



Meeting of the

AUDIT COMMITTEE

Tuesday, 28 June 2011 at 7.00 p.m.

A G E N D A

VENUE

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

Members:

Chair: Councillor Carlo Gibbs
Vice Chair:

Councillor Khales Uddin Ahmed
Councillor Craig Aston
Councillor Stephanie Eaton
Councillor David Edgar
Councillor Denise Jones
1 Vacancy

Deputies (if any):

Councillor Shahed Ali, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones)
Councillor Abdul Asad, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones)
Councillor Rachael Saunders, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones)
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, 28 June 2011

7.00 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

	PAGE NUMBER	WARD(S) AFFECTED
3. APPOINTMENT OF VICE - CHAIR		
To appoint a Vice – Chair of the Audit Committee for the Municipal Year 2011/12 .		
4. UNRESTRICTED MINUTES	3 - 10	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 22 nd March 2011.		
5. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP	11 - 18	
6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
6 .1 Progress report June 2011	19 - 46	
7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
7 .1 Internal Audit Annual Report 2010/11	47 - 106	
7 .2 Annual Governance Statement 2010/11	107 - 130	
7 .3 Audit Draft Statement of Accounts 2010/11 - to follow		

7 .4	The Future of Local Audit	131 - 146
7 .5	Update on Risk Management	147 - 152
7 .6	2010-11 Treasury Management Outturn Report, Update to 31 May 2011	153 - 170

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Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 22 MARCH 2011

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

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Craig Aston
Councillor Mizan Chaudhury
Councillor Stephanie Eaton (Vice-Chair)
Councillor David Edgar

Other Councillors Present:

None.

Officers Present:

Minesh Jani	– (Service Head, Risk Management)
Jill Bell	– Head of Legal Services (Environment), Legal Services
Kevin Miles	– (Chief Accountant, Resources)
Oladapo Shonola	– (Chief Financial Strategy Officer, Resources)
Sally – Anne Eldridge	– (Senior Audit Manager, Audit Commission)
Mike Clarkson	– (General Manager, Deloitte and Touche)
Simon Kilbey	– (Service Head, Human Resources and Workforce Development)
Zoe Folley	– (Committee Officer, Democratic Services Chief Executive's)

1. APOLOGIES FOR ABSENCE

Apologies were received on behalf of Councillor Abdul Asad.

Apologies for lateness were received from Councillors Carlo Gibbs and David Edgar.

COUNCILLOR STEPHANIE EATON (VICE – CHAIR) IN THE CHAIR

2. DECLARATIONS OF INTEREST

Councillor Mizan Chaudhury declared a personal interest in agenda item 6.2 (Internal Audit Plan for 2011/12 Financial Year). The declaration was made on the basis that the report contained references to Tower Hamlets Homes and Councillor Chaudhury was a member of the Tower Hamlets Homes Board.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 14th December 2010 be approved subject to the inclusion of Councillor Craig Aston in the apologies for absence.

4. DEPUTATIONS AND PETITIONS

Nil

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

5.1 Annual Audit Plan

Ms Sally – Anne Eldridge (Senior Audit Manager, Audit Commission), presented the report highlighting the key points.

Members considered the key risks and the Auditor's responses. This was the first time the accounts have had to be produced in accordance with the International Financial Reporting Standards (IFRS) and the new Audit standards. This was a key challenge. Members also noted the new Value for Money approach focusing on a number of key areas.

In relation to the Audit fee, it was reported that since the estimate was agreed in April 2010, the Audit Commission had awarded two rebates regarding the Value for Money work and the work in supporting the IFRS. The Committee noted the revised fee.

In reply to questions, Mr Minesh Jani (Service Head, Risk Management and Audit) clarified the scope of the governance review. Audit would be comparing the framework against CIPFA standards for good practice. Audit would also be conducting an overarching review, wider than just the Council's Constitution, looking at such areas as the key Officer/Member Protocols, Partnership working etc.

A Member also commented that the Mayor would be carrying out a review of the ALMO. They stressed the need for the Audit of this area to take into account the Mayor's review.

The Committee noted the concerns around the late submission of reports. However Officers were confident that in future papers would be submitted within the required time scales to avoid delays and additional costs.

Councillor Carlo Gibbs (Chair) arrived at the meeting at 7:25 pm.

COUNCILLOR CARLO GIBBS (CHAIR) IN THE CHAIR**RESOLVED**

That the Annual Audit Plan be noted.

5.2 Pension Fund Annual Audit Plan 2010/11

Ms Sally – Anne Eldridge presented the report.

The Committee considered the audit fee, the action to reduce fees, the list of risks and responses, the testing strategy, and the timetable.

RESOLVED

That the Pension Fund Annual Audit Plan 2010/11 be noted.

5.3 Certifications of Claims and Returns - Annual Report

Ms Sally – Anne Eldridge presented the report. The report summarised the findings of the certification of 2009/10 claims

Ms Eldridge explained the significant findings. The assessment looked at eleven claims and resulted in amendments being made to four. Of which three had since been given an unqualified opinion. The one outstanding claim related to New Deal for Communities. However all of the work on this claim had now been carried out. It was just awaiting sign off and submission for certification.

Ms Eldridge also explained the testing process. There was scope for improving the control environment to reduce future audit work.

The Committee sought ideas for addressing the issues. In reply, it was considered that this could be achieved through more detailed quality reviews prior to submission and continuity in Officer support as this lead to good knowledge and improved planning. The recommendations were set out in the report.

Attention was then drawn to the following areas -

Housing and Council Tax Benefit Subsidy Return. (BEN01). This was very complex area and the largest area of assessment. Overall the area was well managed with Audit only having to carryout extended testing on four areas. The number of errors were in line with other Authorities.

Housing Subsidy Base Data return (HOU02). The Committee noted the need to reopen the electronic system, used by the government department, to amend the returns. They asked what could be done to prevent this in the

future. In response, Ms Eldridge stressed the need for early action and better planning to ensure they were submitted within the required timeframe.

RESOLVED

That the Certifications of Claims and Returns - Annual Report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 Quarterly Internal Audit Assurance Report

Mr Minesh Jani (Service Head, Audit and Risk Management) presented the Quarterly Internal Audit Assurance report. Mr Jani report that the plan was generally on target. 95% of the follow up recommendations had been implemented at the six monthly stage. The minority still to be implemented had been escalated to Corporate Directors for immediate attention.

Of the 17 audits reviewed, only 2 had been assigned a limited assurance as set out below.

- Establishment Control

Accordingly Mr Simon Kilbey (Service Head Human Resources and Workforce Development) was in attendance to reply to the issues. Mr Kilbey advised that an extensive data cleansing exercise was underway to ensure staffing information was up to date and accurately reflected the Authority's structure. There would be a new Peoples' Panel chaired by the Chief Executive to oversee the establishment of new posts. The issues would also be reported to the Recruitment and Retention Panel for consideration. There would also be regular reports to the Corporate Management Team who monitored the process.

It was intended that the issues around the establishment list would be rectified within the next month.

It was also explained that the documents attached to posts (Job Descriptions etc) and personal data would be checked. Members were reassured that the Trade Unions would be kept informed where necessary. Councillor Eaton asked for further information regarding salary overpayments which Mr Jani undertook to provide to the Councillor.

- Payment by CHAPS

The second report ascribed a limited assurance level concerned payment by CHAPS. Oladapo Shonola (Chief Financial Strategy Officer, Resources) addressed the issues. The key issues lay around overuse of the CHAPS system for quick payments.

Mr Shonola reported that the procedures had been re - issued and would be submitted to the relevant Council forum comprising Heads of Finance. More staff were now responsible for reconciliations. Journals were now completed twice a week due to greater Officer delegation. In respect of the Vouchers system, the form had been redesigned. The procedures were robustly enforced. The BACs system was reconciled very regularly

Mr Shonola expressed confidence that his service could address these issues alongside any other pressing priority.

Members stressed the need for better planning to avoid unnecessary use of the CHAPS system.

Mr Jani also commented that communication was key. Thus, Officers were actively promoting proper use of the payment methods. Officers were also looking at streamlining the systems to ensure the correct payment processes were used across the Council.

- Management and Control of Leavers

Mr Kilbey reported that a new system was in place for removing leavers from the IT system promptly. There was also an escalation procedure to ensure Management were informed of the issues promptly and could take timely action.

RESOLVED

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

6.2 Internal Audit Plan for 2011/12 Financial Year

Mr Minesh Jani presented the Internal Audit Plan for 2011/12.

Mr Jani outlined the contents and the methodology for developing the plan based on consultation with stakeholders and the Authority's Risk register. Mr Jani drew attention to the number of planned audit days across all directorates which included a provision of 200 days for proactive work.

Members asked about the reduction in days for the Children's Services Audits and the VFM/ proactive fraud work. They sought assurances that the audits could be undertaken in this reduced time frame. They commented that the changes were reliant upon improved planning. However Officers would now have more pressures on their time.

In reply, Mr Jani reported that the proposals stemmed from a number of changes. Firstly, the existing standards regime in schools had been abolished. A new regime was to come into effect from September 2011. The frequency of school Audits would also be revised from a 3 year to a 5 year cycle. The VFM element had reduced.

Overall Audit would be reviewing their practices to mitigate the impact of the savings. This could involve refocusing work to improve efficiency (reviewing the frequency of reports, raising expectations, ensuring Audits were complete on time).

In reply to further questions, Mr Jani reported that the gifts and hospitality audit was to cover all Directorates, so that's why it had been allocated six days.

Mr Jani also explained the rationale for reducing the days allocated to Members Enquiries due work moving to other Directorates.

In relation to Asset Management, Officers were working on the assumption that there would be a smaller Portfolio under review. Moreover a lot of work had already been completed in this area.

Officers were also asked to report back on use of the 200 days.

Councillor Mizan Chaudhury left the meeting at 8:05pm.

RESOLVED

That the Annual Internal Audit Plan for 2011/12 (Appendix 1) and the accompanying internal audit strategy be endorsed.

6.3 Anti Fraud and Corruption Strategy and Proactive Anti Fraud Plan 2011-12

Mr Minesh Jani presented the Strategy.

It was reported that the strategy had been updated to take into account new developments such as the Bribery Act 2010 and the transfer of the Parking Fraud Team to Internal Audit.

Members secured assurances about the measures to protect Whistleblowers and that the Authority went to great lengths to protect them in accordance with the procedures. Officers were also reviewing their approach to anti fraud work to improve efficiency and synergy across the teams.

RESOLVED

That the contents of the report be noted and the anti fraud plan be endorsed.

6.4 Social Housing Fraud Update

Mr Minesh Jani presented the report regarding the work of the Social Housing Fraud Team.

It was noted that the Council had received additional funding from government for the continuation of this initiative due to its success. Mr Jani explained the current work of the team and their aims as detailed in the report. Members noted details of the Teams Case Load (open, closed and recovered cases).

Members welcomed the work of the Social Housing Fraud Team. It was considered that it helped the Council at so many levels.

RESOLVED

That the contents of the report be noted.

6.5 Treasury Management Activity for Period Ending 28th February 2011

Oladapo Shonola, (Chief Financial Strategy Officer, Resources) presented the Treasury Activity report for the period ending 28th February 2011.

Mr Shonola reported that overall performance was broadly in line with previous years. At present market conditions were difficult. Opportunities were restricted. However the fund consistently exceeded the LIBOR/LIBID. Furthermore the credit criteria had been fully met.

In response to the report, Members welcomed the improvements, yet noted that investment returns still fell below the benchmark. They questioned whether this could be attributed to the current market conditions.

In reply, Officers explained the merits of a cautious approach due to current conditions. Therefore whilst performance could be better, it was considered that the Council was making the best of the situation without taking unnecessary risk.

The current balance was higher than anticipated at this point in the year due to the Housing Finance initiative and the under spend on the Capital Programme.

Officers also clarified for Members the percentage of short term and longer term investments.

It was also confirmed that there was no exposure to Japanese Banks. All investments were restricted to AAA countries.

RESOLVED

That the contents of the report be noted.

6.6 Update on Implementation of International Financial Reporting Standards (IFRS)

Mr Kevin Miles (Chief Accountant Corporate Finance) presented the report highlighting the key points .

The Committee asked whether the draft accounts could be circulated to them in June for consideration. It was requested that this should be given consideration.

RESOLVED

1. That progress towards meeting the International Financial Reporting Standard (IFRS) be noted; and
2. That it be noted that if draft legislation is agreed, the audited Statement of Accounts may be submitted to a September Audit Committee for approval meeting rather submitting the unaudited accounts at the June meeting.

The meeting ended at 9.00 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

Agenda Item 5

Committee	Date	Classification	Report No.	Agenda Item No.
Audit Committee	28 th June 2011	Unrestricted		
Report of: Assistant Chief Executive Originating Officer(s) : Zoe Folley, Democratic Services		Title : Audit Committee Terms of Reference, Membership, Quorum and Dates of meetings 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 2011/12 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 18th May 2011, 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 13th April 2011, are as set out in Appendix 3 to this report.
- 3.4 Meetings are scheduled to take place at 7.00 pm 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 13th April 2011 and on 18th May 2011.

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

n/a

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>	
<p>Functions</p>	<p>Delegation of Functions</p>
<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>	

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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 Khaled Uddin Ahmed	(Deputy:- Cllr David Snowdon)	One Vacancy
Cllr David Edgar		
Cllr Denise Jones		
(Deputy:- Cllr Rachael Saunders, Shahed Ali, Abdul Asad)		

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APPENDIX 3

AUDIT COMMITTEE

SCHEDULE OF MEETING DATES 2011-12

- Tuesday 28th June 2011
- Tuesday 27th September 2011
- Tuesday 12th December 2011
 - 20th March 2012

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Progress report

June 2011

London Borough of Tower Hamlets

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 The purpose of this report is primarily to provide the Audit Committee with an update on progress in delivering the 2010/11 audit plan and in planning the 2011/12 audit. It also highlights key national emerging issues and developments which may be of interest to members of the Committee.

2 If you require any additional information regarding the issues included within this report, please contact your District Auditor, Jon Hayes, or your Engagement Manager, Sally-Anne Eldridge, using the contact details set out in table 1 on page 7 of this report.

Summary of progress

2010/11 audit plan

3 Outline 2010/11 plans and fees for the audits of the Council and its Pension Fund were presented to the Audit Committee in June 2010. We presented our detailed plans, including the risks identified, to the Audit Committee at its March 2011 meeting. Appendix 1 sets out progress in reporting the audits.

2010/11 opinion work

4 The opinion audit is progressing well. We have continued to maintain regular communication with the finance team to identify and resolve potential issues early.

5 Our Technical Unit hosted a series of workshops for local government accountants in February and March 2011. Council officers attended one of these workshops which covered our planned approach to issues related to the preparation and audit of the 2010/11 financial statements.

Interim audit

6 The interim audit is substantially complete. This has involved updating our understanding of the Council's control environment, updating our documentation of the key financial systems and testing the key controls within those systems (covering all systems over a three year cycle) to support our opinion on the financial statements.

7 As in previous years, we are planning to place reliance on some of the controls in the Council's material financial systems. This will reduce the amount of testing that we are required to undertake at our final audit on the entries in the financial statements.

8 There are no issues arising from our work to date to bring to your attention. However, work is ongoing on the payroll system and the accounts payable system. In previous years, I have reported weaknesses in the payroll system to this Committee.

Assurances from the Audit Committee

9 In order to comply with International Standards on Auditing (UK&I) 240 and 250, we are required to obtain an understanding of how the Audit Committee, as those charged with governance, exercises oversight of management's processes in relation to fraud and legality.

10 A paper entitled 'Enquiries to those charged with Governance' has been shared with the Council to support our work in this area. We received a response which had been agreed with the Chair of the Audit Committee: the response is attached in appendix 4.

International Financial Reporting Standards (IFRS)

11 Local authorities are preparing their accounts under IFRS from 2010/11. In the Audit Commission publication, 'The final countdown: IFRS in local government' (March 2011), the Commission highlighted the key steps local authorities should now be taking for 2010/11 and the longer term.

12 We have been working with officers on an ongoing basis in preparation for the implementation of IFRS in the 2010/11 financial statements.

13 In March, officers provided IFRS re-stated core financial statements as at 1 April 2009 and 31 March 2010. We have completed an initial review of the information provided. Audit work is ongoing and will need to be revisited once the full 2010/11 financial statements are presented for audit. There are, however, no issues to bring to your attention from our work to date.

2010/11 value for money (VFM) conclusion

14 The audit plan presented to the Audit Committee at its last meeting outlined three specific risks to the VFM conclusion in 2010/11.

- Weaknesses have been reported in the Council's material financial systems.
- The Council has made significant changes to its medium term financial plan in response to the recession, Comprehensive Spending Review (CSR) and the resulting increased financial pressures.
- In response to the move to a mayoral system, the Council has updated its governance arrangements.

15 Our work to inform the VFM conclusion is in progress. No matters have arisen from our work to date to report to you.

Anti-fraud work

16 The Audit Commission undertakes an annual national fraud and corruption survey. The survey collects important information from local government bodies about a wide range of fraud and corruption issues, including housing tenancy and procurement fraud. The survey is the only one of its kind in the public sector.

17 For financial year 2009/10, over 94 per cent of organisations responded to the survey. The results showed that local government had been successful in detecting over 119,000 cases of fraud and corruption committed against it, the majority relating to housing and council tax benefit fraud, equating to more than £135 million lost to public services.

18 The Commission commenced its survey for the 2010/11 financial year on 8 April 2011. By helping to build a picture of the levels of identified fraud and corruption in local government across England, the survey can be used to inform the national debate, and develop national and local strategies, on combating fraud and corruption.

19 We welcome the Council's participation in the survey and will consider the Council's submission as part of our work to support our VFM conclusion. The survey results will be published in the Commission's national report to be entitled 'Protecting the Public Purse 2011' later this year.

2011/12 audit fees letters

20 Our initial plans for the 2011/12 audits of the Council and its Pension Fund were set out in letters to the Chief Executive on 17 March 2011. These will be followed up with detailed plans for the audits early next year. The initial fee letters are attached at appendix 2.

21 The Audit Commission consulted on the proposed work programme and scales of fees for local government for 2011/12. The final agreed programme and scale resulted in a significant reduction in audit fees to reflect the new approach to local VFM audit work.

22 For 2011/12, the Audit Commission has also specified the scale audit fee for each individual body. This is intended to increase transparency and ensure planned reductions are delivered on the ground. The Council's plans as included at appendix 2 reflect these reductions.

Audit Commission developments

Future of the Audit Commission

23 The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG is currently consulting on its proposals for the new audit regime and plans to publish a draft Bill for further scrutiny and comment later in the year. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

24 The Commission is working with DCLG to develop an approach to transferring its existing in-house Audit Practice into the private sector. DCLG's provisional view is that its preferred route is to ask the Commission to invite bids for all existing Audit Practice audit appointments from 2012/13 onwards from private sector firms, with the option of an in-house Audit Practice bid which could form the basis of a new employee-owned, or mutual, organisation.

25 We have discussed developments with the Chief Executive and have reaffirmed the Commission's, and our own, commitment to delivering a high quality and effective audit service for 2010/11 and 2011/12. We will update the Committee on developments at its meeting.

Recent publications

26 The Audit Commission publishes independent reports which highlight risks and good practice to improve the quality of financial management in local government and encourage continual improvement in public services including in the field of public health and health inequalities. Some of the recent reports are summarised in appendix 3 and are also available on the Commission website at:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/default.aspx>

Contact details

Table 1: **Contact details**

Name	Telephone	Email
Jon Hayes District Auditor	07789 032622 0844 798 2877	j-hayes@audit-commission.gov.uk
Sally-Anne Eldridge Senior Audit Manager	07815 954026 0844 798 2287	s-eldridge@audit-commission.gov.uk
Shona Milton Audit Manager	07812 157709 0844 798 2658	s-milton@audit-commission.gov.uk

Appendix 1 Key deliverables

Table 2: Progress on key deliverables

Audit plan content	Target for draft report	Actual reporting date to officers
Initial fee letters	April 2010	April 2010
Opinion audit plans	April 2011	March 2011
Annual governance reports	September 2011	Report not yet issued
Opinion on the financial statements and value for money conclusion	September 2011	Report not yet issued
Final accounts memorandum (if appropriate)	October 2011	Report not yet issued
Annual audit letter	November 2011	Report not yet issued
Report on certification of grant claims	February 2012	Report not yet issued

Appendix 2 Fee letter 2011/12

17 March 2011

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

Direct line
Email

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

Dear Kevan

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Tower Hamlets Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- whole of government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit scale fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Tower Hamlets Council is £462,150. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£462,150	£513,500
Certification of claims and returns	£96,000	£105,000

I will issue a separate audit plan in March 2012. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake 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. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

I will issue several reports over the course of the audit. I have listed these at appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are shown overleaf.

Name	Contact details	Responsibilities
Jon Hayes Engagement Lead	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.
Sally-Anne Eldridge Engagement Manager	s-eldridge@audit-commission.gov.uk 0844 798 2287	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Shona Milton Audit Manager	s-milton@audit-commission.gov.uk 0844 798 2658	Manages the day to day delivery of the work and leads the on-site team in delivering the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager, Audit Commission.

Annex 1 - planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 3:

Planned output	Indicative date
Audit plan	March 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the Director of Resources)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Appendix 2 Pension fund fee letter 2011/12

17 March 2011

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

Direct line
Email

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

Dear Kevan

Tower Hamlets Pension Fund Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year for the Tower Hamlets Pension Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audit for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee for the Tower Hamlets Pension Fund is £35,000, which is the same as the planned fee for 2010/11. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

I will issue a separate audit plan in March 2012. This will detail the risks identified to the financial statements audit. The audit plan will set out the audit procedures I plan to undertake 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. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Jon Hayes Engagement Lead	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.
Sally-Anne Eldridge Engagement Manager	s-eldridge@audit-commission.gov.uk 0844 798 2287	Manages and coordinates the audit work. Key point of contact for the Director of Resources.
Shona Milton Audit Manager	s-milton@audit-commission.gov.uk 0844 798 2658	Manages the day to day delivery of the work and leads the on-site team in delivering the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st

Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Jon Hayes
District Auditor

cc Chris Naylor, Director of Resources

Sally-Anne Eldridge, Senior Audit Manager, Audit Commission.

Annex 1 - planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 4:

Planned output	Indicative date
Audit plan	March 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements	September 2012

Appendix 3 Summary of recent Audit Commission publications

Improving value for money in adult social care (2 June 2011)

'Improving value for money in adult social care' is the first in a series of briefings that will look at value for money in health and social care.

This briefing finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services.

Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face.

But the briefing also finds that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.

Going the distance - Achieving better value for money in road maintenance (26 May 2011)

The report looks at the challenges faced by the country's 152 council highways authorities. England's 236,000 miles of local roads - used by 30 million drivers every day - are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.

The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience.

It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.

Services for Young People: Value for Money self-assessment pack (19 April 2011)

This is a [free self-assessment pack](#) resulting from collaboration between the Audit Commission and the Confederation of Heads of Young People's Services (CHYPS). It aims to help make sure money spent on services for young people is well used and has the right impact.

Already piloted in six areas, it has been credited with:

- helping statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
- increasing self-awareness among managers and staff about council youth services;
- stimulating discussion between partner organisations on improvement and how to achieve better value for money;
- identifying some 'quick wins'- for example, doing more to celebrate young people's achievements; and
- generally raising the profile of youth services.

The pack is organised into five modules which take users through a structured assessment of their services, drawing on their own and comparative data about spending and outcomes. It then helps them prepare an action plan to provide the best value for money services for young people, specifically tailored to their area and its resources.

'Services for Young People: Value for Money Self-Assessment Pack' is a voluntary, online, self-assessment tool aimed at elected members and senior staff with an interest in services for young people. It is relevant to all councils, fire and rescue authorities, the police, voluntary and private sectors - indeed anyone who is involved in commissioning or delivering services locally for young people.

In 2009 the Audit Commission report [Tired of Hanging Around](#) showed how sport and leisure activities could prevent young people being drawn into anti-social behaviour. It found that a young person caught up in the criminal justice system costs the taxpayer £200,000 by the age of 16, but one needing support to stay out of it costs less than £50,000. The report identified a need for councils and their partners to improve resources for young people. This new resource is designed to complement it.

Better value for money in schools (31 March 2011)

These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings.

England's maintained schools spent £35 billion in 2009/10. School staff account for over three-quarters of this total and form one of the country's largest public sector workforces.

These briefings, under the heading 'Better Value for Money in Schools', examine patterns in spending in maintained schools in England. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment.

They look at four areas where schools have scope to improve efficiency:

- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools' curriculum offer;

- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

In addition we published a summary paper, 'An overview of school workforce spending', which is targeted at chairs of governing bodies and lead members on children's services.

For more information about the briefings you can email schoolsworkforce@audit-commission.gov.uk.

Appendix 4 Enquiries to those charged with Governance - London Borough of Tower Hamlets response

Table 5: **Questions to those charged with governance**

ISA240

Question	Response
<p>Are you aware of any actual, suspected or alleged fraud?</p>	<p>Yes, the audit committee receives regular reports from the anti fraud team setting out the types and significance of frauds across the authority. In line with our protocols, all significant frauds in between meetings would be reported to the Cabinet Member and me as the Chair of the Audit Committee.</p> <p>At the end of the financial year, the Audit Committee also receives an annual report summarising the work of the anti fraud team.</p>
<p>Has management disclosed to you the conclusion of its assessment over the risk of fraud within the financial statements of both the Council and the Pension Fund?</p>	<p>The briefing note accompanying the statement of accounts highlights any significant risk around fraud within the financial statement of both the Council and Pension Fund. This was presented to the Audit Committee on 29 June and full Council meeting on 10 July.</p>
<p>Have you considered the risk of material misstatements (misreporting) by management in relation to both the Council and the Pension Fund?</p>	<p>This was discussed at the Audit Committee on 13 July 2010, following a presentation by the Audit Commission.</p>
<p>What is the Audit Committee's assessment of the impact of misappropriation on the financial statements of both the Council and the Pension Fund?</p>	<p>From the information we have received from officers and the anti fraud team, the impact of misappropriation on the financial statements is regarded as low.</p>
<p>What oversight have you exercised over management's processes for identifying and responding to the risks of fraud, and the controls put in place by management to mitigate those risks? See appendix 1.</p>	<p>The Audit Committee's TOR set out clearly the role of the committee in being the body responsible for receiving and scrutinising the authority's arrangements for fraud. A number of processes are in place for management to report fraud such as whistle blow procedures/audit/ fraud team etc and for these to be reported regularly to the committee.</p>

Question	Response
	Over the last year, we have received reports from the Anti Fraud team that have highlighted reactive and proactive fraud work and the nature and range of frauds.
How do you exercise oversight of management's processes in relation to: communication to employees of views on business practice and ethical behaviour; and communication to those charged with governance the processes for identifying and responding to fraud.	There has been some communication to staff of business practices via Tower Hamlets now, the intranet etc, but a systematic approach for communication with employees is not in place. The communication arrangements for those charged with governance is in place via the Audit Committee via the annual refresh of the Council's anti fraud arrangements.

Table 6: **Questions to those charged with governance**

ISA250

Question	Response
Are you aware of any non-compliance, by either the Council or the Pension Fund, with relevant laws and regulations?	Not aware of any material non compliance with the council or the pension with laws or regulations.
If there have been instances of non-compliance, has the Audit and Performance Committee ensured that these have been brought to the attention of the auditor?	Protocols are in place for raising matters with those charged with governance and the external auditor and for ensuring the matter is pursued as necessary.
If there have been instances of non-compliance, what oversight has the Audit and Performance Committee had to ensure that actions are taken by management to address any gaps in control?	The Audit Committee receives regular reports that highlight failure to comply with laws, regulations, policies, procedures etc. The report set out the nature of the issue and management is asked to respond to the matter raised at the Committee (as the accountable person). The matter is minuted and the audit committee receives updates to ensure appropriate action can be taken, including further updates from management and the Audit Committee recommendation to improve governance.
How do you gain assurance that all relevant laws and regulations have been complied with?	From a number of sources including the work of: <ul style="list-style-type: none"> ■ external audit; ■ internal audit; ■ assurances from management; ■ risk management; and ■ overall governance arrangements of the council.

Table 7: **Questions to those charged with governance**

ISA 570

Question	Response
Have you assessed the process management has followed in forming a view on going concern of the Council and the assumptions on which that view is based? See appendix 2.	The assessment of the process followed formed part of the papers submitted to the Audit Committee in June/September 2010.
Have you assessed the process management has followed in forming a view on going concern of the Pension Fund and the assumptions on which that view is based? See appendix 2.	The assessment of the process followed formed part of the papers submitted to the Audit Committee in June/September 2010.

Table 8: **Questions to those charged with governance**

ISA 580

Question	Response
Have you made suitable arrangements to consider the letter of management representations, acknowledging their collective responsibility towards the financial statements?	This is an agreed protocol with the Audit Commission and includes the roles and responsibilities around the financial statements.

Annex 2 – Fraud

Question	Management response
What was management’s assessment of the risk that the financial statements may be materially misstated due to fraud and what were the principal reasons?	<p>The risk that the financial statements may be materially misstated due to fraud is regarded as below low. In making this assessment, management has relied upon the a number of assurance providers, chiefly:</p> <ul style="list-style-type: none"> ■ the risk of fraud identified by management on risk registers is low; ■ the annual governance statement has not identified fraud risk as an area of concern; and ■ the work of the corporate anti fraud team and that of other fraud teams across the authority.
What process was employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	Broadly, the general risks around fraud were considered and their implications of financial statements assessed. From this exercise, none of the fraud that we are aware of was regarded significant in relation to the financial statement.

Question	Management response
<p>Management’s awareness of any actual or alleged instances of fraud?</p>	<p>The S151 officer and the monitoring officer receive regular updated on actual or alleged instances of fraud from the Head of Audit and the Service Head, Risk Management and Audit. Both officers also receive updates from their management. The Corporate Management team is appraised of all actual or alleged frauds by regular reports of the Anti fraud team.</p>
<p>How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties (including employees) and when?</p>	<p>A governance framework is in place through various policies/procedures and guidance that set out the ethics and behaviour standards including; codes of conduct, procedures around hospitality and gifts, declarations of interests, member officer protocols etc. These are all maintained on the Council intranet. The Standards Committee receives regular updates and would look into any suggestion of poor governance in this area. The Audit Committee will also have a role around internal control/risk and governance.</p>
<p>What arrangements are in place to report fraud to those charged with governance?</p>	<p>The Audit Committee is the body charged with delivering good governance. The Audit Committee receives quarterly updates on the Council’s response to actual and purported fraud including work on NFI/ Parking Fraud/Homelessness/Benefit Fraud and any other types of fraud. The Audit Committee also receives an annual report summarising the activity for the year.</p>
<p>Do all of the above arrangements and responses also apply to the Pension Fund? Are there any additional anti-fraud arrangements in place for the Pension Fund, particularly in relation to outsourced administration function and fund management?</p>	<p>The activities of the anti fraud team capture all activities of the Council which includes the pension fund. In addition however, the authority also employs a private company to act as the custodian of the council’s pension investment, who would bring fraud related matters to the attention of the Council.</p>

Annex 2 – Going concern

Question	Management response
How has management formed a view on going concern?	From a review of the council’s financial statements including consideration of reserves and balances, future commitments, contingencies and liabilities, cashflows. For Pensions, there are specific statutory regulations that govern the assessment of going concern.
What principal assumptions have been used in reaching this view and why does management feel the assumptions are appropriate?	<p>The principal assumptions are:</p> <ul style="list-style-type: none"> ■ a balanced budget; ■ affordable borrowing; ■ level of reserve; ■ medium term financial plan (MTFP); and ■ the Council’s systems of internal financial control. <p>In deciding on the going concern of the authority, assurances have been sought from management over the principal assumptions and comfort obtained.</p>
Is the above consistent with the strategic business plan and the financial information provided to you throughout the year?	Yes, reported to the Cabinet quarterly and CMT monthly.
Have there been any significant issues raised with you during the year (eg, adverse comment by internal and external audit on weaknesses in systems of financial control, or significant variances to activity levels compared to those planned), which could cast doubts on the assumptions made?	None.
Have the implications of any known statutory or policy changes been appropriately reflected in the business plan and financial forecasts (eg the impact of IFRS)?	<p>Impact of IFRS, the higher valuation fees (for Capital assets) and cost if existing contract review all taken into account in the MTFP.</p> <p>The other significant agenda with significant financial consequences is the Transformation agenda, which is looking to reduce the Council’s financial resource by £75k over three years.</p>
<p>Does a review of available financial information (annual accounts, in-year financial monitoring reports, future year financial forecasts) identify any of the following adverse financial indicators:</p> <ul style="list-style-type: none"> ■ negative cash flow (ie, expenditure 	A three year review of capital financing (cashflow) has been carried out with a view of maintaining sufficient cashflow for the proper financial management of the Council.

Question	Management response
<p>greater than income); and</p> <ul style="list-style-type: none"> ■ the need to take out new loans <p>If so, what action is being taken to improve financial performance?</p>	
<p>Does the organisation have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes, the level of vacancy at senior levels has been reduced and this is particularly the case for key financial posts, although the need to make financial savings may have an impact in future.</p>
<p>Have management formed a view on the going concern status of the Pension Fund, taking into account relevant financial and performance information, known statutory and policy changes and organisation capacity? Why does management feel that this view is appropriate?</p>	<p>Management has considered the status of the pension fund and consider it a going concern as its liabilities will have to be met from the general reserves of the Council.</p>

Annex 3 - Laws and regulations

Question	Management response
<p>How have you gained assurance, for both the Council and the Pension Fund, that all relevant laws and regulations have been complied with?</p>	<p>Assurance obtained from management in the form of completion of a CIPFA checklist to assess compliance, accounts and audit regs and the legal sign off.</p>
<p>Are there any potential litigations or claims that would affect the financial statements of either the Council or the Pension Fund?</p>	<p>None that significant that I am aware of.</p>

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0844 798 7070

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

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



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

June 2011

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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 2010/11**
- § **Appendix 1 – Audit Resources**
- § **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the CMT and the Audit Committee.
- § **Appendix 3 – List of audits undertaken in 2010/11**
- § **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 2010/11. 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 2010/11. 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 2010/11. 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 1 below. Internal Audit is provided in partnership with Croydon Framework contract. An in-house team of nine auditors works with resources provided under the Croydon framework arrangement.

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 4.4 days per person on average, compared to 5.3 days in 2009/10.

Sickness is likely to be higher in 2011/12 as a member of the audit team is on long term sickness absence.

- 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 2010/11 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 2010/11.
- 8.3 A summary of the audit assurance resulting from audit reports in 2010/11 is provided in the table below.

Audits 10/11		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	-	47	12	-
	Moderate	-	31	8	-
	Low	-	-	-	-
Total		-	78	20	-

- 8.4 The table shows that of 98 systems audits, 79% 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. 21% 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 2010/11 financial year, we identified risks in the Council's systems for Information security of paper based data, managing its Establishment Lists, managing the creditors system, managing and monitoring of contracts, managing the contract for household recycling and managing and controlling blue badge system. Within Tower Hamlets Homes, risks were identified in the company's systems for managing caretaking services, managing of garages, sheds and parking spaces and managing framework contracts for lifts. 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 2010/11, 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 Panel. The performance for 2010/11 is set out in the table below.

Performance Measure	2010/11	
	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%	93%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	90%

- 9.2 As at the 31st March 2011, 100% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.
- 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. For 2010/11 as a whole, 93% of priority 1 recommendations had been implemented against a target of 100% and 90% 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 2010/11 will be submitted and key points will be reported to a future CMT and Audit Committee.

10 Comments of the Chief Financial Officer

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

11 Concurrent Report of the Assistant Chief Executive (Legal Services)

- 11.1 The council is required by regulation 6 of the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. It is appropriate to have regard to the CIPFA Code of Practice to determine what are proper practices.
- 11.2 The council is further required to conduct a review of the effectiveness of its internal audit at least once a year. The review findings must be considered by the council's audit committee as part of the consideration of the committee's consideration of the council's system of internal control. The subject report is intended to discharge these functions. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution.
- 11.3 These requirements were previously set out in the Accounts and Audit Regulations 2003, before those regulations were revoked on 31 March 2011 and replaced with the 2011 Regulations referred to above.

12 One Tower Hamlets

- 12.1 There are no specific one Tower Hamlets considerations.
- 12.2 There are no specific Anti-Poverty issues arising from this report.

13 Risk Management Implications

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

14 Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

N/A

Minesh Jani, 0207 364 0738

Internal Audit – Resources 2010/11

	Revised Plan	%	Outturn	%
In-house staff days	2,105	78%	2,005	74%
Deloitte / external	608	22%	708	26%
	2,713		2,713	
Gross days				
<i>less</i> Leave	278	50%	275	52%
<i>less</i> Sickness absence	56	10%	61	11%
<i>less</i> Non Operational Time	223	40%	197	37%
Unproductive time	557		533	
Net productive days	2,156*		2,180 *	

* excludes work on tenancy work fraud.

Internal Audit Budget 2010/11

	Budget £000	Actual £000	Variance £000
Salaries	597	590	7
Contract costs	213	210	3
Running costs	36	31	5
Central Recharges	115	115	-
Gross cost recharged	961	946	15

Internal Audit Reports 2010/11 – 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 2010/11 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Resources	Creditors and R2P system.
	Extensive	Tower Hamlets Homes	Effectiveness of Probationary Tenancies
	Moderate	Tower Hamlets Homes	Management of Garages, Sheds and Parking Spaces
	Moderate	Assistant Chief Executive – Legal Services	Registrars Service
	Moderate	Communities, Localities and Culture	Control and Management of Blue Badges – Follow Up audit
SUBSTANTIAL	Extensive	Tower Hamlets Homes	Health and Safety at Work
	Extensive	Tower Hamlets Homes	Financial Systems
	Extensive	Tower Hamlets Homes	Housing Rents
	Extensive	Adults, Health and Wellbeing	Implementation of Personalisation Agenda
	Extensive	Adults, Health and Wellbeing	Implementation of Framework i system
	Extensive	Resources	Payments by BACS
	Extensive	Resources	Management of VAT – Follow Up audit
	Extensive	Resources	General Ledger Including Budgetary Control
	Extensive	Resources	Capital Accounting
	Extensive	Resources	Cashiers – Systems Audit
	Extensive	Development and Renewal	Procurement of goods, services and works below EU thresholds
	Extensive	Development and Renewal	Programme and Project Management

Assurance level	Significance	Directorate	Audit title
	Extensive	Communities, Localities and Culture	On street Parking Income – Follow Up audit
	Extensive	Communities, Localities and Culture	Household Waste Recycling Follow Up audit
	Extensive	Children, Schools and Families	Procurement of goods, services and works below EU thresholds
	Extensive	Children, Schools and Families	Framework-i – systems application audit
SUBSTANTIAL	Moderate	Children, Schools and Families	Osmani Primary School – Probity audit
	Moderate	Children, Schools and Families	Mowlem Primary School – Probity Audit
	Moderate	Children, Schools and Families	Manorfield Primary School – Probity audit
	Moderate	Children, Schools and Families	Mayflower Primary School – Probity audit

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors and R2P Systems Audit	May 2011	<p>The objective of this audit was to provide assurance over the Council's systems for ordering and paying for goods, services and works. The Council introduced the R2P (Requisition to Pay) system in April 2010.</p> <p>Our review showed a number of control weaknesses specifically in the area of reconciliation between the R2P system and the Council's General Ledger system to ensure that all orders raised are appropriately accounted for and are paid via the Council's JDE creditors system and that all creditors payments are properly accounted for in the General Ledger system. We identified 14 duplicate payments with the value of £161K that had occurred during the current financial year. In addition, our testing of a sample of 20 new suppliers set up on R2P revealed that in 11 cases, written confirmation of the bank sort code and account number was not provided on company headed paper or in any controlled manner - increasing the risk to BACS payments. The suspense account also needed to be cleared on a timely basis.</p> <p>All findings and recommendations were reported to the Service Head, Procurement and a copy of the final report was issued to the Corporate Director – Resources.</p>	Extensive	Limited

Management Comments – Creditors and R2P Systems Audit

The R2P project involved a rapid implementation, automating a previously manual system into a new, automated solution. The system has achieved significant efficiencies, including a much reduced Payments Team, and has already improved our payment performance.

Inevitably, there were some issues, primarily associated with the link between R2P and legacy systems and processes. Action has been taken to resolve all of the key risks. With regard to incorrect payments, improvements have been made in the supplier set-up process, all identified duplicate payments are thoroughly investigated and a regular audit of payments is commissioned by the Payments Service, to

identify and recover any erroneously paid sums.

The reconciliation, supplier set-up and suspense account issues have been addressed and resolved.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p data-bbox="222 355 401 480">Effectiveness of Probationary Tenancies</p> <p data-bbox="222 521 338 613">Tower Hamlets Homes</p>	<p data-bbox="443 355 585 380">April 2011</p>	<p data-bbox="611 355 1623 683">This audit sought to provide assurance over the effective management of probationary tenancies. Probationary tenancy gives tenants a period of 12 months to demonstrate adherence to terms and conditions of tenancy agreement. If tenants complete the trial period satisfactorily and no possession proceedings have been issued, then the tenancy becomes secure. This audit examined the systems and procedures in place for monitoring compliance with the probationary tenancy procedures. These procedures became operational from 1st October 2010. In order to test compliance, we selected a sample of 20 probationary tenancies granted from the period of October through to November 2010.</p> <p data-bbox="611 724 1623 1321">Our review found that revised operational procedures had been developed for administration of probationary tenancies. However, procedures were not being complied with in practice and there was no system in place to monitor compliance. Only nine of the twenty tenancy agreements had been scanned on the Comino system. Only eight welcome to your new home packs had been completed, this should have been undertaken for all probationary tenants. One tenancy file within our audit sample could not be located. Of the nineteen files examined there was evidence of only one settling in visit being undertaken. Seven tenants had rent arrears. These would have constituted minor breaches. However, no official warning letters could be located. Discussions with officers and review of documentation showed that each neighbourhood housing officers had their own caseload which they manage. It was found that the rents team take action against probationary tenants who fail to pay their rent, but there was no current system that allowed senior management to monitor and report on key activities around the effective management of probationary tenancies such as rent arrears, settling in visits, etc as this level of information was not recorded within the Comino system.</p> <p data-bbox="611 1362 1591 1419">All findings and recommendations were agreed with the Director of Housing and Customer Services and final report was issued to the Chief Executive.</p>	<p data-bbox="1648 355 1785 380">Extensive</p>	<p data-bbox="1814 355 1913 380">Limited</p>

Management Comments - Effectiveness of Probationary Tenancies

To improve systems and control, a spreadsheet has been developed to ensure key stages are adhered to. This will include

- Copy of tenancy retained
- File sent to scanning and scanning to Comino confirmed
- Welcome to your New Home completed and diversity data uploaded onto SX3
- Settling in visits
- Breaches of tenancy
- NOPP/Secure tenancy confirmed

It is currently being tested by uploading historical information to ensure it proves an effective management tool. Once this test has been completed, workshops will be held with key personnel prior to rolling this out by 1st July

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Garages, Sheds and Parking Spaces</p> <p>Tower Hamlets Homes</p>	Feb. 2011	<p>The objective of this audit was to provide assurance over the systems for managing garages, sheds and parking spaces.</p> <p>Our review showed that there was no overarching strategy covering the management of non-residential properties within THH. There was no asset management plan to identify how the organisation could utilise the assets more strategically. Moreover, there was no policy for managing estate parking, sheds and garages, and the supporting operational procedures were not comprehensive. Officers within the service were unsure of the actual stock of non-residential assets being managed, as there appeared to be no complete database of assets. The only record of garages, sheds and parking spaces was held on the Housing Rents system for rent collection and recovery purposes. Our review also showed that there was scope to improve the marketing of these assets to ensure that full potential is realised to generate income. We also noted that there was a procedure in place for administration and processing of applications for renting of garages, sheds and parking spaces. There was a published scale of charges. However, our testing showed that there was a lack of clear audit trail in the administration process. Errors were being made in processing of individual applications and charges were not applied consistently which increased the risk of loss of income. There was a performance target of 10 days for processing applications, which was not monitored.</p> <p>All findings and recommendations were agreed with the Director of Housing and Customer Services Management and a copy of final report was issued to the Chief Executive.</p>	Moderate	Limited

Management Comments – Management of Garages, Sheds and Parking Spaces

From the 1 April 2011 an Estate Facilities Team has been created bringing together existing resources.

The THH 2011-12 Plan for Continuous Improvement includes a project aimed at maximising the value created from non-residential assets.

Estate parking permits are maintained on the permit database.

We already use ARCGIS, the Council's geo location application and intend to add further layers to enable us to hold information around the location of garages and storage sheds. We plan to use unique reference numbers on the ARCGIS system which could create a link and audit trail to Northgate Sx3, which is used for billing and recovery of garages and sheds. Overall, this will lead to improved asset management that will enable us to identify how the organisation could utilise each asset more strategically and efficiently.

The permit system is also being assessed as to the possibility of 'merging' the permit database information with Rent accounting. Some data cleansing work was undertaken to facilitate this previously and a project is being constructed to see the process through to a satisfactory conclusion

We are continuing to enforce the use of Comino to track estate parking applications which means that performance against targets can be effectively measured.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Registrars Service	April 2011	<p>The Registrars Service has a statutory duty to provide registration and some ceremonial services to the public. Findings of this audit were reported in September 2010 and management agreed all recommendations in April 2011.</p> <p>We found that systems for collecting, banking and accounting of income, and systems for accounting and reconciliation of controlled stocks were weak. Clear accountability needed to be established in these areas to modernise the service.</p> <p>Income and expenditure was not coded correctly and consequently, budgetary control information was not accurate for an effective financial management of the service. Strict budgetary control principles were not applied. For example, between 2007/08 and 2010/11, despite an increase in Customer and Client Receipts of £278,500, this budget was not reviewed and uplifted to reflect the change in business activities.</p> <p>Our review showed that there was scope for the Registrars to undertake a review of how it met its community plan and corporate objectives to ensure that it operated in unison with other Council services and developed new services and synergies with other front line services. Moreover, there were significant 'people' related and structural issues which could impact upon service quality and staff performance. Our review also showed that data security and risk management was not as effective as it should be. We recommended that a 'change agent' be put in place to oversee a change programme within the service.</p> <p>All findings and recommendations were agreed with the Service Head Democratic Services and final report was issued to the Assistant Chief Executive (Legal Services).</p>	Moderate	Limited

Management Comments – Registrars Service

All of the recommendations made in the audit report have been addressed and the service has been the subject of a fundamental review. In some cases the systems in place were the result of Registrar General requirements and the traditional organisational structure that applied in the service until this year. As set out below this will change as a result of the review.

In relation to the recommendation for a 'change agent' to oversee a change programme in the service, a consultant was appointed to assist with the modernisation of the service and propose options for a restructure. This restructure has now taken place (effective date 20th May 2011), in consultation with staff and appointments made to posts in the new structure.

This provides for a streamlined management process which will in turn enable the implementation of audit recommendations regarding a single cash book, stock orders etc.

The budget for the service has been re-cast to implement the new structure and historical anomalies referred to in the audit recommendations have been addressed so that the budget now includes realistic targets for income and expenditure in all areas.

The modernisation of the structure will equip the Registration Service to move forward towards 'New Governance' arrangements later in 2011 – these will provide a lighter touch regulation by the Registrar General and more flexibility in the way the Council can organise and deliver the service, enabling the improvements recommended by the audit report to be fully embedded.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Management of Blue Badges Follow Up Report	March 2011	<p>The objective of the audit was to assess the level of implementation of previously agreed recommendations. We followed up twenty eight recommendations, of which seventeen were fully or partly implemented and eleven had not been implemented. Of the seventeen recommendations progressed, twelve were priority 1 (out of 23 priority 1) recommendations and five were priority 2 recommendations.</p> <p>The follow up review found that access to the CRM system had still not been given to the appropriate members of the team to run management reports. The team remained reliant on the consultant for extracting reports from the system. As access rights have not been given to the Mobility Support Team, skills transfer had not taken place. The Mobility Support Team is planning to replace the CRM system with a new software package, Transact., but the date on which Transact will be installed could not be confirmed,</p> <p>Procedures had not been drafted on cash handling and controlled stationary. Reconciliations between the income receipted on CRM, income processed by the CLC finance team and the level of stock were not carried out. Income receipted on CRM system was not being reconciled with income processed onto JD Edwards. The Contract for Mobility Assessment Services was tendered in accordance with Council procedures in December 2009, but contract risk assessment had yet to be done to identify key risks for contract monitoring function. Due to lack of access to reports in CRM, a system of local performance indicators with clear targets to assess the efficiency and effectiveness of the service had not been introduced.</p> <p>All findings and recommendations were agreed with the Acting Head of Parking and Team Leader. Final Report was issued to the Corporate Director, CLC. .</p>	Moderate	Limited

Management Comments - Control and Management of Blue Badges Follow Up audit

The follow up review found that access to the CRM system had still not been given to the appropriate members of the team to run management reports. The team remained reliant on the consultant for extracting reports from the system. As access rights have not been given to the Mobility Support Team, skills transfer had not taken place. The Mobility Support Team is planning to replace the CRM system with a new software package, Transact., but the date on which Transact will be installed could not be confirmed

Following the 2009 Audit a wide range of Parking Service improvement activities were pursued. Many of these address directly the weaknesses outlined in the Audit report but were complex to introduce. One of these improvements is the development of a more robust IT system. It had been hoped to have introduced the new system earlier this year in which case the above comments would have been redundant. However the technical and procurement challenges have been significant and the target date for introduction of the new system is October 2011. Through out this period a judgement has had to be made about the extent to which it was cost effective to do further work on the outgoing system which would enable all the recommendations in the Audit report to be implemented. The service has taken the view that it has not on the grounds that the new system will address all of the outstanding system based recommendations.

Procedures had not been drafted on cash handling and controlled stationery. Reconciliations between the income receipted on CRM, income processed by the CLC finance team and the level of stock were not carried out. Income receipted on CRM system was not being reconciled with income processed onto JD Edwards.

It is important to place this audit recommendation in context. The income of the department averages around £300 per annum. Cheques are receipted and passed to finance for banking under the appropriate cost code. There are no issues with regard to controlled stationery, since online spreadsheets record every blue badge and every clock that is issued, together with the product number which relates to details of the recipient. It is accepted that the reconciliation exercise would test this small element of process but the service has struggled to afford it the necessary priority to get it done in an environment of radical short term change and much bigger priorities.

The Contract for Mobility Assessment Services was tendered in accordance with Council procedures in December 2009, but contract risk assessment had yet to be done to identify key risks for contract monitoring function. Due to lack of access to reports in CRM., a system of local performance indicators with clear targets to assess the efficiency and effectiveness of the service had not been introduced

As above this matter is subject to an improvement programme linked specifically to the ICT improvement programme targeted for October 2011.

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Health and Safety at Work</p> <p>Tower Hamlets Homes</p> <p>Systems Audit</p>	<p>March 2011</p>	<p>This audit was designed to provide assurance to management on adequacy and soundness of systems of control around Health and Safety at Work within THH.</p> <p>Our review showed that the Health and Safety Policy had been ratified by the THH Board in July 2008 and had been reviewed in May 2009. As one means of fulfilling its health and safety obligations, THH has compiled a range of codes of safe working practices. The roles and responsibilities of the THH Board, Chief Executive, Divisional Directors, Heads of Service, and the THH Health and Safety Manager had been clearly defined and appropriately delegated. The following issues needed to be addressed to improve the system further:</p> <p>The Regulatory Reform (Fire Safety) Order 2005 which covers communal areas of flats, maisonettes and sheltered accommodation, imposes responsibility for ensuring that a fire risk assessment (FSA) is carried out by a 'responsible person'. However, we noted that there was no programme of inspections outlining dates when risk assessments were to be undertaken, the timescales, and review dates.</p> <p>Health and safety issues were not incorporated in all service plans. At SMT and service level meetings, health and safety matters were not always considered as this was not a standing agenda item.</p> <p>The profile of health and safety and for increasing safety performance organisation-wide required to be increased across THH.</p> <p>All findings and recommendations were agreed with the then Director of Asset Management and a copy of final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Financial Systems Tower Hamlets Homes	April 2011	<p>The objective of this audit was to provide assurance over the company's systems for managing creditors, debtors, VAT, treasury management and main accounting. Our review showed that overall these systems were sound and secure. However, the following weaknesses were reported:-</p> <p>Out of a sample of 20 creditor payments tested, in one instance the certifying officer had not been set up on the authorised signatory listing. We also noted that there had been a decline in paying invoices within 30 days.</p> <p>A Banking and Treasury Policy was in place but required updating to include the policy for current investments.</p> <p>Inspection of the Car and Season Ticket Loan files found no written procedure relating to maintenance of the respective files. Written procedures were in place for reconciliation of the bank accounts. Reconciliations are carried out every month and were found to be appropriately checked and certified. The number of manual checks have been reduced through a review of payees and obtaining their bank details for a more secure payment method. Although, a monthly payroll to JD Edwards's reconciliation had been undertaken, problems have remained in respect of payroll reports supplied by LBTH Payroll section for reconciliation purposes and cost centre information not submitted to LBTH Payroll in a timely manner.</p> <p>All findings and recommendations were agreed with the Director of Finance and Resources and a copy of the final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Housing Rents were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Policies and Procedures; • Rent Debits; • Cash Postings; • Housing Benefit Receipts; • Rent Increase; • Rent Arrears; • Segregation of Duties; • I.T. Security; and • Performance Management and Management Information. <p>Our review of a sample of rent accounts, identified that they were not always created within the five day target.</p> <p>In addition, although monthly reconciliations have been completed between SX3 and JDE since April 2010, there was a lack of evidence of an independent check of the reconciliations. Housing benefits are posted to the SX3 system on a weekly basis and the total transferred is recorded on a processing report. However, whilst the processing report records the total amount actually transferred we established that there is no process in place to determine whether all the Housing Benefit receipts that are due to THH have actually been posted to the rent accounts. This is as a result of there being no report provided to the Housing Rents Team that provides assurance that what should have been posted has actually been.</p> <p>The recommendation was agreed with the Assistant Rents Manager and a final report was issued to the THH Director of Finance and Customer Services and the Chief Executive. A copy of the report was also sent to the Corporate Director Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Implementation of Personalisation Agenda	April 2011	<p>The personalisation agenda forms part of Putting People First (PPF) programme which puts people at the heart of the decision-making process. It enables them to identify their needs and make choices about their support. The aim is to deliver high quality services tailored to individuals' wishes, and ensuring better health and wellbeing for everyone, including families and carers.</p> <p>Our review showed that overall, there were adequate systems and procedures in place for managing and implementing the transformation programme. We noted that the Council's Programme and Project Management methodology was being used for managing and implementing the transformation programme and the governance of the programme was satisfactory. Minutes of the meetings of the Programme Board showed that the status of each work stream – whether Green, Amber or Red – was being discussed and monitored. However, these meetings needed to consider the risk register to ensure that key risks and mitigating actions were brought to the attention of the Board. The risk of fraud and irregularities in the use of personal budgets needed to be identified and assessed. The work on prevention and detection of fraud and safeguarding of vulnerable adults was under review at the time of audit. The status of financial sustainability was Red moving to Amber recently. However, at the time of audit, there was no Medium Term Financial Plan which considered the financial planning and budgeting process of implementing personalisation agenda. The minutes of the November 2010 meeting of the Board showed that the Programme was slipping by a further 8 weeks.</p> <p>All findings and recommendations were agreed with the Programme Manager and a copy of the final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Frameworki Systems Implementation</p> <p>Adults, Health and Wellbeing</p>	February 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around the Frameworki (Adults) Implementation were sound, secure and adequate.</p> <p>Our review identified that whilst management has noted that key project documents and stages were signed off by the Project Board and/or Team Managers, it was noted that formal records of such authorisations do not exist for the; Project Initiation Document (PID) User acceptance testing; and Setup of the worker roles and permissions. In addition, although issue and risk registers have been created, it was noted that the Risk Register does not identify who owns each risk. All of the issues are owned by the Project Board.</p> <p>A project budget was documented for phase one of the project relating to the implementation of the case management and finance modules. The monitoring of actual expenditure against the project budget was not formally performed and reported to the Project Board. Monitoring was performed at a grant level at budget surgeries. Although changes to the project go-live date were formally notified to the Programme and Project Boards and approved. It was noted that several smaller issues and changes were identified as part of the testing process and there was no evidence that these changes were formally assessed and approved prior to their implementation could not be identified.</p> <p>Our inspection of the PID, noted that eleven project benefits / success measures have been defined by management for the implementation of the system. However, these benefits / success measures have not been documented in a manner to enable their measurement. Nor have they been given time frames for their delivery.</p> <p>All recommendations were agreed with the appropriate officers and a final report was issued to the Corporate Director of Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payments by BACS system Systems Audit	April 2011	<p>BACS (Banks Automatic Clearing System) is an electronic method of payment by which the system amalgamates all payments to the same creditor and batch processes straight through to the banks clearing system.</p> <p>Generally systems for controlling and processing of BACS payments within Corporate Finance were adequate. We recommended that procedures for managing and controlling BACS payments should be formalised and documented. This should include roles, responsibilities and accountabilities to ensure proper division of duties. In particular the duties and responsibilities between Payments and Financial Systems. We reported that all risks associated with BACS payments needed to be identified, assessed and mitigated.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head Corporate Finance and Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of VAT Follow Up audit	May 2011	<p>This follow up audit assessed the progress of recommendations made at the conclusion of the original audit in August 2010. Our review showed that of the 13 recommendations made, 4 recommendations remained to be implemented. These related to the development of the VAT Manual and user updates on the intranet and also system for managing uncertified VAT and partial exemption reports.</p> <p>All findings were agreed with the Financial Strategy Officer and final report was issued to Service Head Corporate Finance and Corporate Director Resources.</p>	Extensive	Substantial

<p>General Ledger including Budgetary Control</p> <p>Systems Audit</p>	<p>May 2011</p>	<p>The objective of this audit was to provide assurance on whether the systems of control around the General Ledger including Budgetary Control were sound, secure and adequate. Our review showed that policies and procedures were in place; control over the setting up and managing of coding system was adequate; budgetary control was satisfactory and year end procedures were adequate.</p> <p>However, at the time of our audit the suspense account balance was approximately £12.5m. It was established that the majority of the items (approximately £10m) in suspense had only recently been posted (less than four weeks old). Approximately £1.6m was less than a week old, £2.2m between one and two weeks, and £6.2m between three and four weeks old. We also identified 13 items (approximately £80k in value) that had been on suspense for over one week where the first stage of the investigation / resolution process did not appear to have been started (the report is annotated with the dates action is taken). In addition, our testing of a sample of 20 journals posting since April 2010 from across a sample of Directorates, identified two entries from Children, Schools and Families where officers had not provided journal narrative to describe the purpose, date and contact officer of the journal transfer.</p> <p>The recommendations were agreed with the appropriate officers and a final report was issued to the Service Head - Corporate Finance and Corporate Director - Resources.</p>	<p>Extensive</p>	<p>Substantial</p>
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Accounting Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Capital Accounting were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Capital Budget Setting; • Capital Receipts; • Capital Expenditure Monitoring; • Fixed Asset Register; • Approving the Capital Programme; • Budgetary Control; • Variance Analysis; • Management Review and Action; • Classification, Depreciation and Accounting; and • Year-End Procedures. <p>Controls were adequate in all the above areas, with the exception of fixed assets reconciliation. Our review identified that quarterly reconciliations take place between the Fixed Assets Project Management system and the fixed asset register maintained by the Chief Accountant's Team. However, at the time of our audit there were some discrepancies that had been identified leading to the fixed asset verification exercise not being finalised.</p> <p>The recommendation was agreed with the Senior Financial Accountant and a final report was issued to the Service Head - Corporate Finance and Corporate Director - Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around Cashiers were sound, secure and adequate.</p> <p>The following areas were covered as part of our audit work:</p> <ul style="list-style-type: none"> • Policies and Procedures; • Reliability and Integrity of Transactions and Records ; • Receipting and Transaction Processing Cash Office, Postal Remittances, Collections; • Imprest Account; • End of Day Cash Balancing; • Banking & Unpaid Cheques; • Systems Reconciliation; and • IT, Systems and Security. <p>Our review identified that the Cashiers procedure notes are not annotated with the date that they were last reviewed. In addition requisition forms for controlled stationery are not always being completed.</p> <p>Testing also identified that the Cashiers Office does not receive updated signatory lists confirming who can authorise transactions on behalf of the Council.</p> <p>The recommendation was agreed with the Chief Cashier and a final report was issued to the Service Head Customer Access and ICT and Corporate Director Resources.</p>	Extensive	Substantial

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Procurement of goods, services and works below EU thresholds</p> <p>Development and Renewal</p>	<p>April 2011</p>	<p>The Council's procurement policy requires individual Directorates to have local procedures for securing the necessary level of competition by means of prices and quotations for those goods, services and works costing below EU thresholds - viz. £139,893 for goods and services and £3,497,313 for capital works.</p> <p>Our review showed that at Development and Renewal Directorate level, standard local procedures needed to be developed. These should be supported by standard pre-contract documents and templates for selection of contractors, tender invitation, tender receipt, tender opening, evaluation and award of contracts. Division of duties needed to be strengthened, and particularly checking by the approving officer that competition requirements have been complied with needed to be reinforced. Although there are clear corporate processes in place covering Declaration of Interests, officers at the operational level were not always aware of this requirement. We also found instances of non-compliance with financial and procurement procedures and recommended that there should be system for monitoring compliance with procedures.</p> <p>All findings and recommendations were agreed with the Service Head, Resources and final report was issued to the Corporate Director – Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Programme and Project Management</p> <p>Development and Renewal</p>	April 2011	<p>The objective of this audit was to assure management that the systems of control for programme and project management within D&R were in accordance with the Corporate Project and Programme Management framework.</p> <p>Our review found that Directorate level policy and procedures for PPM were in place. There were systems for identifying and initiating programmes and projects. A Register had been set up to record programmes and projects which had met the Directorates criteria for inclusion. Each programme/project was steered by a dedicated project Board. Project briefs had been formulated in most cases supported by Project Initiation Documents. However, we noted that other key documents like project plans, lessons learned logs, minutes of project board meetings and risk registers etc. were not being completed in some cases by the project managers. Officers were generally complying with the principles under the guidance of the Programme Review Group (PRG), but there were administrative variations and omissions of key documents that were being used / prepared for the recording of project information.</p> <p>The PRG's role in monitoring compliance with the required procedures was found to be effective. High level reports on programmes and projects which required focused discussion were reported to the DMT to provide challenge and scrutiny on a Directorate-wide basis in order to ensure that all projects were aligned to the corporate standard.</p> <p>All findings and recommendations were agreed with the Service Head Resources and final report was issued to the Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
On Street Parking Income Follow Up audit	March 2011	<p>The objective of the audit was to assess the progress made in implementing audit recommendations made at the conclusion of a full audit. We followed up fifteen recommendations made in the original report. Of these, one was priority 1 and fourteen were priority 2 recommendations. Our follow up review showed that the priority 1 recommendation was implemented and twelve priority 2 recommendations were progressed. Out of the two priority 2 recommendations not implemented, one was due to insufficient level of funding. The follow up review found that procedures had been revised and responsibilities for monitoring of income had been transferred to the CLC Finance Team. Income was being disbursed on a regular basis. Some old P&D machines had been replaced with new ones. However, we noted that 100% of income collected from individual P&D machines was still manually checked and monitored by the Finance team, which may not represent effective use of staff resources. An increased level of automation was recommended in the original report, but due to lack of funding this was not considered. Some additional recommendations have emerged from the follow up work including better co-ordination between CLC Finance team and the parking team to monitor income more effectively.</p> <p>All findings and recommendations were agreed with the Acting Head of Parking and final report was issued to the Service Head and Corporate Director – CLC.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Household Waste Recycling Follow Up audit	April 2011	<p>This follow up audit assessed the progress in implementing the agreed recommendations made in the final internal audit report issued in February 2010.</p> <p>The audit found that out of 12 key recommendations, made in the original report, five recommendations had been fully implemented and the remaining 7 had not been fully implemented. Our review showed that there was no formal signed copy of the contract either with Legal Services or with Procurement. The collection database had yet to be matched with the Council Tax database to ensure that the waste collection schedule was complete and accurate. A risk assessment of the contract was not carried out to identify the critical aspects of the contract that needed to be monitored on a regular basis so that monitoring resources can be concentrated on these aspects. A monitoring manual to include the elements of contract performance to be monitored, had not been introduced. Contract monitoring meetings needed to be around the key deliverables for the recycling contract. A complete analysis had not been carried out of all payments made up to March 2010 and reconciled with the payments that should have been made.</p> <p>All findings and recommendations were agreed with the contract manager and final report was issued to the Service Head, Public Realm and Corporate Director, CLC.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Procurement of goods, services and works below EU thresholds</p> <p>Children, Schools and Family (CSF)</p>	<p>April 2011</p>	<p>The Council's procurement policy requires individual Directorates to have local procedures for securing the necessary level of competition by means of prices and quotations for those goods, services and works costing below EU thresholds - viz. £139,893 for goods and services and £3,497,313 for capital works.</p> <p>Our review showed that arrangements within CSF were adequate. Clear separation of duties was required to ensure that systems were robust enough so that a single officer was not involved in selecting contractors for quotation, sending out invitation letters, receiving quotes, opening quotes, evaluation and awarding the contract. There were clear corporate processes in place covering Declaration of Interests. However, officers at the operational level were not always aware of this requirement which presented a risk in this area. Standard pre-contract documents had not been developed corporately. From our review we concluded that systems were adequate as far as possible at Directorate level.</p> <p>All findings and recommendations at Directorate level were agreed with the Service head, Resources and final report was issued to the Corporate Director, CSF. Findings and recommendations at corporate level were reported to the Service Head, Procurement.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Framework i</p> <p>Systems Application audit</p> <p>Children, Schools and Family (CSF)</p>	<p>Nov. 2010</p>	<p>The objective of this audit was to provide assurance on whether the systems of control around the Frameworki application were sound, secure and adequate.</p> <p>Our testing identified that 10 separate Social Worker roles existed on Framework i. Two of these have not been assigned to any users. Furthermore, team members within Social Care IT have created additional roles, which have not been authorised through appropriate change control.</p> <p>The Social Care IT team relied solely upon management to provide an e-mail detailing leavers. At the time of the audit, we identified 59 accounts that had not been used since January 2009 and 36 accounts that had not been used from 2007. Any record episode is able to be amended following manager authorisation. Currently, episodes are amendable until a user marks the episode as 'Finished'. Unless the manager performs the episode outcome step, a Social Worker can change episode details after the assessment has been authorised by a manager. Episodes may be passed to other workers to action the outcome. Testing of the names looked up when using this search facility identified that the list displays all workers in Framework i, not only those who are system users.</p> <p>The weekly Initial Assessment to Core Assessment tracking report does not specify the date on which the report was generated and does not display the report name. To prepare for the annual returns to the Department for Education, exception reports are generated throughout the year for data cleansing. There is currently no facility directly in Frameworki to audit user activity, and Business Objects reporting is being used to track user actions. Social Care IT staff have access to create roles and there have been instances of roles being created by users without supporting authorisation.</p> <p>All recommendations were agreed with the appropriate officers and a final report was issued to the Corporate Director – Children, Schools and Families.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Osmani Primary School Probity Audit	Feb.2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • Inconsistencies between the School's Scheme of Delegation and Financial Management Code of Practice in respect of authorising expenditure; and authorising budget virements. • Declarations of business interests have not been obtained from two Governors on the Governing Body. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mowlem Primary School Probity Audit	March 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes. However, no key issues (priority 1 recommendations) were raised as a result of our audit work.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Manorfield Primary School Probity Audit	Feb 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • Whilst the school has a Code of Financial Practice which incorporates the Scheme of Delegation, there was a lack of evidence to show that the Code of Financial Practice had been approved by the full Governing Body on an annual basis. • There was a lack of evidence to show that the School Development Plan had been approved by the Governing Body on an annual basis. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Mayflower Primary School</p> <p>Probity Audit</p>	<p>Feb 2011</p>	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes. However, no key issues (priority 1 recommendations) were raised as a result of our audit work.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	<p>Moderate</p>	<p>Substantial</p>

Internal Audit Coverage – 2010/11

Internal Audit Reports 2010/11 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Core Management Processes	Extensive	To be determined
Management of Efficiency Programme	Extensive	Substantial
National Performance Indicators	Extensive	N/A
Recruitment	Extensive	Limited
Management of Leavers	Extensive	Substantial
Establishment Control	Extensive	Limited
Purchase cards	Extensive	Substantial
Health and Safety at work – Follow Up audit	Extensive	Substantial
Assistant Chief Executive's		
Registrars	Moderate	Limited
Information Security Incident Management – Paper based data and disposal	Extensive	To be determined
Local Area Agreements	Extensive	Substantial
Legal Planning Meetings – FU audit	Extensive	Substantial
Children, Schools and Family		
Youth Service Contract Monitoring	Extensive	Substantial
Offending Youth	Extensive	Substantial
Bygrove Primary and Elizabeth Selby – Schools Extension works – Current contract audit-	Moderate	Substantial
Procurement of supplies and provisions for Central Kitchen	Moderate	Substantial
Procurement of goods, services and works below EU threshold	Extensive	Substantial
Programme and Project Management	Extensive	Substantial
Children's Social Care Commissioning – FU audit	Moderate	Substantial
Contact Point Grant certification	Extensive	N/A

Audit Description	Significance	Assurance
Alice Model Nursery	Moderate	Substantial
Bangabandhu Primary	Moderate	Substantial
Bigland Green Primary	Moderate	Substantial
Blue Gate Fields Junior	Moderate	Substantial
Bonner Primary	Moderate	Substantial
Bygrove Primary	Moderate	Substantial
Canon Barnett	Moderate	Substantial
Chisenhale Primary	Moderate	Substantial
Christ Church Primary	Moderate	Substantial
Clara Grant Primary	Moderate	Substantial
Columbia Primary	Moderate	Substantial
Cubbit Town Junior	Moderate	Substantial
Cyril Jackson Primary	Moderate	Limited
Hague Primary	Moderate	Substantial
Halley Primary	Moderate	Substantial
Harbinger Primary	Moderate	Substantial
Hermitage Primary	Moderate	Substantial
Langdon Park Secondary Follow Up	Moderate	Substantial
Manorfield Primary	Moderate	Substantial
Marion Richardson Primary School	Moderate	Limited
Marner Primary	Moderate	Limited
Mayflower Primary	Moderate	Substantial
Mowlem Primary	Moderate	Substantial
Old Ford Primary	Moderate	Substantial
Osmani Primary	Moderate	Substantial
St Anne's Catholic Primary	Moderate	Limited
Smithy Street Primary	Moderate	Substantial
Stebon Primary	Moderate	Limited

Communities, Localities and Culture		
Pollution Control	Moderate	To be determined
Grant certification – Illegal Money Laundering and Olympics	Moderate	N/A
CCTV Control Room and Management monitoring	Moderate	Substantial
Procurement of goods, services and works below EU threshold	Extensive	Substantial
Parking Permits – Follow UP audit	Moderate	Substantial
On-street Parking Income – Follow Up audit	Extensive	Substantial
Recycling of Household waste Follow UP	Extensive	Substantial
Management and Control of Blue Badges	Extensive	Limited
Tower Hamlets Homes		
Gas Repairs and Maintenance	Extensive	Substantial
Leaseholder Income Collection	Extensive	Substantial
Financial Systems	Extensive	Substantial
Caretaking Service	Extensive	Limited
Contract Audits – Lift Contracts	Extensive	Limited
Health and Safety	Extensive	Substantial
Effectiveness of Probationary Tenancies	Extensive	Limited
Management of garages, sheds and estate parking spaces	Extensive	Limited
Budgetary Control Follow Up Audit	Extensive	Substantial
Housing Major Works Follow Up	Extensive	Substantial
Caretaking Services Follow Up	Extensive	Substantial
Control of Keys to Decants	Moderate	Substantial
Control of Keys to Voids	Moderate	Substantial
Strategic Management of SLAs	Extensive	Substantial

Audit Description	Significance	Assurance
Development and Renewal		
Housing Property Buyback	Extensive	Substantial
Planning fees and charges	Extensive	Substantial
Building Schools for the Future	Extensive	Substantial
Programme and Project Management	Extensive	Substantial
Procurement of goods, services and works below EU thresholds	Extensive	Substantial
Client Monitoring of THH – FU audit	Extensive	Substantial
Homeless Payments and Placements – FU audit	Extensive	Substantial
St Paul's Way School – Building Schools for the Future Project – Follow Up audit	Extensive	Substantial
Adults Health and Wellbeing		
Community Equipment Store	Moderate	Limited
Contract management and monitoring	Extensive	Substantial
Implementation of Personalisation Agenda	Extensive	Substantial
Out of Hours Social Care	Moderate	Limited
Establishment Control	Extensive	Limited
Quality Assurance systems	Extensive	Substantial
Resources		
Investments /Loans/Prudential Borrowing	Extensive	Limited
Grant Claim of Teachers Pensions	Extensive	N/A
VAT Management	Extensive	Limited
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

Audit Description	Significance	Assurance
Creditors and R2P	Extensive	Limited
Capital Accounting	Extensive	Substantial
Pensions	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll	Extensive	Substantial
Housing Rents	Extensive	Substantial
Payments by CHAPS	Extensive	Limited
Payments By BACS	Extensive	Substantial
Out of Hours Emergency Service	Moderate	Substantial
Competitive tendering	Extensive	To be determined
VAT Management – FU audit	Extensive	Substantial
Computer Audit		
Government Connect	Extensive	N/A
Frameworki (Adults) Implementation	Extensive	Substantial
Frameworki Implementation	Extensive	Substantial
HB Application	Extensive	TBC

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 2010/11

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 2011) that is included in the statement of accounts for the year ended 31 March 2011.

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 2010/11, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2010/11 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

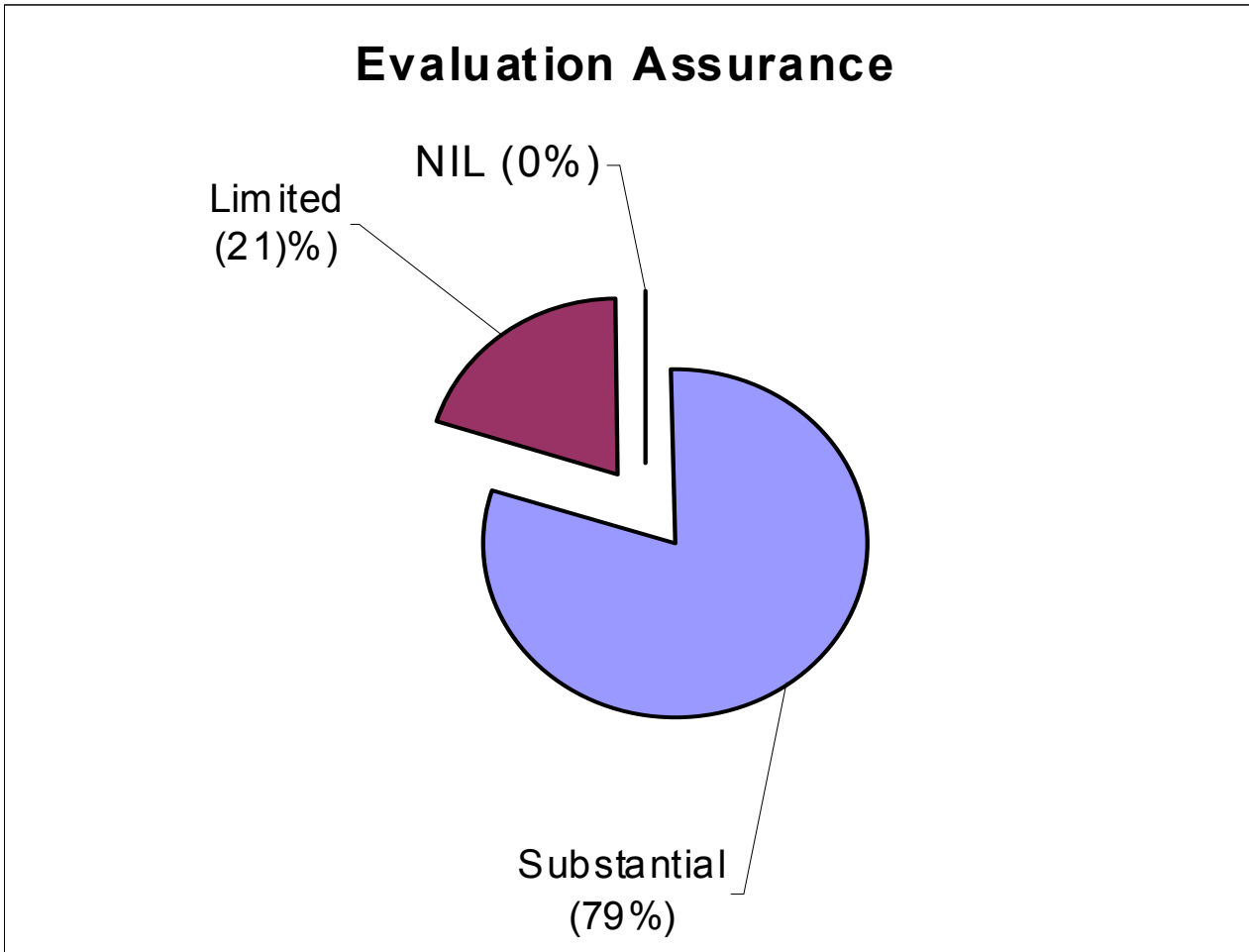
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at Appendix 3.

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 2011 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT and the Audit Committee in 2010/11 are depicted in Graph 1 below. This shows that 79% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 21% 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 93% of priority 1 and 90% of priority 2 recommendations followed up had been implemented when the audit revisited the area. 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.

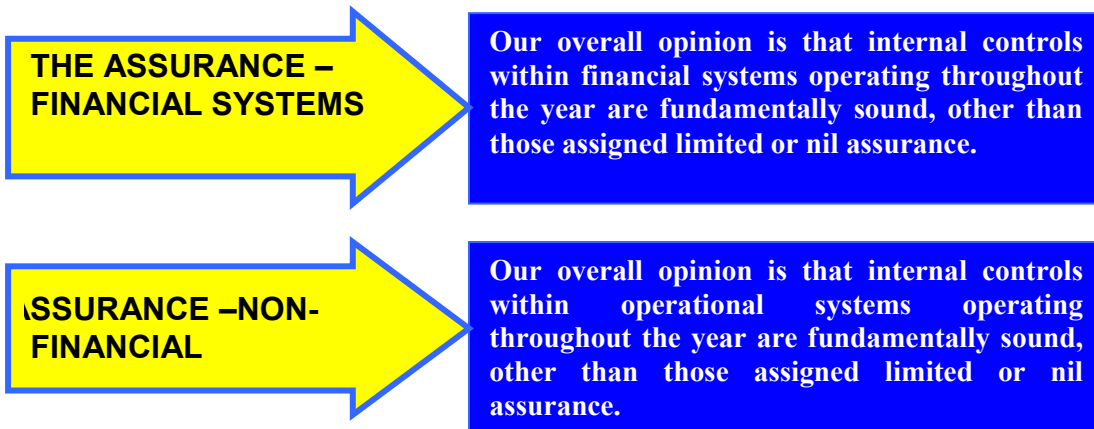
Graph 1



2010/11 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2010/11, 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 2011 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 53-55**. 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:

- 1 In its Annual Audit and Inspection Letter 2009/10, 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.

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.

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 – Head of Risk Management and Audit

June 2011

DETAILED REPORT

Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2010/11 year against the original Internal Audit plan; and
- 1 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 2010/11. Key issues included:

Establishment Control – The Council's Financial Regulations CR9 requires senior managers to ensure that staffing budget is an accurate forecast of staffing levels and that staffing budget is not exceeded without due authority. Audit testing in 12 service areas across 6 Directorates showed that the Council's Establishment List maintained by HR at the time of audit (April 2010) did not accurately reflect the true operating structure as at that date. There were a number of inconsistencies. For example, number of staff in post were different to the number of posts shown on the List; instances of pay grades being different to the actual grades; some cases of duplicate entries on the List; vacant posts were not correctly identified on the List; vacancies covered by agency staff were not identified; and officers moving across work areas were not reflected on the List. There was no process for periodically providing service managers with Establishment Lists for their review to ensure that changes could be identified on a regular basis. Our analysis of budget reports for the 12 service areas in the audit sample showed that staffing budgets did not reflect staffing levels, as required by the Council's Financial Regulation CR 9.3. This resulted in staffing budgets being either underfunded or overfunded in some cases.

Creditors and R2P – The R2P system is the tool used to pay suppliers and contractors. The new system went live in July 2010 and the planned audit was carried out in January 2011. The audit identified a number areas where the control

framework needed to be improved, particularly around the reconciliations between R2P and JDE, examining how duplicate payments arose and ensuring this does not happen again, the timely review of suspense items and ensuring the matching process between the requisition raised, the order and the invoice was as smooth as possible.

Contract Management and Monitoring – our audit of this area found that effective contract management and monitoring was required to ensure that there was clear corporate guidance and governance on contract management of revenue contracts so that benefits are derived from improved monitoring. Individual contracts were not risk assessed to ensure that monitoring effort was focussed on key risks. Monitoring meetings needed to be more effective and benefits e.g. efficiencies and savings emerging from each procurement needed to be clearly identified.

Information Security of Paper Based Data and Disposal – this review identified that whilst there were clear policies and guidance relating to the security and management of ICT based systems, further clear guidance was required to inform staff as to how paper based material should be securely handled and disposed of. A cross-Directorate group called the Information Governance Group (IGG) provide the governance framework, we have recommended that direct representation from Facilities Management responsible for the Council's Archive and Data Disposal be invited to the group to provide a forum to discuss paper based records. The systems for paper based data disposal was weak, our visit to the contractor's off site archive store showed that a considerable number of boxes had not been destroyed in accordance with their recorded destruction dates. There was no system to capture and record paper based security incidents. This increases the risk of confidential paper based information loss not being investigated and reported.

Management and Monitoring of Framework Contract – our review of the systems for monitoring the framework contract for Lift Maintenance and Repairs within Tower Hamlets Homes showed some major weaknesses in contract administration. This resulted in an overpayment to the contractor of £29,671. The quotations submitted by the contractors in the framework agreement were subject to management checks and approval, but the errors were not picked up by the system which demonstrated that checks were not robustly applied in practice. The risk of errors, omissions, fraud and irregularity occurring was high due to poor separation of duties. The Lift engineers managed individual projects from the initial selection of the contractor through to the payment and completion of each project. Any intervening management checks were not robust enough to detect or prevent errors, omissions etc. We, therefore, recommended that the management and supervision control over all framework contracts managed by THH must be reviewed and improved.

Caretaking Service Tower Hamlets Homes - systems for delivering caretaking services needed significant improvement to meet defined objectives and standards. Documented procedures covering the management, control and monitoring of the service standards needed to be developed. The current caretaking work flows had not been documented and quality checked, which increased the risk of inconsistent service delivery. The administration, control and management of CRB checks was

not adequate. We had specific concerns around compliance with procurement procedures for caretaking supplies and very poor stock control systems for stores which increased the risk of fraud and irregularity in this area. A Follow up audit recently conducted on this activity showed that improvements had been made by implementing the agreed recommendations. However, the areas of procurement and stock control needed to be tackled effectively.

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:

- 1 Explains the Council's underlying approach to risk management;
- 1 Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- 1 Outlines key aspects of the risk management process; and
- 1 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 2010/11 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 2010/11 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2010. 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:

- 1 The work of external audit; and
- 1 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 2011, the Head of Internal Audit from the London Borough of Newham 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 2009/10 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 £350 compared with the comparator group average of £370 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.

Agenda Item 7.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	28 June 2011			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): <i>Head of Risk Management and Audit</i>	Annual Governance Statement 2010/11 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 of the Accounts and Audit Regulations 2011. 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 2010/11 at Appendix 3.

3. Background

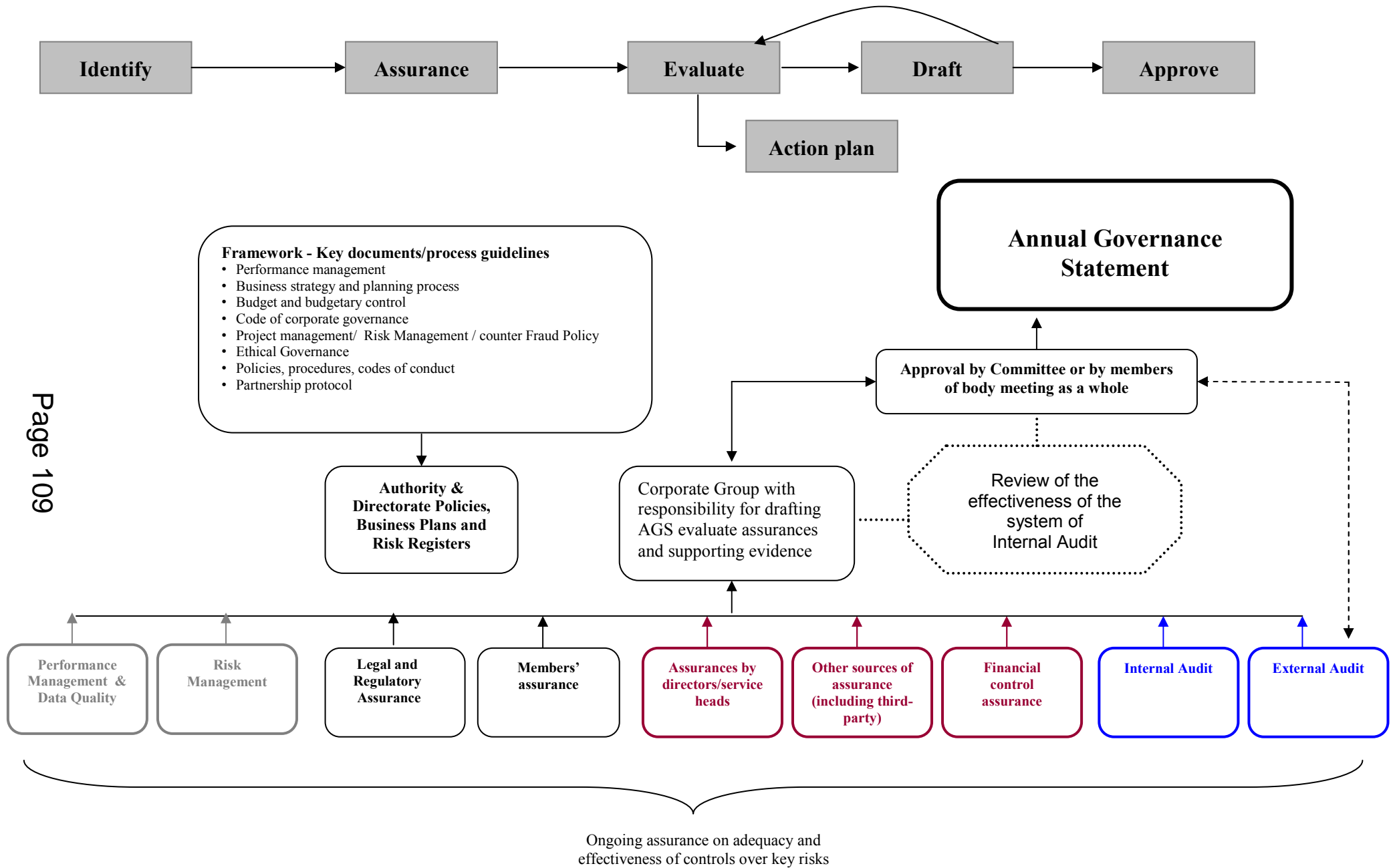
- 3.1 The Accounts and Audit Regulations 2011 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2010 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

- 3.2 The statement will be signed by the Chief Executive and the Mayor. 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 Mayor.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30th June 2011).

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 2009/10 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 2010/11.
- 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 2010/11 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 2009/10 are set out in the table below with an update showing the current status.

Issues in 2009/10 statement	Status
<p>To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.</p>	<p>The Service Options Review was completed as set out which sought to identify opportunities for delivering the savings from reduction in central government funding. To date, Cabinet has agreed proposals that will deliver £55M in savings from 2010-11 to 2012-13. Further savings will be needed to allow the organisation to set a balanced Medium Term Financial Plan for the next three financial years and work is underway to identify further opportunities.</p> <p>A remodelled Programme Management Office has been responsible for reporting delivery of the agreed programme to the CMT Transformation Board.</p>
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>This is a long term ambition of the Council. To further its goals, a “Better Asset Management” programme has been established as part of the Transformation Programme that specifically looks at better use of assets through reducing running costs, increasing income and selling surplus property.</p> <p>The pilot in Local Area Partnerships 1 & 2 is well advanced and tied in with the work of Localisation Board. Initial conclusions from this pilot, with details of existing costs and a possible “blue print” for future properties have been carried out.</p>
<p>To further enhance the authority’s Business Continuity Plans, particularly in relation to disaster recovery</p>	<p>Work to enhance the Council's Disaster Recovery capability to meet minimum requirements has been approved and is in-progress. To date the critical Council IT Services and their relative recovery priority has been agreed and communicated. A GAP</p>

Issues in 2009/10 statement	Status
	<p>analysis for the supporting Disaster Recovery Contract and documentation has been carried out to identify shortcomings. In line with this analysis changes to the existing Disaster Recovery contract have been identified and implemented.</p> <p>In addition to the above work a detailed CICT Disaster Recovery plan has been produced with documented assumptions and responsibilities. In order to validate the assumptions and ensure that supporting documentation is in place and fit for purpose the regular 6 monthly ICM D/R tests which started from November 2010 is being used to deliver fully documented Disaster Recovery tests verifying the planning assumptions associated with the D/R plan and ensuring that the supporting documentation is complete and up to date. The initial focus continues to be on the critical line of business applications including Framework-I, JD Edwards One World, iWorld Benefits and Housing, ResourceLink as well as core services including Email.</p>
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars</p>	<p>The Audit Commission's Inspection in November 2010 rated the Tower Hamlets Home (the Council's Arms Length Management Organisation) as two stars. Further, funding allocations from the Decent Homes Backlog Programme for 2011-15 were announced on 15 February 2011 including £94.5m for Tower Hamlets. Tower Hamlets Homes are currently conducting an 'affordability' review of works scope & costs included in the original bid to HCA. The Council is also evaluating the best way to deliver and maintain social housing in the future.</p>
<p>Arrangements for Safeguarding Children / Child Protection</p>	<p>Considerable focus remains on this area of work. Currently central government commissioned Professor Eileen Munro to further review the approach to child protection and whose report has been published recently.</p> <p>Tower Hamlets local safeguarding children's board continues to undertake a range of initiatives to support challenge and governs this complex area of intervention in family life. The</p>

Issues in 2009/10 statement	Status
	significant operational pressures currently experienced within children's social care services have been raised with both the corporate safeguarding board and corporate management team.
Improve information governance across the authority	A project has been initiated to protect all portable devices by encryption. To date, the majority of laptops have been encrypted, with some older machines being decommissioned. There are other risks around information governance which are being addressed by this project.
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts	<p>A proposal with regards to procurement training has now been tabled to the Planning Forum, which has then been taken to the Competition Planning Forum. This work has included a proposal for Contract Management training.</p> <p>A purpose built storage system has been installed in a dedicated room to create a contract repository. This will be complimented with a new system for numbering all contracts held. The room will be locked and have restricted access, and Officers requiring to view contracts will have to sign for them, and not be allowed to take them away. There will be strong correlation between the Contract Register and the Repository to ensure contracts are accounted for.</p>
Termination of Chief Officer's employment	The change to the Constitution was agreed at Council in November and is now implemented.
To review and ensure the delivery of additional housing to reduce overcrowding	For the last financial year, the NI155 (units completed for the year) was 733. The Council continues to take steps to increase the number of builds to deal with overcrowding in the borough.
Pupil Place Planning - expanding school provision to meet rising demand for places.	Work is continuing with the Development and Renewal Directorate on pupil projection model to confirm validity of output.

7.3 The penultimate section of the 2010/11 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 reduction in revenue funding for the Council over the next three financial years.	Risk register reference RSB0016 as reported to CMT on the quarterly and monthly risk registers and directors assurance statement.
Improve information governance across the authority, including paper based records.	Risk register reference ICT0007 as reported to CMT on the quarterly and monthly risk registers and directors assurance statement.
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts.	Competition Board and directors assurance statement.
Maintain an ongoing drive to deliver decent homes standard.	Risk register reference DRA0009 as reported to CMT on the quarterly and monthly risk registers.
The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda.	Risk register reference DRDH0001 as reported to CMT on the quarterly and monthly risk registers.
Arrangements for Safeguarding Children / Child Protection	Risk register reference CSD0011 as reported to CMT on the quarterly and monthly risk registers and directors assurance statement.
Pupil Place Planning - expanding school provision to meet rising demand for places.	Risk register reference CSE0010 as reported to CMT on the quarterly and monthly risk registers and directors assurance statement.

8. Comments of the Chief Financial Officer

8.1 These are contained within the body of this report.

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

- 9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2011 to ensure that its financial management is adequate and effective and that it has 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.
- 9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.
- 9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.
- 9.4. These requirements were previously set out in the Accounts and Audit Regulations 2003, before those regulations were revoked on 31 March 2011 and replaced with the 2011 Regulations referred to above.
- 9.5. In approving the annual governance statement, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the council's various programmes and objectives that are targeted at these matters.

10. One Tower Hamlets

- 10.1 There are no specific one Tower Hamlets considerations.
- 10.2 There are no specific Anti-Poverty issues arising from this report.

11. Risk Management Implications

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

12. Sustainable Action for a Greener Environment (SAGE)

12.1 There are no specific SAGE implications.

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

Brief description of "background papers"

Contact :

None

N/a

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
	Role of Head of Audit and Risk Management	Yes
Step 4: Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	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 2010/11

Reports	Reporting period	Report date
Annual Audit plan – Audit Commission	2010/11 accounts	March 2011
Opinion on Financial Statements	2009/10	September 2010
Final Accounts Memorandum	2009/10	January 2011
Grant Claim Report	2009/10	December 2010
Annual Governance Report	2009/10	September 2010
Other		
OFSTED – Children’s Services. Unannounced inspection of contact, referral and assessment arrangements within LBTH	2010/11	January 2011
OFSTED – Adoption Service	2010/11	February 2011
OFSTED – Annual Children’s Service Assessment	2010/11	December 2010
Care Quality Commission – Service Inspection of Adult Social Care	2010/11	February 2010
Care Quality Commission – Adoption Service	2010/11	April 2010
Care Quality Commission – Assessment of Performance Report (Adult Social Services Assessment)	2010/11	December 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 2011 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 / Mayor 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 of the Accounts and Audit Regulations 2011 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee members will receive an update in July 2011 of the Council's current local governance arrangements and the report will recommend 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 place at Tower Hamlets for the year ended 31 March 2011 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 2010/11, 14 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. From October 2010, the Council moved to a Mayoral model of governance subsequently, the Mayor has clearly identified his priorities for the future.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2010/11 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.

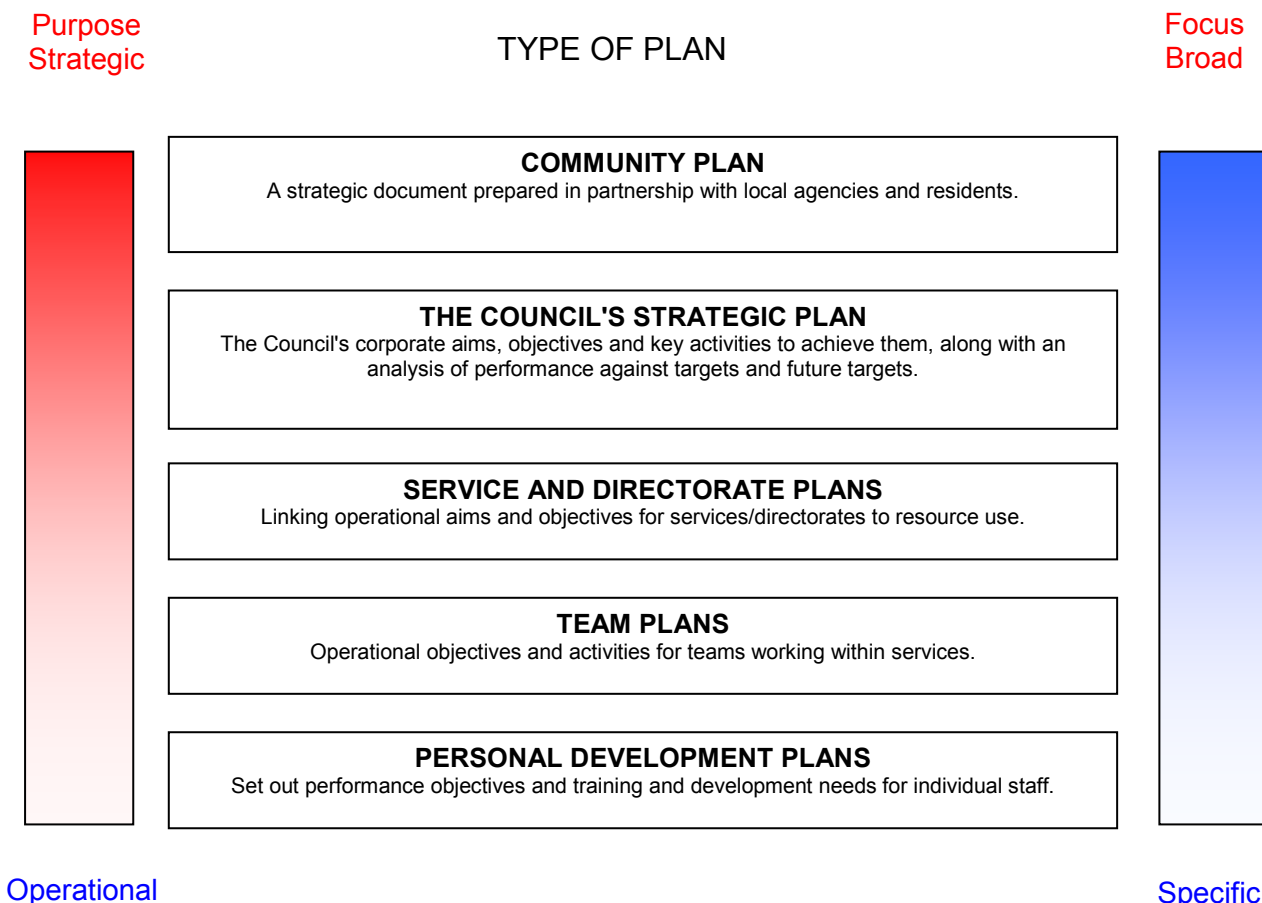
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and 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 the Mayor and a Cabinet. 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 2010/11 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 took place in October 2010 and the Council's constitution and accompanying financial regulations have been 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 2009/10. 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 Mayor, 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 2010/11.

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 2010/11 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. A more recent publication around the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

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 efficiency reviews. During 2010/11, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set efficiency targets and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive 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. Further, more recently, the authority is using its citizen engagement portal to engage with a wide range of stakeholders.

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. Although the LAA is no longer a statutory requirement, key performance indicators remain to monitor the Council's delivery of its aims to the community.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. 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.
- 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 2010/11 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 Head of Audit and Risk Management 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 2010/11, 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 2010/11 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 reduction in revenue funding for the Council over the next three financial years.	<p>Cabinet approved savings proposals of £55M in the last financial year. A further saving is required of approximately £17M in 2012/13 to create a balanced budget. The officer member process for identifying and delivering this saving is in place. The delivery of the £55M is being overseen by the Corporate Transformation Board and monitored by the Benefit Realisation Officers in the Programme Management Office, supported by the Council's normal monitoring processes.</p> <p>The government spending review period cover 4 years from 2011/12 to 2014/15, and the Medium Term Financial Plan has been rolled forward and savings for the period up to the end of 2014/15 will be considered as</p>	Corporate Management Team

Governance Issue	Action taken and next steps	CMT Lead
	part of the officer member process.	
Improve information governance across the authority, including paper based records.	The Council has embarked on a number of projects to ensure it manages all personal information it holds properly. The encryption project, which focused on the security of electronic information, is substantially complete and further arrangements are being made to roll out enhancements that will allow the Council to deliver its diverse range of services securely.	Corporate Directors, Resources and Assistant Chief Executive (Legal)
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts.	<p>The authority has already taken a number of steps to improve governance around contacts and contract management.</p> <p>A purpose built storage system has been installed in a dedicated room to create a contract repository. A full inventory of all key contracts will be created and an audit trail maintained between the Contract Register and the Repository to ensure contracts are accounted for.</p> <p>Training is continuing to enhance officer skills in managing contracts.</p>	Corporate Director, Resources
Maintain an ongoing drive to deliver decent homes standard.	Funding allocations from the Decent Homes Backlog Programme for 2011-15 were announced on 15 February 2011 including £94.5m for Tower Hamlets. Tower Hamlets Homes are conducting an 'affordability' review of works scope & costs included in the original bid to HCA. The tender for a decent home contractor will begin shortly with a view to a contractor being in place for the start of April 2013.	Corporate Director, Development and Renewal
The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda.	The Council already has a programme to deliver 1,000 affordable homes per annum for the next four years. Work is underway Registered Social Landlords to develop regeneration schemes for the 2015 programme.	Corporate Director, Development and Renewal
Arrangements for Safeguarding Children / Child Protection (implementation of actions arising from the Munro Report)	Action taken already includes a review of the recommendations raised in the	Corporate Director,

Governance Issue	Action taken and next steps	CMT Lead
	<p>Munro Report; (March / April); financial understanding of the budget requirements; and reporting to the Children's Schools and Family Directorate Management Team in place.</p> <p>The next steps are, Implementation of recommendations and assessing potential increase in social worker requirements; and new authority requirements for Children in Care.</p>	Children Schools and Family
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>The action taken already include identification of short term primary place needs (2011/12 school year) and development of technical feasibility of temporary school expansion; strengthening our pupil projections modelling to ensure our planning is based on robust data; continuation of implementation of medium term expansion plans to 2014/15 year and early involvement of head teachers in planning.</p> <p>The next steps are to, report to Cabinet in June 2011 to the Cabinet on Estate Strategy; Work with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2012 and strategic provision of additional primary school places in 2019/20 school year by March 2012.</p>	

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:

.....
Mayor

Date:

Agenda Item 7.4

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	28 June 2011			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): <i>Peter Hayday, Financial Services, Risk and Accountability</i>	THE FUTURE OF LOCAL AUDIT Ward(s) Affected: N/A			

1. Summary

- 1.1. This report updates the Audit Committee on the Government's plans for the future of local external audit and the potential impact on Tower Hamlets and sets out a proposed response to the Government consultation

2. Recommendation

- 2.1. The Audit Committee is asked to note the report and to consider the draft response to the consultation at Appendix A.

3. Background

- 3.1. The independent audit of local authorities is enshrined in legislation going back to the first part of the 19th Century.
- 3.2. Since 1983, the Audit Commission has been the body responsible for appointing local authority auditors and undertakes the largest proportion of audits itself. On 13th August 2010, the Government announced the abolition of the Commission.
- 3.3. The ethos overlaying the Government's approach is to "refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions, the very essence of localism". The aim is to "replace the current, centralised audit systems managed by the Audit Commission, with a new decentralised regime, which will support local democratic accountability, and one that will also cut bureaucracy and costs, while ensuring that there continues to be robust local public audit".

- 3.4. Full consultation on “The Future of Local Audit” was launched on 30th March and runs until 30th June. A proposed response is at out at **Appendix A**
- 3.5. The consultation covers three areas affecting Tower Hamlets;
- * Regulation of local public audit
 - * Commissioning local public audit services
 - * Scope of audit and the work of auditors

3.6. The main proposals are;

Regulation of local public audit

- 3.7. The Audit Commission is currently responsible for setting audit standards and Codes of Practice for local government and health bodies. It is also responsible for commissioning and appointing auditors to each local authority and local health body and for monitoring the quality and consistency of audit work.
- 3.8. Under the proposals;
- The National Audit Office (NAO) would develop and maintain codes of audit practice and supporting guidance.
 - The Financial Reporting Council (FRC), which is an independent regulator funded by the Government and the accountancy profession to set standards for accounting, would determine who can undertake public sector audit work under a system similar to that operating for the private sector.
 - Recognised supervisory bodies under the umbrella of the accountancy profession would supervise the quality of audit work undertaken.
- 3.9. There would thus be a list of audit firms eligible to bid for local authority work created by the FRC and maintained by the recognised supervisory bodies.
- 3.10. The CLG has subsequently announced that it does not intend to create a company from the Audit Commission’s audit practice which could then bid for work, although presumably Audit Commission staff could still do this independently at the risk that they might not be accredited by the FRC.

Commissioning of local public audit services

- 3.11. The consultation proposes that all larger local public bodies would appoint their own auditors from among those on the list.
- 3.12. The appointment would be made by Full Council, on the advice of the Audit Committee. The Secretary of State will retain a reserve power to appoint when a local authority fails to do so.
- 3.13. The audited body would undertake a competitive re-appointment process within five years. No appointed auditor would be allowed to undertake more than two consecutive five year terms with the same authority. The auditor would be reappointed by the Council each year on the recommendation of Audit Committee.
- 3.14. The consultation proposes new arrangements for the Audit Committee;
- The chair and vice-chair would be independent of the authority (ie not elected Members)
 - One option is that a majority of members of the Audit Committee would be independent of the authority.
 - The elected Members on the Committee would be non-executive, non-Cabinet Members. At least one should have recent and relevant financial experience.
 - Independent members would not be permitted to be Members or officers of another authority, or to have been a Member or an officer of the same authority within the last five years.
- 3.15 The Audit Committee in a local authority currently has no statutory role. The paper consults on whether the Audit Committee should have a mandatory role in addition to advice to the Council on the appointment of the auditor.

Scope of audit and the work of auditors

- 3.16 The consultation paper provided four options for the scope of the audit;

Option 1: Similar to that of private companies with the auditor giving an opinion on the authority's accounts but not undertaking a value for money judgement

Option 2: Similar to the current system of local government audit with the auditors giving an opinion on the accounts, the Annual Statement of Governance and giving a value for money opinion.

Option 3: As at present but with stronger assurances on regularity and propriety, financial resilience and value for money.

Option 4: A requirement for authorities to prepare an annual report which would be reviewed and reported upon by the auditor.

- 3.17. Auditors would continue to have the power to prepare reports in the public interest
- 3.18. It is proposed that the audit is brought within the scope of the Freedom of Information Act, but that local electors would lose the right to object to the accounts.

4. Impact on the Council

- 4.1. Depending upon the option that is chosen, the impact of the changes on the way the Council is audited will probably be manageable. A requirement to produce an Annual Report would add to the workload, but it would not be likely to cover matters that are not already audited.
- 4.2. The value for money assessment is part of the current audit regime. It is uncertain to what extent an auditor can truly assess value for money, or whether the auditor should get involved in what can be value judgements which are probably best left to elected representatives.
- 4.3. The need to tender for an auditor every five years, but arguably, it may be viewed as giving the authority, as the audited body, more buy-in to the process as opposed to being automatically assigned an auditor.
- 4.4. The Audit Committee may in future be controlled by independent members, and the degree of independence to be required suggests Government's determination to ensure that Audit Committees are not seen as functionaries of the local government system (eg officers and Members from other authorities). The drive to independence appears to be about creating more public confidence in the system but it also clearly impacts and arguably undermines democratic accountability. Among the practical issues which would need to be worked out at local level would be the relationship between Audit Committee and Overview & Scrutiny

- 4.5. It seems unlikely that the changes will lead to cost savings. Contracts will be open to a relatively small number of providers which will reduce the level of competition in the market place. The Audit Commission has been able to keep the price of audit down for public authorities and the costs of audit for public bodies, is less than the fees paid by similar sized private companies. . There will be pressure on audit firms not to profit excessively at the expense of the public sector, but it seems more likely that the costs of public audit will increase over time rather than reduce.

5. Response to the Consultation

- 5.1 The consultation is designed to elicit views on the proposals from all public bodies affected by the change (local authorities, primary care trusts, probationary service etc), and to aid this, the consultation is structured with a list of questions for public bodies to consider. The attachment at Appendix A sets out Tower Hamlets' response to the most pertinent questions raised the consultation document.

6. Comments of the Chief Financial Officer

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

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

- 7.1 The external audit of local authorities is presently governed by Part 2 of the Audit Commission Act 1998. The audit system is overseen by the Audit Commission, which appoints the auditor for each local authority, amongst other things. It is understood that the Government's present consultation is intended to result in significant change to the existing legislative regime, as outlined in the report. Given that the changes will impact on the Council, it is appropriate for the Council to make submissions as part of the consultation exercise.

8. One Tower Hamlets

- 8.1 There are no specific one Tower Hamlets considerations.
- 8.2 There are no specific Anti-Poverty issues arising from this report.

9. Risk Management Implications

9.1 This report highlights changes in the governance of the Council. The proposals set out in this document will result in changes to the Council's constitution. There are no specific risk implications at this stage.

10. Sustainable Action for a Greener Environment (SAGE)

10.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

The Future of Public Audit, Consultation,
March 2011

N/a

Appendix A

Response to Consultation by London Borough of Tower Hamlets

THE FUTURE OF LOCAL PUBLIC AUDIT

The London Borough of Tower Hamlets welcomes the opportunity to comment on the Consultation Paper "Future of Local Public Audit" issued by DCLG on 30th March 2011.

Question 1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

No view on this question.

Question 2: Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

No view on this question.

Question 3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Our view is that in the absence of a separate audit body for local governance, the NAO is a suitable body to provide this guidance.

Question 4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Public bodies are different from Companies in the way they are managed, governed and scrutinised. If there is an argument for bringing the audit regimes of public and private bodies closer together, it would be to provide greater public scrutiny of Companies, some of which have lost the confidence of the public in their financial practices of late.

Question 5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

No view on this question.

Question 6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

No view on this question.

Question 7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

If firms are admitted to the market simply to provide competition and prove to be not up to the job, public confidence in local public audit could be undermined.

Question 8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

No view on this question.

Question 9: There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

No view on this question.

Question 10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

No view on this question.

Question 11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

No view on this question.

Question 12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Tower Hamlets appreciates that the Government may have a concern about Audit Committees becoming clogged with public sector 'insiders' but the Government needs to be careful not to restrict the supply and to exclude competent and independent minded individuals who may wish to give their free time to work as independent Audit Committee members.

Question 13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

It is not necessary for independent members to have financial expertise, but experience of governance in large, complex organisations would be valuable.

Question 14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Yes it will be difficult for some authorities to recruit, although we do not envisage that Tower Hamlets would have a problem. Some form of remuneration will be necessary if suitable people are to be expected to give up their time.

Question 15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

There are a number of important issues bound up in this question.

The main issue in relation to the independence on Audit Committees is the way independent scrutiny operates alongside democratic accountability. It is important that any independent element of scrutiny complements but does not undermine the important fiduciary relationship that democratically elected Members have with the taxpayer and with communities at large. Officers in Tower Hamlets have not had the opportunity to consult the full Tower Hamlets Council on the question of the future structure of the Audit Committee and so we are unable to give a view on paragraph 3.9.

If public confidence in the appointment of independent auditors is paramount, the best way of ensuring it would have been to leave it with an independent, arms length body such as the Audit Commission. However Tower Hamlets does not envisage that there will be a problem appointing independent auditors.

Question 16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

No view on this question.

Question 17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Given the large variation in the size and nature of local public bodies, a legislative approach to the functions of Audit Committees should be avoided.

Question 18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

No view on this question.

Question 19: Is this a proportionate approach to public involvement in the selection and work of auditors?

The responsibility of elected Members for the governance of the local body should not be overlooked. There is already a misunderstanding among some members of the public that it is the auditor who is responsible, and that he/she is in a position to prevent certain controversial decisions being taken. Public consultation is important in raising awareness and community involvement but needs to avoid raising expectations about what the auditor reasonably can and cannot do.

Question 20: How can this process be adapted for bodies without elected members?

No view on this question.

Question 21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

No view on this question.

Question 22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

No view on this question.

Question 23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

No view on this question.

Question 24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

The principle of maximum periods is correct to avoid auditors and clients becoming too familiar with each other. If anything, 10 years seems a little too long and perhaps a single 7 year contract would be more appropriate.

Question 25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

No view on this question.

Question 26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

No view on this question.

Question 27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

No view on this question.

Question 28: Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

No view on this question.

Question 29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

Option 1 should be ruled out on the basis that a reduction in the audit requirements on local bodies is inappropriate at the present time. Option 4 should be ruled out on the basis that no public body should be required to produce an Annual Report purely for the benefit of the auditors. Either Option 2 or 3 would be closer to Tower Hamlets view.

Question 30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

There should not be a requirement to produce an Annual Report for audit purposes. Annual Reporting for the purpose of informing the public is another matter, but it should be a matter for local determination how an authority delivers its duty to inform.

Question 31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

No view on this question.

Question 32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

No view on this question.

Question 33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

No view on this question.

Question 34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

There is bound to be some question in the public mind as to whether an auditor with a contractual relationship with the authority is truly independent, especially in view of the occasional bad practice that has been revealed and much publicised in the private sector. If the Government believes this issue is paramount then a system in which auditors are independently appointed by a body such as the Audit Commission should be retained.

Question 35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Tower Hamlets does not believe it is appropriate in the interests of independence for auditors to provide additional services to the authority.

Question 36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

No view on this question.

Question 37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Yes.

Question 38: Do you agree that we should modernise the right to object to the accounts? If not, why?

The provisions of the Audit Commission Act are a direct legacy of the 19th Century and are out of step with and to some extent at odds with the Freedom of Information Act and the Data Protection Act as well as with modern accounting technology. The Government should go further in modernising the requirements without compromising the rights of interested persons to inspect relevant materials. It is not necessary for the Government to remove the right to object to the accounts.

Question 39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

No view on this question.

Question 40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

No. The auditor needs to have access to all relevant documentation including that which is exempt under the Freedom of Information Act. Once this information is held by the auditor, the local public body, the owner of the information, would lose control of it and would not necessarily be involved in a decision to release it. A disagreement between the authority and its auditor on a matter of this kind could seriously undermine the auditor/ client relationship. Knowledge of this may discourage authorities and auditors from sharing exempt information.

Question 41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

The relationship could be seriously undermined. See above.

Question 42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

No view on this question.

Question 43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

No view on this question.

Question 44: What guidance would be required to enable county/unitary authorities to:

- a) Appoint independent examiners for the smaller bodies in their areas?
- b) Outline the annual return requirements for independent examiners?
- c) Who should produce and maintain this guidance?

No view on this question.

Question 45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

No view on this question.

Question 46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

No view on this question.

Question 47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

No view on this question.

Question 48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

No view on this question.

Question 49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

No view on this question.

Question 50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

No view on this question.

Agenda Item 7.5

REPORT TO: Audit Committee	DATE 28 June 2011	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Update on Risk Management Ward(s) Affected: N/A		
ORIGINATING OFFICER(S): MINESH JANI Head of Risk and Audit				

1. Summary

1.1 This report gives an update on the Council's risk management arrangements. The purpose of this report is to give members of the committee an oversight of the authority's processes to facilitate the identification and management of significant business risks. The report also captures the risks reported to the CMT as part of risk management update on 14 June 2011.

2. Recommendation

2.1 The Audit Committee is asked to note:

- the contents of this report; and
- the actions planned over the next year to embed risk management in section 7 of this report.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"	Name and telephone number of holder And address where open to inspection
None	N/A

3. Background

- 3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is “..... the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it”.
- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.

4. Corporate Risk Register

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

5. Risk Champions Meeting

- 5.1 Each directorate has nominated a key individual to be the risk champion for their directorate. Their role includes to:-
- Update and maintain directorate risks on JCAD Risk every quarter;
 - Facilitate the embedding of risk management within the directorate;
 - Maintain close liaison on risk and risk dynamics with individual service heads and DMT collectively
 - Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
 - Build a risk-aware culture within their directorate and disseminate good risk management practices;
 - Provide advice and assistance as required;
 - Obtain an update on planned actions from appropriate service heads for reporting to CMT; and
 - Bring significant risks to the attention of the CMT.
- 5.2 The risk champions continue to meet every quarter and this forum provides a channel by which significant operational, project, contract, emergent or partnership risk can be included in the corporate risk process. Steps are underway to meet more frequently, possibly monthly.
- 5.3 The CMT last received an update on current risks on 17 May 2011. Since the last report to CMT the following new risks have been added to the strategic risk register:-

DRA0009 – Failure to deliver Decent Homes by 2016. The government set out four detailed key criteria to meeting their decent homes standard. The home should: meet the current statutory minimum standard for housing, be in a reasonable state of repair, have reasonably modern facilities and services and provide a reasonable degree of thermal comfort.

CEBD0001 – The council is unable to deliver the target level of affordable housing. Tackling issues relating to housing and overcrowding are top of the Mayor's list of priorities however reductions in government funding have already meant that previously approved schemes have become economically unviable.

CSD0011 – Sustained general financial pressure on the borough's child protection service. The number of children subject to child protection plans remains at an all time high for the council. Currently there are 297 children subject to child protection. These issues have been prevalent in Children Social Care for nearly two years following local serious case review and national anxiety.

S&EQ0001 – Lack of community cohesion resulting in a lack of opportunity for individuals to contribute to the development of local services. This can result in an increase in tension and levels of exclusion within communities, breakdown of understanding between different groups and communities and a lack of trust within communities and of statutory agencies.

CSFP0001 – Late information from central government agencies on for planning for the 2012 Olympics.

The Council have for some time been asking for accurate information regarding the exact details of the ORN and the AORN so that services can plan for the operational service delivery properly. The same applies to any security restrictions that will be in place. Whilst teams are planning for the worst case scenario with respect to traffic gridlock and public transport delays, there is an urgent need to map road closures and crossing closures to aid the GIS work.

CSE0010 – Insufficient capacity (assets, land and funding) to meet local needs for school places. There is a statutory responsibility for local authority to provide adequate infrastructure for education of children in catchment areas. Current projection shows a need for a secondary and two primary schools in the east of the borough.

AH005 – Accommodation –There is a significant risk to the Adults, Health and Wellbeing Directorate arising as a result of the accommodation changes required over the next 12 – 24 months, these related to the decant requirements of both operational and 'back office' services.

DRA0011 – Insufficient resources are available, or committed to deliver carbon reduction projects. These projects support delivery of the Carbon Management Plan which commits the Council to reducing its own operational CO2 emissions by 25% by 2012.

CLB0001 – There is a risk that the waste disposal procurement project may not deliver a solution that is within budget.

The Waste Procurement Project seeks to procure long term waste treatment and disposal services that will enhance the Council's recycling and composting performance or will deliver enhanced energy recovery from waste and a significant reduction of waste going to landfill. Through the use of the competitive dialogue process the Council is exploring current and future market opportunities to deliver security of disposal and value for money.

BSF10002 – Failure to agree a Deed of Variation to the existing PFI Project Agreement. The cost of coming out of the PFI scheme or amending the existing scheme, will need to be met from Council funds.

The Council wishes to carry out BSF investment works at secondary schools that are currently part of an existing Grouped Schools PFI contract. The Council has determined that its preferred method for implementing this work is that the existing PFI FM arrangements remain in place, for work to be carried out by the LEP, and then the schools are adopted within the ongoing FM requirements as set out in the existing PFI Project Agreement. Cabinet agreed that the Council proceed with a variation on the existing PFI contract which provides the Council with permission to undertake the much needed work in the schools.

DRDH0001 – The Government's 'welfare reform' agenda leads to a reduction in both the supply of affordable private sector rented accommodation and the willingness of private sector landlords to rent to benefit dependant households.

There are significant reforms to Housing Benefit planned including caps to Local Housing Allowance and a ceiling on total benefit payable. The introduction of universal credit may reduce how much claimants receive as benefit. All of these will influence private sector tenants' ability to pay the rent.

HR0003 – Industrial action by trade unions – either in response to local decisions relating to budgetary reductions or Central Government policy decisions on pay and pensions.

ICT0007 – Data compromised

The Council needs to ensure that all personal data it holds is kept secure. The Information Commissioner's Office has made it clear that they will fine organisations that fail to adequately protect personal information.

HR0005 – Workforce planning – failure to implement strategy and plans. Workforce Planning - Failure to implement effective strategy and plans to enable review of performance measurement information, address workforce and organisational issues that occur, assess and adjust the plan and strategies as necessary thereby running the risk of failing to respond to unanticipated changes.

RSB0016 – A model efficiency programme to take account of the likely reduction in future funding across the public sector is not developed particularly in light of the Spending Review and the uncertainty around some specific goals and the impact of front loading the savings deliverables from 2011/12.

ICT0011 – Major ICT service infrastructure and/or failure of framework I, care alarm, JD Edwards, Iworld, etc leading to a potential business continuity risk.

CEAC0004 – Publication or broadcast of content that presents reputational risk to the Council.

CEAC0005 – East End Life compliance with statute, guidance and regulation. DCLG have published guidance on publications by local authorities. The main purpose of this is to reduce/stop publication of content that is perceived to compete with local independent newspapers.

AH0028 – Risk of a significant contractor going into administration. The Authority has one block contract in place with this company within the Borough. In addition, the Borough has a number of spot contracts in place with this provider.

6. Embedding Risk Management

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

- Half day training courses for risk management as part of the corporate Learning and Development programme;
- Induction to risk management for new starters;
- Risk management workshops for services to develop their risk management practices;
- Implementation and embedding of the JCAD Risk Management database ;
- JCAD Risk to over 90% of all service-heads council-wide;
- Improved functionality and reporting capability (speed, accuracy, efficiency and quality) in risk management via the JCAD database ;
- On going assistance and advice to senior officers across the authority;
- A review and update of the risk management guidance used by staff and managers;
- A simplification of the corporate and strategic risks and the accompanying procedures;
- Incorporating risk management into the annual business performance plans of the services.

7. Next Steps

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

- Integrate risk management into the culture of the Council.
- Support the strategic aims and objectives of the Council.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Raise awareness of the need for risk management by all those connected with the delivery of services, including strategic partners, contractors etc
- Undertaking further risk awareness and influencing briefings focussed at member level.
- Enhance risk management processes around project management.
- Consider the development of an effective e-learning tool further, which will facilitate a more flexible learning and provide a robust arrangement for training, particularly new starters; and

8. Comments of the Chief Financial Officer

8.1 These are contained within the body of this report.

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

9.1 The Council is required under the Accounts and Audit Regulations 2011 to have 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 maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

10. One Tower Hamlets Considerations

10.1 There are no specific Equal Opportunities issues arising from this report. Sound risk management is one of the ways in which the Council ensures that it discharges its functions in accordance with its expressed objectives, including those set out in the Community Plan, and that it does so in accordance with statutory requirements.

11. Anti-Poverty Considerations

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

12. Risk Management Implications

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

13. Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications.

Agenda Item 7.6

COMMITTEE: Audit Committee	DATE: 28 June 2011	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: 2010-11 Treasury Management Outturn Report, Update to 31 May 2011		
ORIGINATING OFFICER(S): Oladapo Shonola, Chief Financial Strategy Officer		Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury – 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 financial year ended 31 March 2011 as required by the Local Government Act 2003.
- 1.2 The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by Council and the investment returns.
- 1.3 The Council complied with its legislative and regulatory requirements. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.
- 1.4 The Corporate Director, Resources confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.
- 1.5 The Local Government Act 2003 also requires that a sub committee prior scrutiny of the investment strategy, mid year and outturn treasury management reports before they are reported to the full Council. As well as the above reports being reported to either Cabinet or the Audit Committee, updates on treasury management activities were also reported to the Audit Committee on 5 separate occasions.

2. DECISIONS REQUIRED

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

3 REASONS FOR DECISIONS

- 3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2 During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (10 February 2010)
 - a mid year (minimum) treasury update report (Council 8 December 2010)
 - an annual report following the year describing the activity compared to the strategy (this report)
 - in addition, the Audit Committee has received regulatory treasury management update reports on 29 June 2010, 13 July 2010, 21 September 2010, 14 December 2010 and 22 March 2011.
- 3.3 Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 3.4 The annual report of treasury management should assist in ensuring that Members are able to scrutinise officer decisions and check that investment strategy was implemented 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 should receive an annual report on treasury management activities.
- 4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council

5 **BACKGROUND**

5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.

5.2 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Debt activity;
- Investment activity; and
- Update on investment activity up to 31 May 2011.

6. **CAPITAL EXPENDITURE AND FINANCING 2010-11**

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed

£'000	2009/10 Actual	2010/11 Estimate	2010/11 Actual
Non-HRA capital expenditure	78,546	137,222	111,348
HRA capital expenditure	60,830	56,943	37,227
Total Capital Expenditure	139,376	194,165	148,575
Resources			
Capital Grants	67,769	127,404	97,437
Direct Revenue Financing	14,437	0	7,002
Major Repairs Allowance	13,836	15,500	7,641
Developers Contributions	9,013	890	5,011
Capital Receipts	11,387	29,550	5,792
Capital Expenditure (Financed from borrowing)	(22,934)	(20,821)	(25,692)

6.3 The difference between estimated capital expenditure to be funded from borrowing and the outturn is due to approved prior year brought forward projects to be funded from borrowing that were added to the programme in-year via officer delegated powers/Cabinet approval.

7 OVERALL BORROWING NEED

- 7.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure as set out in the above table, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies such as the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council.
- 7.3 The Council's non-Housing Revenue Accounts (HRA) underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).
- 7.4 The Council's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2010/11 on 10 February 2010.
- 7.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR (£m)	31-Mar-10 Actual	31-Mar-11 Original Indicator	31-Mar-11 Actual
Opening balance	421,698	437,730	437,730
Add unfinanced capital expenditure	22,934	20,678	25,692
Add PFI adjustment	38,978	41,205	41,205
Less MRP/	(6,902)	(7,201)	(7,003)
Less PFI Adjustment	(38,978)	(41,205)	(41,205)
Closing balance	437,730	451,207	456,419

- 7.6 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

£'000	31-Mar-10 Actual	31-Mar-11 Original Indicator	31-Mar-11 Actual
Net borrowing position	226,175	176,107	155,471
CFR	437,730	451,207	456,419

- 7.7 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its authorised limit.
- 7.8 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 7.9 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£'000	2010/11
Authorised limit	465,000
Maximum gross borrowing position	356,607
Operational boundary	445,000
Average gross borrowing position	333,969
Financing costs as a proportion of net revenue stream	2.41%

8 **TREASURY POSITION as at 31 March 2011**

- 8.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

	31 March 2010 Principal	Rate/ Return	31 March 2011 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	231,574	9.11%	275,974	7.71%
-Market	13,000	4.37%	13,000	4.37%
Total Fixed Rate Funding	244,574	8.86%	288,974	7.56%
Variable Rate Funding:				
-PWLB	0	0.00%	0	0.00%
-Market	64,500	0.89%	64,500	1.23%
Total Variable Rate Funding	64,500	0.89%	64,500	1.23%
Total debt	309,074	7.20%	353,474	6.40%
CFR	437,730		447,075	
Over/ (under) borrowing	(128,656)		(93,601)	
Investments:				
In house	83,100	1.23%	201,136	1.20%
External managers	0	0.00%	0	0.00%
Total investments	83,100	1.23%	201,136	1.20%

8.2 The maturity structure of the debt portfolio was as follows:

£'000	31 March 2010 Actual	2010/11 Original Limits	31 March 2011 Actual	31 March 2011 Actual in %
Under 12 months	6,179	10%	25,740	7.3%
12 months and within 24 months	25,983	25%	16,688	4.7%
24 months and within 5 years	44,589	25%	47,102	13.3%
5 years and within 10 years	119,355	90%	113,610	32.1%
10 years and above	112,968	100%	150,336	42.5%

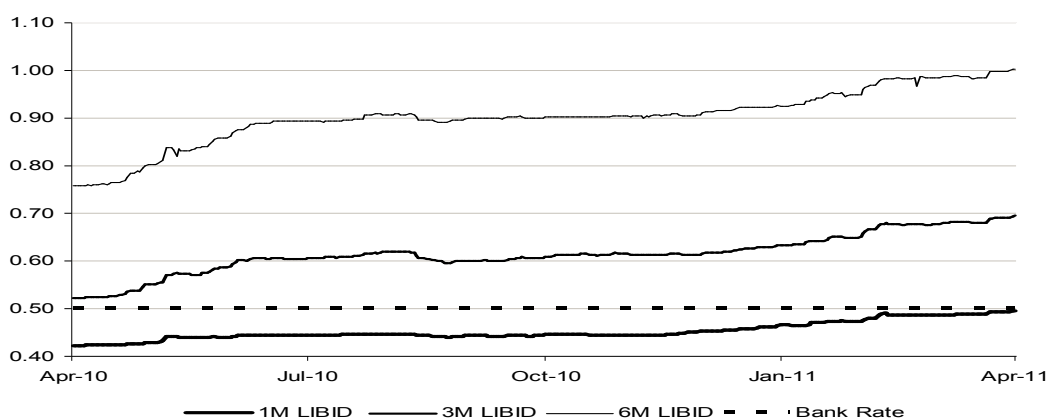
8.3 The maturity structure for the investment portfolio was as follows:

£'000	31 March 2010 Actual	2010/11 Original Limits	31 March 2011 Actual
Under 1 year	83,100	100%	201,136
More than 1 year	-	0%	-
Total	83,100	100%	201,136

9 THE INVESTMENT STRATEGY

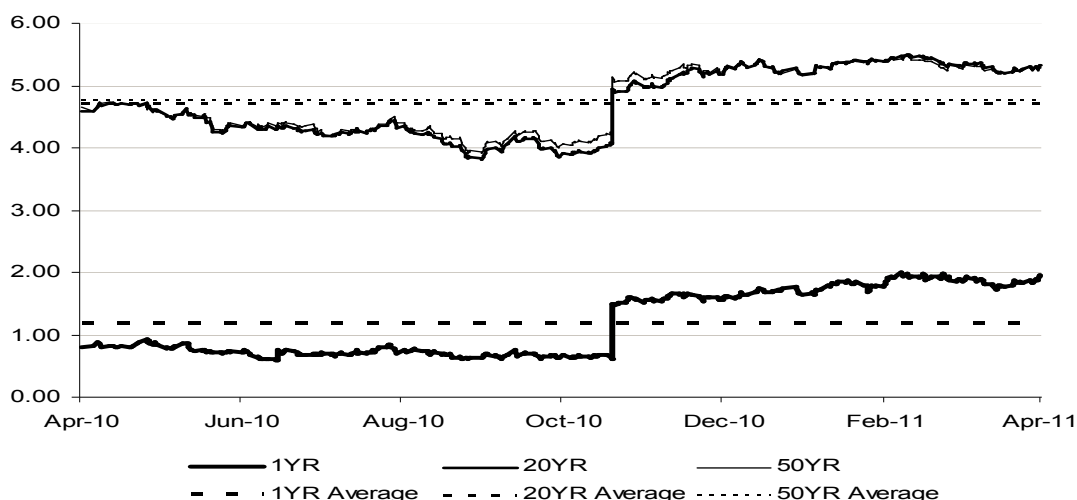
- 9.1 The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank Rate, starting in quarter 1 of 2010, with similar gradual rises in medium and longer term fixed interest rates over 2010/11. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 9.2 The Bank Rate actually remained unchanged throughout 2010-11 with the result that associated interest rates were lower than had been anticipated. The actual movement in rates is shown in the below chart.

Bank Rate v LIBID Investment Rate



9.3 2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75% – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

Average v New Borrowing Rates



9.4 Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected to cause the Monetary Policy Committee (MPC) to start raising Bank Rate earlier than previously expected.

9.5 Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at very low levels.

10 BORROWING OUTTURN

10.1 The Council borrowed £51m (£30m and £21m) from the PWLB on the 10th May 2010. This was done mainly to ensure benefits accruing from reform of housing finance can be maximised. The Council will also benefit from the decision to access funding in May 2010, which resulted in funding being secured at approximately 1% less than would have been the case had officers procrastinated.

10.2 Loans were drawn to fund the net unfinanced capital expenditure, naturally maturing debt and the effect of the housing finance reform proposals. The loans drawn were

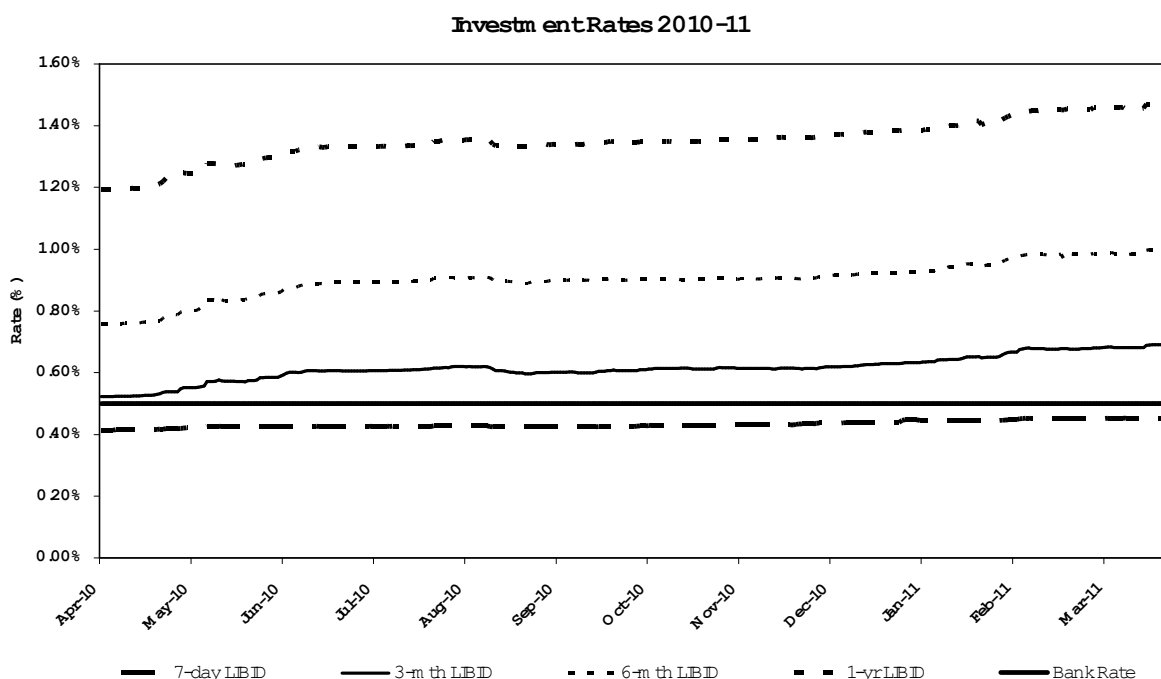
Lender	Principal	Type	Interest Rate	2010/11 Average
PWLB	£30m	Fixed Rate	4.24%	4.70%
PWLB	£21m	Fixed Rate	4.20%	4.70%

11 INVESTMENT RATES

11.1 The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 month and 12 month rates picking up.

11.2 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity. In line with the principles outlined in the Investment Strategy of 'security' first, the Council did not and does not have funds invested in any of the countries listed above.

11.3 The investment rates in 2010/11 are as detailed in the below chart.



12 INVESTMENT OUTTURN

- 12.1 The Council's investment policy is governed by CLG guidance, which was being implemented in line with the annual investment strategy approved by the Council on 10 Feb 2010. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies.
- 12.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 12.3 The Council maintained an average balance of £155.181m of internally managed funds. The internally managed funds earned an average rate of return of 1.22%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.45%.

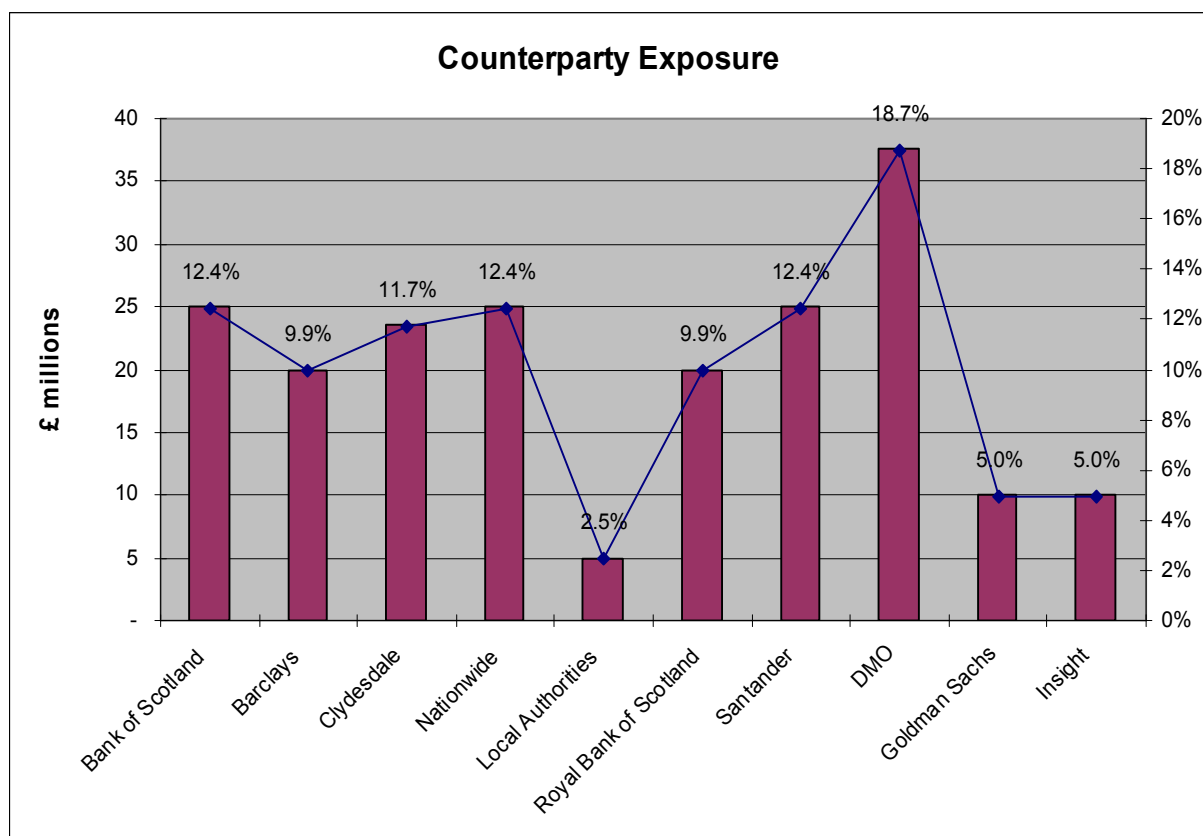
13 UPDATE ON INVESTMENT ACTIVITY UP TO 31 MAY 2011

- 13.1 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.
- 13.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 13.3 Sector's interest rate projections are that base rate will remain static at 0.5% until June 2011 after which there will be a steady rise up to 3.25% by December 2013. Against this perspective Sector has developed a strategy which delivers enhanced performance through maximising the investment term of the portfolio. This will enable the portfolio to obtain exposure to the higher rates associated with investment in the longer term.
- 13.4 Council cash balances are projected to average £140m in 2011-12, but daily balances will vary throughout the year.
- 13.5 The current balance of £201.136 million is higher than anticipated due to increased liquidity, additional funding that has been accessed by the Council to ensure it can take full advantage of the impact of housing finance reform and funds that are as yet unspent but have been earmarked to fund the capital programme. It is envisaged that the cash balance will reduce in the medium term.
- 13.6 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.
- 13.7 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/Type	Amount £M	Rate
Overnight	30.000	0.80%	Santander UK	Call	5.000	0.80%
Overnight		0.75%	Clydesdale Bank	Call	23.536	0.75%
Overnight		0.75%	Bank of Scotland	Call	15.000	0.75%
Overnight		0.50%	Goldman Sachs	MMF	10.000	0.54%
Overnight		0.50%	Insight	MMF	10.000	0.64%
			SUB TOTAL		63.536	
1 Month	25.000	0.45%	Debt Management Office	01-Apr-11	37.600	0.25%
			Cater Allen (Santander)	11-Apr-11	5.000	2.20%
			Bank of Scotland	26-Apr-11	5.000	1.17%
3 Months	25.000	0.75%	Cater Allen (Santander)	13-May-11	3.000	1.50%
			Cater Allen (Santander)	13-May-11	2.000	2.10%
			Nationwide	03-Jun-11	5.000	1.35%
			Barclays	03-Jun-11	10.000	1.40%
			Royal Bank of Scotland	10-Jun-11	10.000	0.70%
6 Months	20.000	0.99%	Royal Bank of Scotland	11-Jul-11	10.000	0.81%
			Cater Allen (Santander)	18-Jul-11	5.000	2.50%
			Bank of Scotland	25-Jul-11	5.000	1.30%
			Barclays	10-Aug-11	5.000	1.05%
			Nationwide	10-Aug-11	10.000	0.95%
9 Months	20.000	1.30%	Nationwide	14-Oct-11	5.000	1.37%
			Barclays	10-Nov-11	5.000	1.30%
			Nationwide	17-Jan-12	5.000	1.43%
			Cater Allen (Santander)	17-Jan-12	5.000	2.50%
			North Tyneside Council	20-Jan-12	5.000	1.20%
12 Months	20.000	2.00%				
			SUB TOTAL		137.600	
	140.000		TOTAL		201.136	

13.8 The Council's exposure to any one counterparty/Group is represented by the below chart including exposure as a percentage of total assets invested as at 31 May 2011.



14.8 Investment returns since inception of the new arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance has dipped slightly from the last reporting date (22 March 2011) from 1.22% average return to 1.18%.

14.9 The portfolio is slightly underperforming benchmark set at 1.25%. Although, it is above the 7 Day LIBID rate of 0.46% and represents good performance given the issues around elevated cash balances arising from slippage on capital programme and other issues identified earlier in this report.

14.10 The 2011/12 investment strategy reviewed the credit criteria and investment threshold and Members approved a more flexible investment strategy in February 2011. This has made it possible to use alternative short term investment facilities other than the Government's Debt Management Office (DMO) and it is anticipated that this will positively impact on performance going forward.

15. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

16. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 16.1. Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 16.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 16.3. The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

17. ONE TOWER HAMLETS CONSIDERATIONS

- 17.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

18. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

19. RISK MANAGEMENT IMPLICATIONS

- 19.1 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.

20 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

21 EFFICIENCY STATEMENT

- 21.1 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"

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

Appendix 1: Prudential and treasury indicators

Prudential indicators	2009/10	2010/11	2010/11
	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	88,878	68,140	111,348
HRA	50,497	36,598	37,227
TOTAL	139,375	104,738	148,575
Ratio of financing costs to net revenue stream			
Non – HRA	2.98%	2.96%	2.62%
HRA	16.91%	18.82%	18.75%
Net borrowing requirement			
brought forward 1 April	322,198	354,250	354,250
carried forward 31 March	354,250	303,764	252,128
in year borrowing requirement	32,052	- 50,486	- 102,122
In year Capital Financing Requirement			
Non - HRA	1,352	5,821	9,298
HRA	15,500	15,000	16,588
TOTAL	16,852	20,821	25,886
Capital Financing Requirement as at 31 March			
Non - HRA	160,751	160,784	162,827
HRA	276,979	301,075	293,568
TOTAL	437,730	461,859	456,395
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	8.46	4.27	4.27
Increase in average housing rent per week	0	0	0

Treasury management indicators	2009/10	2010/11	2010/11
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	483,050	565,000	565,000
other long term liabilities	-	-	-
TOTAL	483,050	565,000	565,000
Operational Boundary for external debt -			
borrowing	463,050	545,000	545,000
Other long term liabilities	-	-	-
TOTAL	463,050	545,000	545,000
Actual external debt			
Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments	20%	20%	20%
Upper limit for total principal sums invested for over 364 days	£0.00	£0.00	£0.00
(per maturity date)			

TABLE 5: Maturity structure of borrowing during 2010/11	Upper Limit	Lower Limit
under 12 months	7%	0%
12 months and within 24 months*	5%	0%
24 months and within 5 years*	13%	0%
5 years and within 10 years	32%	0%
10 years and above	43%	0%

Appendix 2: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

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

Long-term Ratings

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

Individual Ratings

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

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