme has been developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}. A Right to Buy Buyback programme purchased more than 80 properties of three beds or larger, and despite the recession the Affordable Housing new build target (NI155) was achieved in 2009/10. Responsibility for addressing overcrowding within the Council's own stock has also been formalised with the Council dealing with those tenants who are two or more bedrooms short of need and Tower Hamlets Homes arranging a programme of visits to tenants who are 1 bedroom short of need using an Overcrowding Toolkit</p>	Corporate Director, Development and Renewal.

Governance Issue	Action taken and next steps	CMT Lead
	which has been developed to standardise the approach to overcrowding, {Priority 15 – Strategic Plan}.	

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....
 Chief Executive

Date:

.....
 Leader

Date:

Agenda Item 73

COMMITTEE: Audit Committee	DATE: 29 June 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola, Chief Financial Strategy Officer		TITLE: Treasury Management Activity for Period Ending 31 May 2010 Ward(s) affected: N/A		

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

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 May 2010 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

2. DECISIONS REQUIRED

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

3. REASONS FOR DECISIONS

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

4. ALTERNATIVE OPTIONS

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

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

6. TREASURY ACTIVITY FOR PERIOD 1 April to 31 May 2010

- 6.1 This section of the report sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 31 May 2010.

7 CREDIT CRITERIA

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

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

8 INVESTMENT STRATEGY

- 8.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.
- 8.2 In addition to provide cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 8.3 Sector's interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until we are well into Q4 of 2010. Against this macro-economic perspective Sector has developed a strategy which delivers enhanced performance through maximising the investment term of the portfolio. This will enable the portfolio to obtain exposure to the higher rates associated with investment in the longer term.
- 8.4 Sector initially calculated that the Council will have an effective investment balance of £100million for 2010-11. However, this is likely to be revised upwards, but average balances will vary through the year.
- 8.5 The current balance of £155.3M reflects an increase in balances due to business rates collection in the early part of the financial year and funds that are as yet unspent but have been earmarked to fund the 2010-11 capital programme. It is envisaged that the cash balance will reduce in the medium term especially toward the end of the financial year.
- 8.6 The Council's bankers, the Co-operative Bank plc, are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.
- 8.7 The current investment strategy within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Investment Strategy

Projection			Actual Deal			
Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	10.000	0.80%	Santander UK	Call	10.000	0.80%
Overnight	10.000	0.75%	Clydesdale Bank plc	Call	24.536	0.75%
Overnight		0.80%	Alliance & Leicester	Call	0	
Overnight		0.75%	Bank of Scotland plc	Call	20.000	0.75%
Overnight		0.25%	Debt Mgt Office (DMO)	01 June 2010	11.750	0.25%
			SUB TOTAL		66.286	
1 Month	5.000	0.45%	Bristol City Council	21 June 2010	5.000	0.28%
2 Months						
3 Months	20.000	0.85%	Stirling Council	26 July 2010	4.000	0.30%
6 Months	20.000	0.99%	Royal Bank of Scotland	10 November 2010	25.000	0.92%
			Nationwide	15 July 2010	5.000	0.79%
			Nationwide	15 October 2010	5.000	0.85%
9 Months	15.000	1.30%	Nationwide	10 January 2011	10.000	1.02%
			Nationwide	30 July 2010	5.000	0.99%
			Barclays	10 February 2011	10.000	1.15
12 Months	20.000	2.00%	Cater Allen (Santander)	14 May 2011	5.000	1.50%
			Lloyds	12 August 2010	5.000	1.82%
			Cater Allen (Santander)	13 January 2011	5.000	2.20%
			Cater Allen (Santander)	11 April 2011	3.000	2.20%
			Cater Allen (Santander)	14 May 2011	2.000	2.10%
			SUB TOTAL		84.000	
	£100.000		TOTAL		£155.286	

9 2009-10 OUTTURN

- 9.1 The average cash balance as at 31 March 2010 was £83.1m. Balances had been depleted due to the lack of business rates collection in the latter part of the year and also the reduction in council tax payments too, so dip was expected.
- 9.2 At 1.51% (1.83% if you exclude call account deposits) return on investments was solid in 2009-10. This outperforms LIBID by 1.07% and the portfolio benchmark by 0.26%.
- 9.3 Although portfolio performance was good, return on investment was affected by the amount of funds deposited in call account/less than one month deals. These short term deposits, although necessary to ensure liquidity during the latter part of the financial year when cash inflows to the Council is much reduced, affected the average interest of the portfolio and consequently the overall portfolio performance.

10 INVESTMENT RETURNS

- 10.1 Investment returns since inception of the new arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). This performance continued into the first quarter of 2010, but there has been a slight tailing off in Q2 of 2010.
- 10.2 As at 31 May the average return on investment stood at 0.93%. Although this is below the benchmark of 1.25%, it is above the LIBID by 0.47% and represents good performance given the issues around level of additional funds that need to be invested under the current investment strategy.
- 10.3 The dip in returns is due to the maturity of high returning deposits. These favourable rates are no longer available so maturing deposits have had to be invested at lower rates than before.
- 10.4 Other factors affecting average return on investment include the increase in available for investment cash balances and the contraction in counterparty list due to stricter counterparty criteria. Consequently, a higher than envisaged percentage of the portfolio has had to be placed with DMO at low rates of return of 0.25%.
- 10.5 Officers are reviewing all available options within the boundaries of the strategy to ensure that returns are maximised and are in the process of opening Money Market Fund accounts to facilitate short term placement of funds to boost performance.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

11 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

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

12. ONE TOWER HAMLETS CONSIDERATIONS

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

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

14. RISK MANAGEMENT IMPLICATIONS

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

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

16. EFFICIENCY STATEMENT

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

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"

Directorate Submissions

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

*Oladapo Shonola, Ext. 4733
Mulberry Place, 4th Floor.*

Appendix 1: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

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

Long-term Ratings

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

Individual Ratings

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

COMMITTEE: Audit Committee	DATE: 13th July 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola, Chief Financial Strategy Officer		TITLE: Treasury Management Activity for Period Ending 31 May 2010 Ward(s) affected: N/A		

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

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Long-term Ratings

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

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E	A bank with very serious problems, which either requires or is likely to require external support.