



Meeting of the

AUDIT COMMITTEE

Monday, 12 December 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:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair: Councillor David Edgar	
Councillor Khales Uddin Ahmed Councillor Craig Aston Councillor Alibor Choudhury, (Cabinet Member for Resources) Councillor Stephanie Eaton Councillor Denise Jones	Councillor Marc Francis, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones) Councillor Anwar Khan, (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

Monday, 12 December 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.

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3. 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 20 th September 2011.		
4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
4 .1 Annual Audit Letter - 2010/11	11 - 24	
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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, 20 SEPTEMBER 2011

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

Members Present:

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

Other Councillors Present:

Officers Present:

Jill Bell	– Head of Legal Services (Environment), Legal Services
Alan Bryce	– (District Auditor, Audit Commission)
Sally – Anne Eldridge	– (Senior Audit Manager, Audit Commission)
Peter Hayday	– (Interim Service Head, Financial Services, Risk and Accountability)
Jon Hayes	– (District Auditor, Audit Commission)
Minesh Jani	– (Service Head, Risk Management)
Keith Burns	– (Interim Project Manager, Commissioning and Strategy, Adults Health and Wellbeing)
Bharat Mehta	– (Audit Manager)
Kevin Miles	– (Chief Accountant, Resources)
Tony Qayum	– (Corporate Fraud Manager, Internal Audit, Resources)
Steve Vinall	– (Service Manager, Deloitte & Touche)
Louise Fleming	– (Senior Committee Officer, Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Khales Uddin Ahmed and Denise Jones.

2. DECLARATIONS OF INTEREST

Councillor Carlo Gibbs declared a personal interest in item 6.5 (Annual Internal Audit for Schools 2010/11). The declaration of interest was made on

the basis that the report made reference to Bangabandhu Primary School, of which Councillor Gibbs was a School Governor.

3. UNRESTRICTED MINUTES

RESOLVED

That the minutes of the meeting of the Audit Committee held on 28th June 2011 be agreed as a correct record of the meeting and the Chair be authorised to sign them accordingly.

3.1 Protocol for dealing with requests from the Council to the Audit Committee

The Committee considered a draft protocol for dealing with requests from the Council to the Audit Committee, following the referral of a Member question at the Council meeting on 13th April 2011. The protocol would give the Chair of the Committee authority to determine whether the referral was in the remit of the Committee before the next meeting took place.

Members expressed concern over the delay in considering the referral from the April Council meeting. However it was noted that the Protocol would act as a tool to assist making future decisions.

RESOLVED

That the Protocol for dealing with requests from the Council to the Audit Committee as set out in Agenda Item 3.1 be approved.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 Fraud Briefing from Protecting the Public Purse

The Committee considered a presentation by Mr Alan Bryce, District Auditor, Audit Commission, which compared the performance of Tower Hamlets with similar authorities in tackling seven of the most common types of fraud. It was noted that the Council had been performing well. However, more work was needed in respect of tenancy fraud and there was a need to build up robustness around fraud prevention.

Members asked a number of questions in respect of Single Person Discount fraud and personal budgets. It was noted that officers were working with colleagues in Adults Health and Wellbeing to mitigate the risk and that there was a need to be agile in the response, with an effective gateway system and ensuring there was a robust assessment process in place. It was also noted that officers would investigate Invest to Save proposals and report back to the Audit Committee on a regular basis.

RESOLVED

1. That the contents of the Audit Commission report be noted; and
2. That the Tower Hamlets response to the Audit Commission recommendations be reported to the next meeting of the Audit Committee.

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**5.1 Annual Governance Report - Council Accounts**

Special Circumstances and Reasons for Urgency **Agreed.**

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution because the Audit Committee had to be brought forward by a week.
- The Corporate Director Resources recommends that the Committee note the findings of the annual governance report for 2010/11 to allow the auditors to provide their audit opinion by the statutory deadline of 30th September 2011.

Mr Jon Hayes of the Audit Commission presented the Annual Governance Report for both the Council Accounts and the Pensions Fund, highlighting the key areas for consideration.

The Chair thanked officers for their efforts as the process had been more effective this year, following concerns about the accounts last year. Members asked questions about the length of time taken to value assets and noted that a judgement needed to be taken by officers due to the cost of valuing assets in a shorter timeframe. However, the Committee requested that information on the value of assets be made available in time for the budget planning process.

RESOLVED:

That the draft Annual Governance Report for 2010/11 for the Council Accounts and Pension Fund, in particular the Action Plan at Appendix 5, be agreed.

5.2 Annual Governance Report - Pensions Fund Accounts

Special Circumstances and Reasons for Urgency **Agreed.**

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution because the Audit Committee had to be brought forward by a week.

- The Corporate Director Resources recommends that the Committee note the findings of the annual governance report for 2010/11 to allow the auditors to provide their audit opinion by the statutory deadline of 30th September 2011.

RESOLVED:

That the draft Annual Governance Report for 2010/11 for the Pension Fund Accounts and Pension Fund, in particular the Action Plan at Appendix 5, be agreed.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 Statement of Accounts 2010/11

Special Circumstances and Reasons for Urgency **Agreed.**

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution because the Audit Committee had to be brought forward by a week.
- The Corporate Director Resources recommends that the Committee note the findings of the annual governance report for 2010/11 to allow the auditors to provide their audit opinion by the statutory deadline of 30th September 2011.

Mr Peter Hayday, Interim Service Head Financial Services, Risk Management and Accountability presented the report and advised that none of the subsequent changes made affected the bottom line. Mr Hayday advised that future sourcing was being looked at with a view to having a more integrated system which would result in less reconciliations, and outlined the proposed timetable and procurement process in response to Members questions. He thanked the Chief Accountant's team and the external auditors for their efforts which had enabled a constructive process.

RESOLVED:

1. That the Statement of Accounts for the financial year ended 31st March 2011 be Approved, having regard for the auditors Annual Governance Report (agenda item 5); and
2. Agree that if the auditor identifies any further significant issues the Chair of the Committee be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as the result of further audit work and the Chief Finance Officer will brief members of the Committee and, if necessary, prepare a formal report to the next meeting of the Committee.

6.2 Quarterly Internal Audit Assurance Report

Mr Minesh Jani, Head of Risk Management, presented the report which summarised the work of Internal Audit for the period June to August 2011, highlighting the key areas for consideration, including the Information Security – Papers Based Data Storage and Disposal; Community Equipment Store; and the Apasenth Day Service Provision Contract Management and Monitoring.

RESOLVED:

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

6.3 Annual Anti Fraud Report 2010/11

Mr Tony Qayum, Corporate Fraud Manager, presented the report which provided an update of the reactive and anti fraud work undertaken during 2010/11 and responded to a number of questions by Members in relation to staff members who had left the Authority following NFI probity checks and concerns about the undervaluing of properties in Right to Buy Schemes. Mr Jani advised that there had been legacy issues but that governance had improved.

RESOLVED

1. That the report be noted; and
2. That an update on the future of the Audit Commission would be reported to the next meeting.

6.4 Social Housing Fraud Update

Mr Tony Qayum, Corporate Fraud Manager, presented the report which provided an update on the work of the Social Housing Fraud team and its successes to date in the recovery of unlawfully let public sector dwellings. Mr Qayum advised that more proactivity was needed as there was potential work to be done with leaseholders and family sized accommodation.

In response to a Member question regarding the possibility of an outside body making collections for a percentage, Mr Hayday advised that the matter would be taken into account for the Invest to Save proposals.

RESOLVED

That the report be noted.

6.5 Annual Internal Audit for Schools 2010/11

Councillor Carlo Gibbs declared a personal interest in item 6.5 (Annual Internal Audit for Schools 2010/11). The declaration of interest was made on the basis that the report made reference to Bangabandhu Primary School, of which Councillor Gibbs was a School Governor.

Mr Minesh Jani, Head of Risk Management, presented the report which summarised the work of Internal Audit in relation to the audit of schools for the financial year 2010/11. Mr Jani advised that there had been an improvement compared to previous years.

RESOLVED:

That the contents of the report be noted, taking into account the matters raised by Audit (Appendix A) and the action taken by the education service (Appendix B).

6.6 Revised Treasury Management and Investment Strategy 2011/12

Mr Peter Hayday, Interim Service Head Financial Services Risk and Accountability, presented the report which set out the Treasury Management Strategy, the Annual Investment Strategy and the Minimum Revenue Provision (MRP) Policy Statement for consideration prior to the full Council meeting in November. Mr Hayday responded to Members questions regarding the current uncertainty in the market, the security of the Council's investments and the possibility of using other credit rating agencies. In response to Members, Mr Hayday also undertook to ensure that the changes reflected in the report would be made clearer in future.

RESOLVED:

1. That Full Council be recommended to adopt:
 - 1.1 The Treasury Management Strategy Statement set out in sections 7-11 of the Committee report;
 - 1.2 The Annual Investment Strategy set out section 12 of this report; and
 - 1.3 The Minimum Revenue Provision Policy Statement set out in section 13 of the Committee report, which officers involved in treasury management must then follow.
2. That the Corporate Director Resources, after consultation with the Lead Member for Resources, be delegated authority to vary the figures in this report to reflect decisions made in relation to the Capital Programme prior to submission to Budget Council.

6.7 Treasury Management Activity Update report to August 2011

RESOLVED:

That the contents of the report be noted.

The meeting ended at 9.04 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

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Annual Audit Letter

London Borough of Tower Hamlets

Audit 2010/11



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Traffic light explanation

Red ■

Amber ◆

Green ●

Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

TD 09 13 Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 28 September.

Value for money

I issued an unqualified conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources on 28 September.

Other audit work

I have also completed other work in the year including:

- certification of the Council's whole of government accounts submission;
- monitoring of progress on the national fraud initiative; and
- the certification of grant claims with a total value of £262 million.

Current and future challenges

Local Government Finance Settlement

The Local Government Finance Settlement reduced Central Government funding available to the Council. Significant savings are required to achieve a balanced medium term financial plan. Whilst the Council is well positioned, the scale of the challenge means there is a risk that it could fail to deliver the required savings. The Council should continue its work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Mayor's priorities.

Financial statements

With International Financial Reporting Standards implemented, the framework for preparing local government financial statements will remain relatively stable in 2011/12. However there are some changes, notably:

- changes to the Housing Revenue Account financing system;
- Councils will be required to account for tangible heritage assets in accordance with FRS30 Heritage Assets; and
- CIPFA may publish additional guidance on how to account for schools.

The Audit Commission will run a series of workshops in early 2012 to help ensure finance teams are briefed on the impact of such changes and that lessons are learned from IFRS implementation.

IT systems upgrade

The Council is seeking to update major components of its IT systems in the 2012/13 year. This is a significant project and the Council must ensure that there are appropriate project management arrangements in place. These are required to deliver value for money, realise service improvement and maintain service provision during the upgrade.

Olympic Games

The Council is making progress in its preparations for its role as an Olympic borough during next year's games. The games will place notable demands on the Council and on the transport infrastructure in the Borough. We will work with officers to minimise the impact of this on next year's audit.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements of the Council and its Pension Fund on 28 September. The Council met its statutory deadline to publish its financial statements and there was a reduction in the value and number of errors that my work identified. This is a notable improvement on last year when the opinion was issued after the statutory deadline. It is also a significant achievement in light of the additional work required to make the transition to International Financial Reporting Standards and update the Council's plans in response to the Comprehensive Spending Review.

PI did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

2. Securing economy efficiency and effectiveness
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Key messages

The Comprehensive Spending Review (CSR) requires the Council to save £72m between 2011/12 and 2013/14. My review found that the Council has arrangements in place to respond to the CSR.

Significant further savings are required to achieve a balanced medium term financial plan. Whilst the Council is well positioned, the scale of the challenge means there is a risk that it could fail to deliver the required savings.

The Council should continue the work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Mayor's priorities.

In my Annual Governance Report last year, I reported weaknesses in the Council's financial systems and financial reporting. The Council has made good progress in implementing the recommendations in my report. Whilst some further improvement could be made, my work found that the controls in material financial systems are more robust and the quality of financial reporting has improved.

Criterion

Focus for 2010/11:
The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

In 2010/11, the Council made the transition to an elected Mayoral system. The Council updated its governance arrangements in response to this change. I undertook a review of the Council's governance arrangements which found that there are suitable arrangements in place.

Other audit work

Whole of Government Accounts

I issued an unqualified opinion on the Whole of Government Accounts pack on 18 October. This was after the 30 September target date, but was an improvement on the previous year.

Grant claim certification

My work on the certification of grant claims and returns is in progress. I will issue a report on my main findings from this work in early 2012.

National Fraud Initiative

Since 2006 the Audit Commission has conducted the National Fraud Initiative (NFI). This biennial data matching exercise matches electronic data within, and between, participating bodies to detect and prevent fraud. As at June 2006, the NFI had led to the detection of £765m of fraudulent payments nationally. The Council submitted data for the biennial National Fraud Initiative programme and NFI matches were made available to the Council on 25 January 2011. The Council has made some progress in investigating these matches but further work is required to make the most effective use of the reports.

Enquiries from the public

I have received a number of letters querying the publication of East End Life in the light of the new Code of Practice on Publicity. Whilst I have not taken any formal audit action as a result of this, the Council will need to ensure it keeps the publication under review in the light of the Code's requirements.

Closing remarks

I have discussed and agreed this letter with the interim Chief Executive and the Corporate Director of Resources. I will present this letter at the Audit Committee on 12 December 2011 and will provide copies to all Members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Report	Date issued
Certification of claims and returns 2009/10 annual report	February 2011
Opinion Audit Plan	March 2011
Opinion Audit Plan (Pension Fund)	March 2011
Annual Governance Report	September 2011
Annual Governance Report (Pension Fund)	September 2011
Final Accounts Memorandum	November 2011
Annual Audit Letter	November 2011

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

The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, Department for Communities and Local Government Ministers confirmed their preference for transferring this work to the private sector through a contractual outsourcing exercise. The Audit Commission is therefore carrying out a procurement process to give private sector bidders the chance to compete for this audit work. This will mean all the Audit Commission's in-house work undertaken by the Audit Practice, including the Council's audit, will be

outsourced from the audit of the 2012/13 accounts. The Audit Commission itself will remain in place to oversee the contracts and its other statutory functions, but will be significantly smaller following the outsourcing.

Against this background, my focus remains:

- fulfilling my remaining responsibilities and delivering the Council's 2011/12 audit to the high standards the Council expects; and
- managing a smooth transition to the new audit provider for 2012/13.

Jon Hayes
District Auditor
November 2011

Appendix 1 - Fees

	Actual (£)	Proposed (£)	Variance (£)
Council scale fee	513,500	513,500	0
Pension fund scale fee	35,000	35,000	0
Grant claim certification work*	100,000	105,000	5,000
Non-audit work**	7,000	7,000	0
Total	655,500	660,500	5,000

The Audit Commission is paying a rebate of £52,077 to you in respect of the financial year 2010/11 as part of its strategy to reduce costs for audited bodies. This rebate is not reflected in the figures above.

* Latest estimate of work still in progress

** Relates to the fraud briefing that was produced for the London Borough of Tower Hamlets and presented to the Audit Committee in September 2011.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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



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Agenda Item 5.1

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	12 December 2011	Unrestricted		5.1
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): <i>Minesh Jani, Head of Risk Management and Audit</i>	Quarterly Internal Audit Assurance Report Ward(s) Affected: N/A			

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period September to November 2011.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

3. Background

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

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

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

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

4. Overall Audit Opinion

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

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2011, 22 final reports have been issued. The findings of these audits are presented as follows:

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

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

Appendix 2 provides a brief summary of each audit.

- 5.2. **Members are invited to consider the following:**

The overall level of assurance provided (para 5.3-5.5).

The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	13	-	-	13
	Moderate	-	6	3	-	9
	Low	-	-	-	-	-
Total Numbers		-	19	3	-	22
Total %		-	86%	14%	-	100%

- 5.4. From the table above it can be seen that all thirteen finalised audits focused on high risk or high value areas and all were assigned Substantial Assurance. A further nine audits were of moderate significance and of these; six were assigned Substantial Assurance and three, Limited Assurance.
- 5.5. Overall, 86% of audits resulted in an adequate assurance (substantial or full). The remaining 14% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

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

Performance measure	Target	Actual
Percentage of Audit Plan completed up to October 2011	47%	45%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	86% (6 out of 7)
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	64% (29 out of 45)

- 6.2. The table above shows that the proportion of internal audit work completed to October 2011 is 45% against the target of 47%. This is principally due to a long term sickness absence to which the Audit committee was alerted during the last meeting in September 2011. The target for the year is to complete 100% of the plan and remedial action has already been taken to bring the delivery of audit plan up to date.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was 86%, whereas the percentage of priority 2 recommendations was 67%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3. The percentage of recommendations not implemented is significantly lower than previous quarters, thus further to the usual actions, meetings are being convened with key officers to seek assurances agreed recommendations will be implemented promptly. For ICT, a meeting has already taken place and management have confirmed following the issue of audit follow up reports, eight of the 11 recommendations have since been implemented.

7. Comments of the Chief Financial Officer

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

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

- 8.1 The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets

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

10. Risk Management Implications

- 10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11. Sustainable Action for a Greener Environment (SAGE)

- 11.1. There are no specific SAGE implications.

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

Summary of Audits Undertaken

APPENDIX 1

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Moderate	Adult, Health and Wellbeing	Out of Hours Service – Systems Audit
	Moderate	Children, Schools and Families	Management and control S 17 payments – Systems Audit
	Moderate	Children, Schools and Families	Stebon Primary School
SUBSTANTIAL	Extensive	Corporate	Management of Climate Change – Follow up audit
	Extensive	Development and Renewal	Management of Right to Buy property Buy Back Programme – Systems Audit
	Extensive	Assistance Chief Executive	Management of Members’ Enquiries – Systems Audit
	Extensive	Resources	Medium Term Financial Plan – Systems Audit
	Extensive	Resources	Network Follow Up audit
	Extensive	Resources	Change Management
	Extensive	Resources	ICT Service Desk
	Extensive	Resources	Payroll – Systems Audit
	Extensive	Children, Schools and Families	Contractors’ Final Accounts - Systems Audit
	Extensive	Children, Schools and Families	Independent School Fees - Systems Audit

Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
SUBSTANTIAL	Extensive	Communities, Localities and Culture	Procurement of Goods, Services and Supplies above EU Threshold – Systems Audit
	Extensive	Communities, Locality and Culture	Civica System– Authority Public Protection – Follow Up
	Extensive	Communities, Locality and Culture	Business Continuity – Follow Up Audit
	Moderate	Communities, Locality and Culture	Environmental Protection and Pollution Control Systems Audit
	Moderate	Children, Schools and Families	Purchases of Provisions for Central Kitchen at Toby Lane Follow up audit
	Moderate	Children, Schools and Families	Culloden Primary School – Probity audit
	Moderate	Children, Schools and Families Children	Globe Primary School – Probity audit
	Moderate	Children, Schools and Families Children	St Agnes Primary School – Probity audit
	Moderate	Children, Schools and Families Children	Old Palace Primary School

**Summary of Audits Undertaken
Limited Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Out of Hours Social Care Service</p> <p>Systems Audit</p>	<p>Nov. 2011</p>	<p>The objective of this audit was to assure management that systems for service provision, performance monitoring and reporting were sound. There is a legal requirement under the Mental Health Act 2007 to provide a 24 hour Approved Mental Health Professional service. This is being achieved by the Out of Hours Social Care team. Our review highlighted the following issues:-</p> <p>Management information system to measure and monitor the performance of the service was not in place. A spreadsheet was maintained which showed monthly referral numbers, area of referral and failed visits. However, this information was not reported to senior management team for monitoring purposes.</p> <p>Some clarity needed to be establishment on the team's links with the overall AHW service or business plans. There was no team plan in place. There were procedures in place, but these needed to be reviewed and updated to reflect current requirements. Although there was a risk register in place, the risks around the service planning and delivery needed to be identified and assessed.</p> <p>With no written procedures or monitoring standards, audit were unable to see any evidence of performance monitoring which increased the risk that resources were not being used efficiently and effectively. Moreover, the team did not have access to the main computer system and some of the processes were not as efficient as they could be.</p> <p>Staffing budget was not aligned to the establishment level, and hence there was risk of budget deficit on staffing budget.</p> <p>All findings and recommendations were agreed with the Interim Service Head Adult Social Care and final report was issued to the Interim Corporate Director – Adult Health Wellbeing.</p>	<p>Moderate</p>	<p>Limited</p>

Management Comments

A review of the Out of Hours (OOH) provision across AHWB is scheduled to start this month. This will pick up issues of efficiency, performance and any areas of duplication across the OOH provision specifically including the team audited. The senior manager responsible for the team is currently based within the Mental health Trust and this does raise the risk of some dislocation. This is being considered as part of our overall approach to working with the Mental Health Trust. A review of the OOH services has been planned for some time but diversion of resources to achieving the Transforming Adult Social care programme has delayed it. The team have regular communication with other operational teams in AHWB and the East London Foundation Trust about individual cases and now have access to both the Trust database system, (RIO) and AHWB framework-i system. Monitoring of the team's performance will now be included as part of the developing DMT scorecard. The team budget will be properly established as part of budget setting for 12/13. The staffing budget was placed under considerable pressure because of the implementation of Single Status which was not funded. All AHWB operational procedures are currently being reviewed to reflect new ways of working and this includes those of relevance to OOH.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of S.17 Payments	Nov. 2011	<p>This audit reviewed the systems for governing payments made under S. 17 of the Children's Act 1989 which are made up of a) to safeguard the welfare of children who are in need and, b) to promote the upbringing of such children by their families by providing a range of services appropriate to those children's requirements, including giving assistance in kind or in exceptional circumstances, cash.</p> <p>Our testing showed that specific and general cost centres were set up to code expenditure. However, the appropriateness of charging expenditure to some cost centres needed to be scrutinised by an accountable officer. Specific management report on all S.17 payments across the Directorate needed to be run and taken to the responsible officer on a regular basis. There was risk that payments not falling within S.17 may be coded to cost centres.</p> <p>We found significant payments made to a company providing short-term accommodation for families assessed as having 'no recourse to public funds'. It was not clear how this company was sourced to meet the Council's procurement procedures. Corporate Director's Approval was completed to approve the waiver of procurement procedures for 2010/11, however the actual expenditure exceeded the approved amount significantly. For 2011/12, approval was not obtained to use this company for accommodation.</p> <p>The policy on the use of S.17 was established in January 2011. However, we found a few examples of non-compliance with the policy.</p> <p>Payments made by cash should only occur in exceptional circumstances, but this type of payments appeared to be frequently used. Payments were also made outside R2P by using AP Vouchers. Recurring payments were made to the same creditor for long period of time without a review process.</p> <p>All findings and recommendations were agreed with the Acting Service Head – Children's Social Care and final report was issued to the Acting Corporate Director – CSF.</p>	Moderate	Limited

Management Comments

All cost centres are scrutinised by the relevant Service Manager at a minimum within the CMBM reporting framework. CMBM reports are approved by the Service Head and reported at DMT. Service Managers and the relevant Finance Officers report detailed spend against cost centres to the Service Head at quarterly Financial Review Meetings. Whilst this provides a high level of monitoring it has now been agreed, following this audit, that a quarterly report specifically on Section 17 spend in all cost centres will be provided to the Service Head, which will provide an additional level of scrutiny. This is to commence from November '11. Following identification of the possible overuse of miscellaneous coding for Section 17 cost centres a scrutiny of the use of miscellaneous coding is currently underway, with a view to ceasing use of this code. This needs to be approached with caution, to avoid a possible consequence of an alternative code being used inappropriately.

As the Auditors were advised, the company providing short-term accommodation was sourced by the No Recourse to Public Funds worker within the Private Fostering Team. This was undertaken in order to stop families being housed in a range of often unsuitable accommodation. Enquiries have been made of the relevant local authority where the properties are situated and that local authority has given a positive response to this company. An SLA has now been drawn up as have licence agreements and are with our legal department for approval. It is acknowledged that an additional Director's Waiver should have been drawn up for 10/11 and this was an oversight. This is now being rectified and a new Director's Waiver is being drawn up for this current year. Timescale 30.11.11.

It is accepted that the Section 17 policy requires review, given its status as a new policy and this audit provides an opportune time to do that. An anomaly was identified during the audit whereby the policy excludes the use of Section 17 for bed and breakfast when in fact it is permissible and indeed necessary on occasion to use Section 17 for this purpose. This and other examples of non-compliance are being addressed within the review of the policy, with a timescale of 30.11.11. Leaving aside the anomaly in the policy as noted above the description of spend accords with the potential use of section 17 under the Children Act 1989 (which is extremely broad). The use of section 17 payments has declined considerably over the past year, due to determined and judicious application by managers and this explains the high proportion spent on families with no recourse to public funds, where there is a duty to support under certain circumstances, compared to other clients where there is more discretion.

It is accepted that R2P is the preferred method of payment for council spend. The use of R2P has risen over the past year and as noted by the auditors the use of AP vouchers has fallen. It is anticipated that this trend will continue, however given our client base cash and AP1 vouchers will continue to be required. The specific payment to one creditor is being investigated

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stebon Primary School	Aug. 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Governing Body has not approved a Terms of Reference for the Standards Committee. Furthermore the Personnel and Pay Committee had not met since 14/11/09 and the Standards Committee formed by the Governing Body in autumn 2009 have not had a meeting as of yet. • The minutes produced for the following meetings were not signed by the respective chair: 18/3/10 Governing Body meeting; 10/12/09 Governing Body meeting; 18/1/10 Finance and Premises Committee meeting; 14/11/09 Personnel and Pay Committee meeting. This was as a result of the Committee not meeting since then. • The school does not have up to date business declaration forms from four governors from two budget holders. • Although the bank mandate dating back to 09/10/2002 contained existing signatories, the school had not obtained confirmation that mandate changes requested by the school in December 2009 had been changed. The school was unable to provide a recent mandate. • There was no evidence that alternative written quotations had been obtained for the school's photocopying contract. The existing contract was formed on the 1st June 2010 and has a total value over its 5 year contract period of £12,148. • Whilst the Head Teacher maintains a list of staff with up to date salaries, regular spot checks are not undertaken to ensure payments on payroll reports reconcile with those on signed salary assessment forms. There were control weaknesses on schools funds, school journeys and inventory <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Management Comments

The Children, Schools and Families (CSF) Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by CSF schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by CSF Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities. .

Comments:

The school have acted immediately and agreed to complete all actions with a defined timeframe.

The school and the governing body are fully commit to the recommendations made in the Audit report by:

- by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate
- confirming additional steps that the school are planning to take in light of the audit findings
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Climate change</p> <p>Follow Up audit</p>	<p>Oct. 2011</p>	<p>This audit was a follow up review of a systems audit on Management of Climate Change finalised in September 2010. There were a total of eight recommendations in the original report, out of which seven were categorised as Priority 1 recommendations. Our follow-up review showed that good progress had been made in implementing some of the key corporate recommendations. However, 3 of the original priority 1 recommendations were not implemented in full.</p> <p>We reported that the Climate Change Strategy for the Council needed to be approved by the Mayor and his Cabinet as soon as possible.</p> <p>An official Carbon Reduction Impact Assessment guide needed to be developed and finalised to ensure that all new funding applications and capital schemes reported to the Cabinet for approval consider and maximise the potential to reduce the carbon footprint.</p> <p>Carbon reduction risk which includes CRC is currently monitored as D&R risk. However, team and service planning guidance needed to be issued to include carbon reduction and CRC risk to be included in all Directorate plans as this is cross cutting issue.</p> <p>All findings and recommendations were agreed with the Acting Corporate Director – Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p>

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Property Buy Back programme	Sept. 2011	<p>This audit examined the Housing Property Buyback scheme. This audit was undertaken as part of 2010/11 audit plan, but it was finalised in Sept. 2011.</p> <p>Although a two year capital programme, the scheme was completed in one financial year. The capital estimate amounting to £19.4M was approved by Cabinet on 6th May 2009 who authorised officers to commence preparatory work. The programme involved the buy back of larger 3 and 4 bedroom dwellings previously sold under right to buy scheme. Weekly progress reports and costs of the programme were regularly provided to management and the Lead Member.</p> <p>An interim Valuer carried out valuations, including - making initial offers, negotiating the offers, revising offers and agreeing the final price. We were advised that the Valuer was appropriately qualified and was best placed to negotiate own valuations using professional judgment.</p> <p>We have recommended that a post completion review be undertaken to ensure that lessons learnt are clearly recorded and reported to the DMT.</p> <p>All findings and recommendations were agreed with the then Service Head , Asset Management and final report was issued to Corporate Director, Development and Renewal</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Members' Enquiries	Sept. 2011	<p>The objective of this audit was to assure management that controls in place for managing members' enquiries within the Members' Support team are sound and secure. This audit only covered systems and procedures within Members' Support team. We were informed by the Service Head – Democratic Services that the processes for dealing with Members' Enquiries were subject to a fundamental review and hence we did not test systems and procedures within individual Directorates of the Council. We made three recommendations to assist in the service review:-</p> <ul style="list-style-type: none"> • In fundamentally reviewing the processes for dealing with Members' Enquires, the Service Head should consider key risks in the service area to ensure that the management of Members' Enquiries is efficient and effective across the Council. • In accordance with the current Policy and Protocols document, Members' Support team should have a clear system for undertaking random checks of responses received from Directorates. These checks should include the quality checking process. The findings of the random checks should be documented and reported to Directorates. • Since procedures for handling non-Council related enquiries are recognised in the Members' Enquiries Guide, such enquiries, once received should be logged and work flow managed to preserve an audit trail. It should also be ensured that responses to such enquiries are quality controlled and monitored. <p>All findings and recommendations were agreed with Service Head – Democratic Services. Final report was issued to Assistant Chief Executive (Legal Services).</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Medium Term Financial Plan</p> <p>Systems Audit</p>	<p>Oct. 2011</p>	<p>This audit was designed to provide assurance that the systems of control for formulating, reviewing and monitoring the Medium term financial plan (MTFP) were sound and secure.</p> <p>The MTFP is an important component of the Council's strategic planning framework. The Council's MTFP is a three year financial plan which is balanced over the three years in view of the financial settlements for the three years. Financial decisions have to be made within the context of the planning horizon which looks beyond the current financial year and the impact of the commitments and decisions made on the future level of Council Tax is factored into the planning process. For the period 2011/12 to 2014/15, achievement of financial savings is one the most important factors affecting the Council's MTFP.</p> <p>Our review showed that the MTFP is revised on an on-going basis in light of new financial information, Cabinet decisions and government announcements. A clear timetable for the overall budget setting process is in place. This includes the points in time when the MTFP should be reviewed and revised. The MTFP identifies key strategic risks and also financial mechanisms for funding those risks should they materialise. The MTFP is regularly reported to the Cabinet and the Overview and Scrutiny Committee.</p> <p>However, we found that the MTFP needed to be adequately referenced to ensure that a full audit trail of the figures contained within the MTFP was available. Our testing showed that the current MTFP did not incorporate the Council's three year Capital Strategy, Capital Programme and future levels of borrowing to ensure that the strategic priorities for capital investment and asset management are considered in the MTFP. We recommended that the resiliency of the planning process should be tested in a formalised way to ensure that lessons learnt are documented, reported and factored into future planning process.</p> <p>All findings and recommendations were agreed with the Chief Financial Strategy Officer and final report was issued to the Corporate Director, Resources and Service Head , Financial Services, Risk and Accountability.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Network Extended Follow up	June 2011	<p>The objective of this audit was to undertake an extended follow up report of the report previously completed as part of the 2009/10 Internal Audit Plan with regards to the Council's Network Infrastructure.</p> <p>Our audit identified that of the 23 recommendations raised, eight were found to be implemented, six were partially implemented and five recommendations were not implemented. We also identified that four recommendations were no longer applicable.</p> <p>Recommendations still requiring implementation related to:</p> <ul style="list-style-type: none"> • Full Audit Logging for All Login events and Object Auditing was not set for auditing. • A process to monitor audit logs had not been developed. • The ability to restrict devices from connecting to the Tower Hamlets network had been partially implemented (Network Access Protection/Network Admission Control). • Monthly Security Patch activity reports had been partially implemented. • Standard devices configurations for Network devices e.g. routers had been partially implemented. • Information Classification Scheme had been partly implemented • The implementation of a Intruder Detection System (IDS) had been partly implemented <p>The recommendations were agreed with the Business Support Manager and the Final Report was issued to the IT Security Manager, Business Support Manager, Head of ICT and the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Change Management	March 2011	<p>The objective of this audit was to undertake a follow up of the report previously completed as part of the 2009/10 Internal Audit Plan.</p> <p>Our audit identified that of the seven recommendations raised, one was found to be implemented, four were found to be partly implemented and two required implementation.</p> <p>Recommendations still requiring implementation related to the need to develop a standard pro-forma for changes to all systems, a post change review to be carried out, all changes to have their evidence of approval recorded on the change, the need to update processes to include testing and review standards. The remaining recommendation was the need to develop Configuration Management and forward disposal of assets to the Asset Management team.</p> <p>All recommendations were accepted by management who identified forward actions for the implementation of recommendations except one regarding testing standards where management have accepted the risk.</p> <p>The recommendations were agreed with the Business Support Manager and the Final Report was issued to the IT Security Manager, Business Support Manager, Head of ICT and the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Service Desk	March 2011	<p>The objective of this audit was to undertake a follow up of the report previously completed as part of the 2009/10 Internal Audit Plan.</p> <p>Our audit identified that of the nine recommendations raised, six was found to be implemented and three were found to be partly implemented.</p> <p>Recommendations partially implemented related to the need to establish Service Level Agreements with the relevant departments to which the Service Desk provides service to, performance of the trend analysis to identify performance issues and to review all steps until the call has been closed.</p> <p>Management is continuing to implement the recommendations and some have been included for consideration in the future sourcing of ICT.</p> <p>The recommendations were agreed with the Business Support Manager and the Final Report was issued to the IT Security Manager, Business Support Manager, Head of ICT and the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Systems Audit	Nov. 2011	<p>The objective of the Payroll system is to ensure that the correct salaries and other monies due are paid to the correct employees promptly, and in accordance with Council policies and procedures. The Payroll Section is responsible for making payments to individuals employed by the Council. From our review, there was substantial assurance that systems objectives were met.</p> <p>However, during our testing, we found that out of a sample of 20 leavers, 'leavers form' and 'notification of cessation of employment' documents were in file for 16 cases, with no evidence of the completed forms being available in the four other cases.</p> <p>In relation to control around change of bank account details, there was an instance where the Payroll Section did not obtain formal notification directly from the employee requesting the change before amending bank details on the system.</p> <p>We have also reported that the Payroll Section has not set any key performance indicators to assess the efficiency and effectiveness of the service provided.</p> <p>All findings and recommendations were agreed with the Service Head – Human Resources and Workforce Development and final report will be issued to the Corporate Director Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contractors' Final Accounts - CSF Systems Audit	Sept. 2011	<p>This audit sought to provide assurance that there were adequate systems in place for auditing contractors' final accounts. The function of auditing of Final Accounts has been devolved to individual Directorates. Upon the devolution of this function, guidance notes were prepared for Directorates to follow in ensuring that Final Accounts were audited in accordance with the then Council Financial Regulations. However, the current version of the Financial Regulations does not contain such requirement and we have recommended that the Council's procedures should require the Final Accounts to be formally checked and audited independently.</p> <p>Our review showed that a database was maintained by the Building and Technical Services (BATS) team, which recorded all key contractual dates for current and past projects. This allowed officers to identify key dates in order to assess compliance with the contract conditions.</p> <p>However, although Final Accounts had been produced by the Contract Administrator or Quantity Surveyor, they had not been independently checked and audited. Arithmetic checks were said to be carried out on the statement of Final Accounts, but these were done by officers who were involved with the project as either Contract Administrator or the Quantity Surveyor and had not been substantiated. BATS who act as an in-house technical resource within CS&F and has no role or responsibility for auditing of Final Accounts. However, in previous years, BATS engaged an Auditor to undertake the auditing of Final Accounts. Due to falling income and trading position, the section is unable to continue with this function. Hence, contractors' Final Accounts are not subject to independent audit and scrutiny, not only within CSF, but across the Council. We have recommended that the Asset and Capital Management Board should consider a policy on auditing of final accounts across all the Directorates of the Council.</p> <p>All findings and recommendations were agreed with the Head of School Development and final report was issued to Corporate Director, CSF and Service Heads Resources (CSF) and Service Head Financial Services, Risk and Accountability.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Independent Schools Fees Systems Audit	Sept. 2011	<p>The objective of this audit was to provide assurance that system of control for checking, verifying and paying fees for pupils' placements in independent special schools were sound and adequate.</p> <p>We found that on receipt of a fee letter from each school, a Requisition Record was completed that showed the supplier details, requisition number, order number, name of pupil and amount. Orders were raised on the R2P system and payments made were reconciled with the Council's General Ledger system.</p> <p>An examination of fee increase letters for 2011/12 showed that a few schools had decided not to increase fees or give reduction on 2010/11 fees. In other cases, schools had offered the Council further discussion of their proposed fee increases. However, we noted that these opportunities were not taken up. We have recommended that opportunities for using the Council's buying power and to negotiate lower fees should be explored. In addition some audit trails and filing needed to be improved.</p> <p>All recommendations were agreed with the Service Head - Learning and Achievement and Final report was issued to the Corporate Director, CSF.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Procurement of Goods, Services and Supplies above EU Threshold</p> <p>CLC</p>	Nov. 2011	<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 CLC 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, tender 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, where competitive quotes were not obtained, evidence of tender evaluation was not in place and order was not signed off by service head. We recommended that there should be system for monitoring compliance with procedures.</p> <p>All findings and recommendations were agreed with the Head of Finance and Resources and final report was issued to the Corporate Director – Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Civica Authority Public Protection (Formally Flare)	March 2011	<p>The objective of this audit was to undertake a follow up report of the report previously completed as part of the 2009/10 Internal Audit Plan with regards to the Authority Public Protection Application (formally called Flare).</p> <p>Our audit identified that of the three recommendations raised, one was found to be implemented, one is partially implemented and one recommendation was not implemented.</p> <p>Recommendations to be fully implemented related to the need to improve password controls and to review users. Both recommendations were not due to be implemented until November 2011 when a new release of the system is provided.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Business Continuity	March 2011	<p>The objective of this audit was to undertake a follow up report of the report previously completed as part of the 2009/10 Internal Audit Plan with regards to Business Continuity Planning</p> <p>Our audit identified that the one recommendation raised, one was found not to be fully implemented however this included the need to ensure that third party contact details were included in the Business Continuity Plans. We are now led to believe this recommendation is now in place.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Environmental Protection and Pollution Control Systems Audit	Oct. 2011	<p>The objective of this audit was to provide assurance that the Council's procedures for identification and assessment of installations, and the issuing of permits for specified polluting industrial processes at installations were being complied with.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Council closely follows official DEFRA guidance. All permit processes in place could clearly be traced back to DEFRA documents and the use of DEFRA "Best Available Techniques" was clearly evidenced throughout the assessment of new installations (polluting processes). • The main weaknesses were: <ul style="list-style-type: none"> - There were no pro-active processes in place to identify polluting activities within the borough. Currently the Council relies upon businesses contacting the Council themselves to obtain a permit or on members of the public complaining about pollution. - Testing identified that four out of 10 permits were not present on the public register. Furthermore, there were no instructions on the Council's website detailing the procedure to follow for members of the public to access the register. - Councils are allowed to produce their own permitting processes or they may choose to follow official DEFRA guidance. Currently the Council follows the official DEFRA guidance when processing permits; however these procedures have not been officially adopted. <p>The findings and recommendations were agreed with the Interim Head of Environment Health, Environment Protection and the final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Purchases of Provisions for Central Kitchen Follow Up audit	Sept. 2011	<p>This follow up audit assessed the progress made in implementing the recommendations agreed in a report finalised in October 2010.</p> <p>Our audit showed that out of four priority 2 recommendations, one was outstanding. This related to our recommendation the a supplier be requested to submit a product line report on those items that had been identified by us as overcharged so that officers could assess the level and frequency of overcharge across all production kitchens borough wide and instruct the supplier to refund this overcharge.</p> <p>We understand that although the supplier was requested to submit a product line report on all items that had been overcharged, paper work to support this could not be located at the time of audit. Hence we were unclear as to how much was recovered from the supplier. The Head of Contract Services undertook to ensure that a credit was received.</p> <p>All findings and recommendations were agreed with the Head of Contract Services and final report was issued to Service Head – Resources , and Corporate Director, CSF.</p>	Moderate	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Culloden Primary School	Oct. 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that controls were adequate in updating the Code of Practice and Scheme of Delegation; School Development Plan; control and monitoring of school bank accounts; procuring goods; accounting for income and expenditure; collecting and recording of income; personnel and payment management; inventory records; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The school does not complete authorised write-off forms for assets; instead the ICT Coordinator records these and disposes of them, informing the Executive Head Teacher of the situation. This responsibility is not delegated in the Code of Financial Practice. • Passwords to the school’s IT systems are not changed on a regular 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

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Globe Primary School	June 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that controls were adequate in updating the Code of Practice and Scheme of Delegation; School Development Plan; control and monitoring of school bank accounts; procuring goods; accounting for income and expenditure; collecting and recording of income; personnel and payment management; inventory records; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Whilst the school has a Code of Financial Practice, including delegated responsibilities and authorisation levels, and Terms of Reference for sub-committees, our examination of the minutes identified that the documents had not been approved by the Governors in the past 12 months. • Transfer of school trip money from the teacher (collecting monies from pupils) to the Office Manager is not being signed for by both parties. • Testing identified that school meal income is not reconciled against the total amount collected before the money is banked. • Testing identified that three out of nine purchases where delivery notes were required had not been checked and signed off by the receiving officer. <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

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Agnes' Catholic Primary School	Oct. 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The school currently has three separate five year photocopier contracts with a supplier. The values of the three individual contracts over their five year life are £6,400, £9,500 and £35,000 respectively. The school's cumulative value of photocopying contracts is £50,900. The school did not carry out a competitive tendering exercise required by their policy. Furthermore, we were unable to confirm whether the Governing Body had approved the contract award. • The Governing Body have not drawn up and approved a Terms of Reference for the Curriculum Committee. There were no business interests' declarations from three Governors and four staff budget holders at the school. • Review of the minutes identified that although the SDP and its priorities are regularly discussed, there was no evidence of annual approval of the SDP by the Governing Body. • Review of the July 2011 monthly reconciliation found that there was an unreconciled item from September 2010. The Bursar stated that this had been followed up, however no response has been received from the supplier. • There was no evidence of the school having performed a full inventory check within the last 12 months on all ICT and non ICT assets owned by the school. <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
Old Palace Primary School	Nov. 2011	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Review of the minutes for the Governing Body and sub committee meetings identified that the following documents had not been clearly minuted and approved by the appropriate body in the past twelve months: <ul style="list-style-type: none"> – Scheme of Delegation (by Governing Body); – Terms of Reference (by Governing Body); – Health and Safety Policy; – Performance Management Policy; – Charging Policy; and – Pay Policy. • Control of inventory required to be strengthened. There was no formal policy / procedure for the write-off of assets. Currently, the Head Teacher initials the disposal column in the paper inventory, as evidence that the item can be disposed of. • Whilst is acknowledged that cash held in the safe was due to be banked the following morning, at the time of our cash check, a total of £2,914.70 was held in the School safe against the maximum insurance limit of £1,000. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer
Management of Climate Change	An official Carbon Reduction Impact Assessment guide needs to be developed and finalised to ensure that all new capital schemes funding applications and Capital Schemes reported to the Cabinet for approval consider and maximise the potential to reduce the carbon footprint.	Jackie Odunoye	Abdul Khan

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

Audit Subject	Recommendation	Service Head	Officer
Management of Climate Change	The Climate Change Strategy for the Council needs to be approved by the Mayor and his Cabinet as soon as possible.	Jackie Odunoye	Abdul Khan
Management of Climate Change	A corporate guidance document on CRC risk should to be finalised to ensure that all directorate risk registers identify the risk of not achieving the carbon reduction commitment. It needs to be ensured that revised versions of the directorate service and business plans reflect carbon reduction as a key priority for the Council.	Jackie Odunoye	Abdul Khan
Purchases of Provisions for Central Kitchen	The Head of Contract Services should locate the paper work supporting the credit received from Brakes for all the overcharges made. This paper work should be submitted to audit for examination.	Kate Bingham	Michael Hales (Head of Contract Services).
Business Continuity Planning	Management should ensure that adequate third party arrangements are in place to support the Council in the event of an incident affecting either the Council or the third party contractor/supplier. These third parties, their contact details and the location of these arrangements should be documented within the Business Continuity plans and procedures and regularly reviewed and updated to help ensure that they continue to meet the needs of the Council.	Andy Bamber	Colin Perrins
CIVICA Authority Public Protection	Management should ensure that adequate logical access controls are implemented over the Civica APP application to lock users' accounts after 3 unsuccessful attempts and to implement a minimum length of 8 characters.	Andy Bamber	Ann Horwood
Authority Public Protection	Management should ensure that, on a periodic basis, user access reviews are performed for all users of the Civica APP application	Andy Bamber	Ann Horwood
Service Desk	Management should ensure that appropriate SLAs are defined and agreed with each business area for the performance of the	Claire Symonds	Khaled Hussein

	Service Desk		
Service Desk	Management should ensure that longer-term trend analysis is performed to identify performance issues and that the required corrective action is taken	Claire Symonds	Theo Langlais

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

Audit Subject	Recommendation	Service Head	Officer
Change Management	Management should define a single process for changes to individual applications, such as master data and application developments. The process should include areas such as user involvement, testing, training and system documentation as a minimum.	Claire Symonds	Manjit Saroya
Change Management	Management should ensure that change requests are reviewed and potential impact assessed by Security, Technical Architect and Applications Managers. The approval flags on change request forms should be used to indicate that this review has taken place and the change is approved as it has either no impact on the area or the impact has been assessed and approved for this area. Flags should only be left blank if the requested change is rejected	Claire Symonds	Craig Huckle,
Change Management	Management should implement configuration management tools to enhance configuration management knowledge within ICT and manage changes effectively	Claire Symonds	Craig Huckle,
Change Management	Requests to dispose of hardware should be forwarded to Asset Management to ensure that these assets are marked as disposed of in the Asset Register	Claire Symonds	Craig Huckle,
Network Follow up	As required by the documented ICT security policy (ver1.11), auditing logon events should be set to record “Details of all logon attempts, whether successful or not”.	Manjit Saroya	ICT Operations Manager
Network Follow up	The object access auditing by “Success and Failure” for specific objects. E.g. Reg Edit or should be enabled to meet the ICT security policy requirements.	Manjit Saroya	ICT Security Officer
Network Follow up	A process or tool to facilitate regular audit log review and alerts should be established.	Manjit Saroya	ICT Operations Manager

Audit Subject	Recommendation	Service Head	Officer
Network Follow up	An appropriate event log size and use of a process or tool that facilitates the regular monitoring and review of the audit and event logs before they are overwritten should be established.	Manjit Saroya	ICT Operations Manager
Network Follow up	<p>The insecurities identified in the audit tests should be addressed as a matter of priority.</p> <p>Consideration should also be given to establishing an effective solution to prevent and monitor objects for insecure access permissions.</p>	Manjit Saroya	<p>ICT Operations Manager</p> <p>Information Governance Manager</p>

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Agenda Item 5.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	12th December 2012	Unrestricted		5.2
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Head of Risk Management and Audit		Revised Internal Audit Plan for 2011/12 Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority and the resources available to perform audit work.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to endorse the revised 2011/12 internal audit plan attached at Appendix 2.

3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2011. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology, Audit Strategy and Internal Audit Terms of Reference are attached at Appendix 3.
- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:
- 1 Requests from officers to perform audits that were not originally planned;
 - Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
 - 1 Requests from Chief Officers to defer audits due to service restructuring and/or changes made to existing systems and the need to allow a period of bedding in;
 - 1 Make use of days provided in the original plan that had not been allocated to specific audits;
 - 1 To avoid duplication of work with either the external auditor or other assurance provider; and
 - 1 Additional commitment to unplanned work.
 - Long term sickness within the Audit team.

4. Updated Internal Audit Plan for 2011/12

- 4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Appendix 2 shows the updated internal audit plan following the changes and provides for provision of unallocated days which could be used for specific audits at the request of Directorates, thus retaining some flexibility in the plan. The summary below shows how the plan has changed.

Number of days originally planned	1,488
Plus: Additional audits added to the plan (Please refer to Appendix 1)	234
Less: Use of previously Unallocated days to specific audits	165
Less: Audits to be considered as part of 2012/13 Audit Plan (Please refer to Appendix 1)	69
Number of days per the amended plan	1,488

5. Comments of the Chief Financial Officer

- 5.1 Any financial implications arising from this report are contained within the body of the report.

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

- 6.1. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

7. One Tower Hamlets Considerations

- 7.1 Each audit activity within the revised audit plan provides a link with the Council's corporate and strategic plan priorities including that of One Tower Hamlets.

8. Anti-Poverty Considerations

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

9. Risk Management Implications

9.1. The revised audit plan should pick up some of the key areas of risk exposure to the Council and audit reviews of these areas should provide a source of assurance to those charged with governance.

9.2.

10. Sustainable Action for a Greener Environment (SAGE)

10.1 There are no specific SAGE implications.

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

Brief description of "background papers"

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

Minesh Jani, 0207 364 0738

A Summary of Changes to the Internal Audit Plan – 2011/12

Auditable Area	Directorate	No. of days
Audits Added / Amendments to the Original Plan		
Health and Safety Governance	CLC	10
Overtime	CLC	12
Case Management	CLC	15
Grant Certification audits	CLC	10
Life Long Learning and Skills Funding Agency (increase in scope)	CLC	5
Cash Incentive Scheme (additional testing)	D&R	6
Contract Management	AHW	15
Bank Reconciliation (additional testing)	RES	5
S.17 Payments	CFS	5
Staff hospitality and gifts (increased level of testing)	Corporate	2
HR Self service (increased level of testing)	Corporate	6
Staff Recruitment (brought forward from last year)	Corporate	15
Management of Efficiency Programme	Corporate	15
Agency Staff (for Audit Committee)	Corporate	10
Asset Registers at Schools	CSF	15
Procurement – Analysis of trend and category management	CSF	20
Core Assessment	CSF	15
Review of the CLC organisational structure	CLC	15
Contract Review - GLL	CLC	15
Assistance and Advice – Corporate Governance	Corporate	23
Service Charges	D&R	13
Sub Total		247
Audits to be considered as part of 2012/13 Audit Plan		
Localisation	CLC	10
Trading Standards	CLC	10
Victoria Park	CLC	8
Freedom of Information Act	ACE	10
Accommodation for Homeless	D&R	11
Commissioning of Home Care	AHW	10
Commissioning of Older People services	AHW	10

Sub Total		69
Use of Unallocated days	Resources	65
Management Requests	Corporate	113
Sub Total		247

London Borough of Tower Hamlets 2011/12 Internal Audit Plan

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	Audit Days	Pages
Corporate systems and Council-wide reviews	163	2-4
Chief Executives'	10	5
Children, Schools and Families	170	6-7
Communities, Localities & Culture	107	8-9
Tower Hamlets Homes	131	10-11
Development & Renewal	71	12-13
Adult, Health and Wellbeing	75	14-15
Resources & core financial systems	200	16-18
Information technology audits	91	19
Building contract management	50	19
Value for money	95	19
Follow up, management and reactive fraud provision	405	21
Total Provision	1,488	-

INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Control and Monitoring of Hospitality and Gifts	This audit will provide assurance that Council has sound policy and procedures for staff hospitality and gifts and that the policy and procedures are complied with in practice across the organisation.	H	11	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Asset Management and Disposal	This audit will examine systems for managing the assets of the Council to ensure that its strategic objectives and priorities are achieved including arrangements for controlling and accounting for disposal of assets.	H	10	Directorate Risk Register DR0005 & DR0006	One Tower Hamlets Working efficiently and effectively as One Council
HR Improvement – Self Service and Claims	The Council requires the submission of overtime claims and the reimbursement of travel expenses and subsistence through HR Self Service system. The review will examine the controls for the submission, approval and payment of such claims.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Transformation Projects	This review will provide assurance that adequate controls are in place to manage and monitor the delivery of transformation projects across the Council.	H	15	Strategic Risk Register PPM0003	One Tower Hamlets Working efficiently and effectively as One Council
Construction Professional Services Framework contract	This audit will provide assurance around the use and control of the framework contract for commissioning professional services such as Quantity Surveying.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Agency Staff and Consultants	To review systems for procuring and controlling agency staff and consultants	H	10	Audit Committee	One Tower Hamlets Working efficiently and effectively as One Council
Fees and Charges	To provide assurance that Council has a clear policy on levying fees and charges for services it provides to external customers across the Council and that fees and charges are annually reviewed and correctly charged to customers in accordance with Financial Regulations.	H	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
CRB Checks	The audit will focus on the Council's arrangements for managing and controlling the CRB checks ensuring that the legislative requirements and good practice standards are complied with.	H	9	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Central Purchasing Contracts	This audit will review systems for managing and monitoring contracts procured by the Central Purchasing unit.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Performance Management	The objective of this audit is to provide assurance over the Council's systems for managing and monitoring performance of its key services to ensure that the delivery of the strategic priorities of the Council are managed and monitored effectively	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>					
Corporate Governance	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Asbestos and Water Installations	To provide assurance that the Council has sound arrangements for asbestos control and for management of legionella within the administrative and direct service s buildings.	H	8	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Programme	To review systems and controls for managing the Council's efficiency savings and programmes	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Staff Recruitment	To review systems for managing staff recruitment	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
RIPA Compliance	The Regulation of Investigatory Powers Act 2000 came into force on 2 nd October 2000. It places a requirement to authorise certain types of covert surveillance during planned investigations. The review will examine the Councils compliance with RIPA and guidance issued under the Act.	H	5	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Chief Executive's</u>					
Consultancy and Advice – Council wide	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year. Example of this include work around future sourcing, commissioning systems	-	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council
Members Enquiries	The objective of this audit is to provide assurance that systems and procedures for dealing with and managing and monitoring enquiries raised by elected members of the Council are sound and secure	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

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

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INTERNAL AUDIT PLAN – 2011/12

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

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Case Management of Prosecution Cases for Trading Standards, Food Safety and Licences	The review will examine systems for managing prosecution cases for the three services.	H	15	Management Request	<p>A Healthy Community.</p> <p>Reduce differences in people's health and promote healthy lifestyles</p>
Management of Anti Social Behaviour	The scope of this review will include the system for managing and enforcing Anti-Social Behaviour Orders	H	8	Audit needs analysis	<p>A Healthy Community.</p> <p>Reduce differences in people's health and promote healthy lifestyles</p>
Life Long Learning	This audit will review the Council's arrangements for Adult Education to ensure that systems and controls are sound and adequate and in accordance with statutory requirements.	M	13	Audit needs analysis	<p>A Prosperous Community</p> <p>Support lifelong learning opportunities for all.</p>
Vehicle Removal – Contract Management	The scope of the review will include the control of the vehicle removal contract to ensure contract control and management arrangements are sound and secure.	M	10	Audit needs analysis	<p>A Great Place to Live</p> <p>Improve the environment and tackle climate change</p>

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Overtime	To review systems for claiming and approving overtime.	H	12	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Control & Monitoring of PCN Income	Penalty charge notices generate a substantial level of income. We plan to perform a review in this area with particular emphasis on how the Council collects and accounts for the income.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Parking Appeals	This audit will provide assurance that systems for processing parking appeals are sound and secure.	M	9	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Grant Certification	To review and check 2 grants claims	H	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Waste Management Strategy	The review will examine the Waste Strategy Procurement Project and evaluate the systems of control to ensure that the project is being delivered on time and within budget	H	10	Strategic Risk Register CLB0001	A Great Place to Live Improve the environment and tackle climate change
Health and Safety - Governance	To review the governance arrangements for Health and Safety across the Council.	M	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Management of TMO's	This review will examine arrangements for controlling and monitoring TMOs.	H	25	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Housing Repairs	This audit will examine systems for managing and controlling repairs to housing dwellings managed by THH. Arrangements for monitoring the performance of the repairs contractors will also be reviewed.	M	13	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Financial Systems	This audit will review the key financial systems as part of the annual assurance over the soundness of financial control across THH.	H	12	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Budgetary Control	Systems for planning controlling and monitoring budgets will be examined in this audit.	H	5	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Risk Management	This audit will review the ALMO's risk management arrangements and the embedding of this in service planning. We will take account of the findings arising from the Audit Commissions inspection undertaken in November 2010.	H	7	THH Risk register THH010028 and Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Voids Management	This review will seek to provide assurance on the arrangements in place for managing void dwellings managed by THH	H	12	Audit Needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Plan for continuous Improvement	To assess progress of the THH Plan for continuous improvement following Audit Commission inspection.	H	5	Management Request	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Building Contracts Audits	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control	H	18	Audit Needs analysis and Risk Register THH010009	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	18	Audit Needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Reactive work required by management for Finance and Audit Committee		H	16		A Great Place to Live Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Overcrowding Strategy	The review will focus on the planning, management, control and monitoring of the Council's Overcrowding strategy to ensure that key objectives and priorities are achieved	H	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Community Building Portfolio Management	The objective is to provide assurance over the management and control in relation to the Council's Community Building Portfolio.	H	9	Directorate Risk register DR0001	One Tower Hamlets Working efficiently and effectively as One Council
Homelessness Assessment	The audit will review the Council's arrangements for assessing homelessness in line with statute	M	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Cash Incentives	To review systems and controls for applying, processing and paying cash incentives to council tenants.	M	12	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Management of FM Contracts	This audit will examine systems for managing and monitoring facilities management contracts.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
BSF – Current & Post Contracts	Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme	H	15	Audit needs analysis	A Prosperous Community

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Service Charges	<p>to provide assurance that cost and programme controls are adequate during the currency of the contract.</p> <p>Post contract audits will be carried out on completed sample schools to provide assurance that objectives of the building programme have been achieved, final accounts audited and lessons learnt are factored into the future development work.</p> <p>The purpose of this audit is to review management arrangements to levy, monitor and recover service charges due to the authority.</p>	H	13	Audit needs analysis	<p>Support lifelong learning opportunities for all.</p> <p>One Tower Hamlets Working efficiently and effectively as One Council</p>

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Income Control	To provide assurance that the assessed charges for social care services are levied and recovered in accordance with procedures.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Personal Budgets/Direct Payments	Through the Personalisation Agenda, direct payments made to clients for their care provisions will increase. This audit will review the arrangements for managing and controlling this area.	H	15	Strategic Risk Register AH0019 & Directorate Risk Register AHW0020001	A Safe and Supportive Community Empower Older and Vulnerable People
Contract Management and Monitoring	To review systems for managing and monitoring a sample of commissioning contracts.	H	15	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People
Court of Protection (Receivership)	This audit will review systems and controls for those individuals who are subject to Court of Protection.	H	10	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People

INTERNAL AUDIT PLAN – 2011/12

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

INTERNAL AUDIT PLAN – 2011/12

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

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INTERNAL AUDIT PLAN – 2011/12

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

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Grant Claim - Teachers Pensions Return	and effectiveness This is an annual audit which will examine the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	M	7	Audit Commission requirement	One Tower Hamlets Working efficiently and effectively as One Council
Establishment Control – Follow UP	To follow up implementation of recommendations from the full audit agreed last year	M	8	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology Audits</u>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan has been put in place based on the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	-	91	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.
<u>Contract Audit Reviews</u>					
	These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations.	H	50	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Energy Management	To review Council's arrangements for energy management to ensure that energy is used efficiently and effectively.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Asset Registers at Schools (CSF)	Internal audit have identified control weaknesses in the records of inventory at schools. This audit will review arrangements at a sample of schools and develop best practice.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Procurement – Analysis of trend spend and category management	This audit will be carried with support from the school support team, and will entail an examination of nursery	H	20	Management Request	One Tower Hamlets Working efficiently and

INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
(CSF)	and secondary school expenditure to better understand the spend pattern. It is envisaged this information will be extrapolated to assist the schools deliver better value for money.				effectively as One Council
Core Management (CSF)	The purpose of this audit is to review the arrangements in place within CSF to assess the robustness of key controls.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Departmental Review of Communities, Localities and Culture	This audit was requested by the Ass. Chief Executive and entails a review of CLC's governance arrangements.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Contract Review – GLL	This audit was requested by the Ass. Chief Executive and entails a review of GLL's arrangements to respond to its contract with the Council and in particular, its assessment of profit sharing arrangements.	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

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INTERNAL AUDIT PLAN – 2011/12

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Other</u>					
Management Requests	A provision for servicing various management requests for advice and other systems development work.		42		One Tower Hamlets Working efficiently and effectively as One.
Follow Ups	Follow-up of reviews carried out in 10/11 to ensure implementation of audit recommendations		120		One Tower Hamlets Working efficiently and effectively as One.
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud		100		One Tower Hamlets Working efficiently and effectively as One.
Management time	This is a provision for management time required to direct, control and monitor the work of the audit team.		50		One Tower Hamlets Working efficiently and effectively as One.

Governance-based Audit Assessment Methodology

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.

Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

B CORPORATE SENSITIVITY This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	Or	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	Or	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

Internal Audit Risk Assessment Matrices

C INHERENT RISK This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Strategy

Introduction

What is Internal Audit?

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

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

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

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

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

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

Why do we need an Internal Audit Strategy?

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

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

- 1 on an annual basis, the provision to the S151 officer of an overall opinion on the Authority’s risk management, control and governance, to support the preparation of the Statement of Internal Control;
- 1 audit of the Authority’ risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority’s objectives and risks;

- 1 improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- 1 the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- 1 effective co-operation with external auditors and other review bodies functioning in the Authority; and
- 1 provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

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

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

Strategic Aims

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

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

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Internal Audit & Risk Management

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use

the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

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

Identifying Audit Coverage

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

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

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

For each auditable system, Internal Audit will classify the systems into one of three risk bands according to the system’s significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority.

Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also been included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

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Delivering the Strategy

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

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

Audit Reporting

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

Quality

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

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

The Internal Audit Process

The Pre-Audit Stage

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

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

During the Audit

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

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

Post Audit Stage

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

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

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

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

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

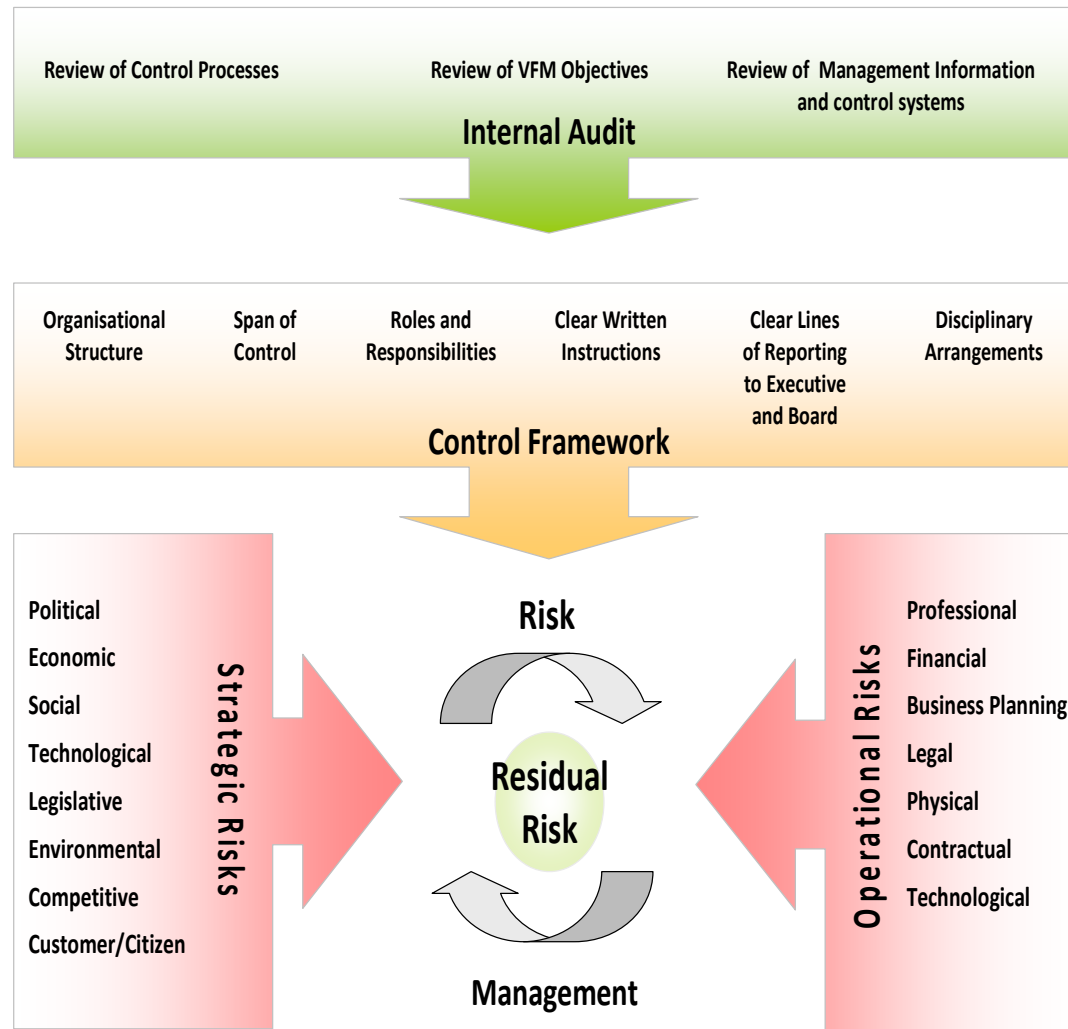
The Monitoring Process

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

Internal Audit recommendations are classified as follows:

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

Summary



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

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

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

Appendix 3: Risk Management Framework

Definitions

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

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

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

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

Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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

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

Classification of Risk

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

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Agenda Item 5.3

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	12 December 2011	Unrestricted		5.3
REPORT OF: Corporate Director, Resources	Progress on National Fraud Initiative 2010-11 and Anti Fraud Update			
ORIGINATING OFFICER(S): <i>Tony Qayum, Corporate Fraud Manager</i>				

1. SUMMARY

- 1.1 This report updates the Audit Committee of the current progress of the National Fraud Initiative 2010-11 and provides an overview of anti fraud work undertaken during the past six months by Audit Services.

2. RECOMMENDATIONS

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

3. INTRODUCTION

- 3.1 This report updates the Committee of the current progress of the National Fraud Initiative 2010-11 and provides an overview of anti fraud work undertaken during the past six months by Audit Services and the Corporate Anti Fraud Team.

4. NATIONAL FRAUD INITIATIVE 2010-11

4.1 The National Fraud Initiative (NFI) 2010-11 was launched by the Audit Commission in February 2011 and spans a two year period from February 2011 to February 2013. The NFI data was supplied to the Audit Commission in October 2010 with the resultant output reports being issued to the Council in February 2011. The coverage of this year's NFI was extended to include new mandatory data sets with the objectives of identifying fraud or error on the following key areas :-

- Benefits fraud (Housing and Council Tax)
- Employee fraud (employees with Border Agency issues and rights to work and employees failing to declare other employment which may have a conflict)
- Pension fraud/overpayments to deceased pensioners
- In appropriate Right - to - Buy
- Illegal tenancies and temporary accommodation
- Multiple insurance claims
- Creditors address book
- Potential duplicate payments
- In-appropriate issue/abuse of parking permits, blue badge or freedom passes

4.2 For the current NFI, this Authority has received 15,046 matches to date from the Audit Commission for examination/investigation.

4.3 In acknowledgement by the Audit Commission that all outputs may not be always be fraud or error, the Commission has developed its own risk assessment for each output report and formulated a recommended filter to be applied to the output identifying the cases mostly likely to be of concern. The application of the recommended filter has reduced the circa **15,046 output to 3,130.**

4.4 The timetable for completion of the NFI exercise is outlined below:

- 30th May 2011 - All recommended filter matches to be open and reviewed.
- 30th September 2011 – Some matches to have been investigated with some prosecutions and outcomes recorded on the NFI system.
- 31st January 2012 – All selected matches to have been investigated and outcomes recorded on NFI system.

- 29th February 2012 final position statement and all work up to date.
- 4.5 The attached Appendix A shows the Authority is making in the process of opening and reviewing all recommended filter matches and to date a significant volume of savings and frauds have been identified.
- 4.6 A number of the recommended matches yet to be sifted require the Department of Work and Pensions to consider the impact of the potential undeclared circumstances on their claim before the Authority can determine any fraud or error on theirs.
- 4.7 Any prosecution outcomes are likely to be realised only in several month's time due to the time taken to process cases through the court system. The Department of Work and Pensions Investigation Service are working closely with the Authority on this exercise, and it is expected that some prosecutions will be routed through the DWP solicitor's branch.
- 4.8 So far, the NFI 2010-11 exercise has identified 324 cases of error and 30 cases of fraud which account for overpayments/savings totalling £151,505.97.
- 4.9 In early 2012 a second NFI run will be carried out matching Single Person's Discounts to the Electoral Roll. This will result in additional matches being released to the Authority.

5. AUDIT COMMISSION EXAMINATION

- 5.1 The Audit Commission are able to view the progress of each authority in managing the NFI as the Commission have remote access to all sites via a web link. In August and September of this year site visits were undertaken on a number of Local Authorities to evaluate progress and resolve any queries. At this point due to the re-organisational of Risk Management, Tower Hamlets had fallen behind with the timetable, due to primarily to a short skills deficit following the retirement of the previous NFI Key Contact and Co coordinator.
- 5.2 However, following the visit, the advice given has enabled the authority to get the exercise back onto schedule.
- 5.3 It is anticipated that the deadlines for completing the exercise, as identified above, will be met and in order to achieve this a short term specialist support is being acquired to ensure that both targets are met and that there is an appropriate skills transfer to the new post holder who will act as the Councils Key contact for the NFI.

6. CREATION OF A CORPORATE FRAUD TEAM

- 6.1 Following departmental responses to the budget saving exercise for 2011-12 a number of organisational changes were introduced within the Risk Management Service to ensure the budget challenges could be met.
- 6.2 For the Anti Fraud services the favoured approach was to create a Corporate Fraud Team that took the existing Anti Fraud and Corporate Governance team, Housing Benefit Investigations team and the Blue Badge Fraud team and merged them under a single Service head responsible for Risk Management.
- 6.3 The Corporate Fraud team came into being in July of this year and it is intended develop the service to ensure the Council can achieve optimum value from the merger ensuring risks of fraud and impropriety are minimized and opportunities for working collectively are achieved.
- 6.4 The former Head of Audit Service is responsible for this service and has been re titled the Corporate Fraud Manager.
- 6.5 It is intended to provide regular reports to CMT and the Committee on the development of the Corporate Team and its evidence of added value to the governance of the authority.

7. OTHER KEY ACTIVITIES UNDERTAKEN DURING THE YEAR TO DATE

- 7.1 Audit Services is working with the Adult Health and Well Being Directorate on several potential cases of abuse of Personal Budgets as well as two reviews on the adequacy of arrangements in place with two separate care providers.
- 7.2 We have worked closely with other agents within the Council on these matters most notably Legal Services and it is anticipated that there will be a significant improvement to the assurance framework.
- 7.3 We have also worked jointly with the DWP, Legal Services and Adult Health and Wellbeing on a case regarding the under declaration of Capital in a residential care case.

- 7.4 The authority is acting as the prosecution authority in the matter and evidence has been gathered from the DWP, Housing Benefits and the Adults contributions section in order to bring the matter to trial, which will take place in December.
- 7.5 We have continued to work closely with Tower Hamlets Homes and the Council's registered Housing Partners on the matter of illegal sub letting. We have taken a holistic approach to doing this and have reviewed systems and procedures where appropriate to offer enhanced controls to minimise future abuse as well as seeking to recover assets and again where appropriate prosecute tenants who have met the standard of evidence to be pursued through the Fraud Act.
- 7.6 To date we have recovered 62 properties and one case is with Legal Services for prosecution under the Fraud Act.
- 7.7 The Corporate Fraud team has continued to work closely with the DWP on joint working for Prosecutions and we have had an increase this year on the number cases taken to Court through our own Legal Service.
- 7.8 We have also provided support to Directorates upon request.
- 7.9 This has included the review of controls and governance for a significant service within Children's Services and the implementation requirements of the new national Blue Badge scheme which comes in to effect from early next year.
- 7.10 We have also continued to develop closer working arrangements with the Parking Service and Legal Services with regard to Blue Badge irregularity and worked corporately where instances of Blue Badge irregularity have involved members of staff.
- 7.11 We have sought an independent review of the Council's arrangements for the prevention and detection of Fraud and Impropriety via an analytical review by the Head of Counter Fraud Services at the Audit Commission. The Committee will recall that the resultant positive report was brought to it in September 2011. This review took forward the requirements of the CIPFA Red Book 2 publication 'Managing the Risk of Fraud'.
- 7.12 The Corporate Fraud Manager is leading on the response to the Audit Commission's review on the areas considered worthy of improvement.
- 7.13 We have continued to provide training and development to directorates and have given training sessions to staff with the

Council's Lettings Service on Fraud and Corruption issues and have further training planned for later in the year.

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

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 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to 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 :

N/A

Tony Qayum, 0207 364 4773

APPENDIX A

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NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

10-Nov-2011

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
2 High	Housing Benefit Claimants to Student Loans, high quality, between bodies	184	301	Opened	43	135	1	0	£10234.29
4 Medium	Housing Benefit Claimants to Student Loans, medium quality, between bodies	6	8	Opened	4	4	0	0	£0.00
13 High	Housing Benefit Claimants to Payroll, high quality, within bodies	13	619	Opened	22	3	4	0	£8032.85
13.1 High	Housing Benefit Claimants to Pensions, high quality, within bodies	7	365	Opened	7	2	0	0	£0.00
14 High	Housing Benefit Claimants to Payroll, high quality, between bodies	25	188	Opened	15	5	1	0	£13704.57
14.1 High	Housing Benefit Claimants to Pensions, high quality, between bodies	33	725	Opened	29	15	0	1	£129.53
15 Medium	Housing Benefit Claimants to Payroll, medium quality, within bodies	0	5	Opened	5	0	0	0	£0.00
16 Medium	Housing Benefit Claimants to Payroll, medium quality, between bodies	1	2	Opened	2	0	0	0	£0.00
16.1 Medium	Housing Benefit Claimants to Pensions, medium quality, between bodies	0	3	Opened	1	2	0	0	£0.00
17 Low	Housing Benefit Claimants to Payroll, address quality, within bodies	363	1168	Opened	137	75	17	1	£93206.45
17.1 Low	Housing Benefit Claimants to Pensions, address quality, within bodies	21	73	Opened	26	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

10-Nov-2011

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
18 Low	Housing Benefit Claimants to Payroll, address quality, between bodies	375	906	Opened	98	59	0	0	£0.00
18.1 Low	Housing Benefit Claimants to Pensions, address quality, between bodies	47	120	Opened	6	0	0	0	£0.00
21 Medium	Housing Benefit Claimants to In-Country Immigration, medium quality, between bodies	3	4	Not Opened	0	0	0	0	£0.00
23 High	Housing Benefit Claimants to UK Visas, high quality, between bodies	4	9	Not Opened	0	0	0	0	£0.00
24 Medium	Housing Benefit Claimants to UK Visas, medium quality, between bodies	62	139	Not Opened	0	0	0	0	£0.00
26 High	Housing Benefit Claimants to Housing Benefit Claimants, high quality, within bodies	1	6	Opened	6	0	0	0	£0.00
27 High	Housing Benefit Claimants to Housing Benefit Claimants, high quality, between bodies	33	75	Opened	54	21	0	0	£0.00
29 Medium	Housing Benefit Claimants to Housing Benefit Claimants, medium quality, between bodies	18	20	Opened	16	4	0	0	£0.00
30 High	Housing Benefit Claimants to Housing Tenants, high quality, within bodies	25	29	Opened	28	1	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
31 High	Housing Benefit Claimants to Housing Tenants, high quality, between bodies	45	67	Opened	18	4	0	0	£0.00
32 Medium	Housing Benefit Claimants to Housing Tenants, medium quality, within bodies	18	21	Opened	2	0	0	0	£0.00
33 Medium	Housing Benefit Claimants to Housing Tenants, medium quality, between bodies	86	110	Opened	31	6	0	0	£0.00
35 High	Housing Benefit Claimants to Right to Buy, high quality, between bodies	1	2	Opened	1	1	0	0	£0.00
37 Medium	Housing Benefit Claimants to Right to Buy, medium quality, between bodies	3	4	Opened	1	3	0	0	£0.00
45.4 Medium	Housing Benefit Claimants to Insurance Claimants, medium quality, between bodies	0	2	Not Opened	0	0	0	0	£0.00
45.5 Low	Housing Benefit Claimants to Insurance Claimants, address quality, within bodies	0	1	Opened	0	1	0	0	£0.00
45.6 Low	Housing Benefit Claimants to Insurance Claimants, address quality, between bodies	0	4	Opened	4	0	0	0	£0.00
46.1 High	Housing Benefit Claimants to Market Traders, high quality, within bodies	26	107	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
46.2 High	Housing Benefit Claimants to Market Traders, high quality, between bodies	1	9	Not Opened	0	0	0	0	£0.00
46.3 Medium	Housing Benefit Claimants to Market Traders, medium quality, within bodies	1	2	Not Opened	0	0	0	0	£0.00
46.4 Medium	Housing Benefit Claimants to Market Traders, medium quality, between bodies	0	2	Not Opened	0	0	0	0	£0.00
46.5 Low	Housing Benefit Claimants to Market Traders, address quality, within bodies	53	153	Not Opened	0	0	0	0	£0.00
46.6 Low	Housing Benefit Claimants to Market Traders, address quality, between bodies	2	10	Not Opened	0	0	0	0	£0.00
47.2 High	Housing Benefit Claimants to Taxi Drivers, high quality, between bodies	171	1039	Opened	10	24	1	0	£14352.70
47.4 Medium	Housing Benefit Claimants to Taxi Drivers, medium quality, between bodies	3	11	Not Opened	0	0	0	0	£0.00
47.6 Low	Housing Benefit Claimants to Taxi Drivers, address quality, between bodies	327	1122	Opened	7	8	1	0	£2405.00
48.2 High	Housing Benefit Claimants to Personal alcohol licences, high quality, between bodies	0	1	Opened	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
48.3 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, within bodies	6	25	Opened	1	0	1	0	£5012.38
48.4 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, between bodies	17	35	Not Opened	0	0	0	0	£0.00
48.5 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, within bodies	56	194	Not Opened	0	0	0	0	£0.00
48.6 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, between bodies	9	23	Not Opened	0	0	0	0	£0.00
52 High	Pensions and Pension Gratuity to Benefits Agency Deceased Persons, high quality, within bodies	10	50	Opened	39	11	0	0	£3584.07
52.1 High	Pensions and Pension Gratuity to DDRI Deceased Persons, high quality, within bodies	16	39	Opened	25	14	0	0	£0.00
54 High	Pensions to Payroll, high quality, within bodies	53	70	Opened	70	0	0	0	£0.00
55 High	Pensions to Payroll, high quality, between bodies	34	79	Opened	79	0	0	0	£0.00
65 High	Payroll to Payroll, high quality, within bodies	33	180	Closed	0	0	0	0	£0.00
66 High	Payroll to Payroll, high quality, between bodies	4	167	Opened	162	5	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
67 Medium	Payroll to Payroll, medium quality, within bodies	0	1	Opened	1	0	0	0	£0.00
68 Medium	Payroll to Payroll, medium quality, between bodies	1	4	Opened	4	0	0	0	£0.00
72 High	Payroll to UK Visas, high quality, between bodies	8	8	Opened	1	7	0	0	£0.00
73 Medium	Payroll to UK Visas, medium quality, between bodies	62	68	Opened	57	11	0	0	£0.00
75 High	Payroll to Housing Benefit Claimants, high quality, between bodies	3	3	Opened	3	0	0	0	£0.00
76 Info	Payroll to Housing Benefit Claimants, medium quality, between bodies	1	1	Opened	1	0	0	0	£0.00
78 Info	Payroll to Pensions, high quality, between bodies	0	22	Opened	22	0	0	0	£0.00
81 Low	Payroll to Creditors, address quality, within bodies	28	49	Not Opened	0	0	0	0	£0.00
83 Info	Payroll to NI Number Check, within bodies	0	18	Opened	18	0	0	0	£0.00
85 High	Payroll to Council Tax, high quality, within bodies	0	51	Not Opened	0	0	0	0	£0.00
100 High	Housing Tenants to Housing Tenants, high quality, within bodies	5	7	Opened	7	0	0	0	£0.00
101 High	Housing Tenants to Housing Tenants, high quality, between bodies	15	17	Opened	11	4	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
102 Medium	Housing Tenants to Housing Tenants, medium quality, within bodies	5	6	Opened	6	0	0	0	£0.00
103 Medium	Housing Tenants to Housing Tenants, medium quality, between bodies	52	57	Opened	48	5	0	0	£0.00
105 Medium	Housing Tenants to In-Country Immigration, medium quality, between bodies	0	1	Opened	1	0	0	0	£0.00
107 High	Housing Tenants to UK Visas, high quality, between bodies	0	10	Opened	4	4	0	0	£0.00
108 Medium	Housing Tenants to UK Visas, medium quality, between bodies	0	156	Opened	0	1	0	0	£0.00
111 High	Housing Tenants to Housing Benefit Claimants, high quality, between bodies	28	31	Opened	12	6	0	0	£0.00
113 Medium	Housing Tenants to Housing Benefit Claimants, medium quality, between bodies	44	64	Opened	6	2	0	0	£0.00
117 Medium	Housing Tenants to Right to Buy, medium quality, between bodies	0	1	Opened	1	0	0	0	£0.00
144 Medium	Right to Buy to UK Visas, medium quality, between bodies	2	10	Not Opened	0	0	0	0	£0.00
149 High	Right to Buy to Housing Tenants, high quality, between bodies	1	1	Opened	1	0	0	0	£0.00
150 Medium	Right to Buy to Housing Tenants, medium quality, within bodies	1	3	Opened	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
151 Medium	Right to Buy to Housing Tenants, medium quality, between bodies	2	2	Opened	1	0	0	0	£0.00
156 High	Right to Buy to Housing Benefit Claimants, high quality, within bodies	53	78	Not Opened	0	0	0	0	£0.00
157 High	Right to Buy to Housing Benefit Claimants, high quality, between bodies	1	1	Opened	1	0	0	0	£0.00
158 Medium	Right to Buy to Housing Benefit Claimants, medium quality, within bodies	1	3	Opened	1	0	0	0	£0.00
159 Medium	Right to Buy to Housing Benefit Claimants, medium quality, between bodies	0	1	Not Opened	0	0	0	0	£0.00
170 High	Blue Badge Parking Permit to Blue Badge Parking Permit, high quality, between bodies	0	1	Opened	0	1	0	0	£0.00
170.1 Medium	Blue Badge Parking Permit to Blue Badge Parking Permit, medium quality, between bodies	0	11	Opened	6	5	2	0	£0.00
172.1 High	Blue Badge Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	48	56	Opened	53	3	1	37	£0.00
172.2 High	Concessionary Travel Passes to Benefits Agency Deceased Persons, high quality, within bodies	103	103	Opened	7	0	0	7	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

10-Nov-2011

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
172.3 High	Resident Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies	8	13	Opened	13	0	0	11	£0.00
172.4 High	Blue Badge Parking Permit to DDRI Deceased Persons, high quality, within bodies	175	195	Opened	156	39	1	111	£0.00
172.5 High	Concessionary Travel Passes to DDRI Deceased Persons, high quality, within bodies	246	246	Opened	116	0	0	109	£0.00
172.6 High	Resident Parking Permit to DDRI Deceased Persons, high quality, within bodies	20	42	Opened	42	0	0	19	£0.00
173 High	Private Residential Care Homes to Benefits Agency Deceased Persons, high quality, within bodies	1	12	Opened	12	0	0	2	£844.13
173.1 High	Private Residential Care Homes to DDRI Deceased Persons, high quality, within bodies	19	19	Not Opened	0	0	0	0	£0.00
180.1 High	Insurance Claimants to Insurance Claimants, high quality, within bodies	1	1	Opened	1	0	0	0	£0.00
312 High	Housing Benefit Claimants to Fraud Data, High Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
313 Medium	Housing Benefit Claimants to Fraud Data, Medium Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
315 High	Housing Rents to Fraud Data, High Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

10-Nov-2011

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
316 Medium	Housing Rents to Fraud Data, Medium Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
321 High	Market Traders to Fraud Data, High Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
322 Medium	Market Traders to Fraud Data, Medium Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
328 Medium	Personal Licence to Supply Alcohol to Fraud Data, Medium Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
330 High	Payroll to Fraud Data, High Quality, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
343 Medium	Residential Parking Permit to Fraud Data, Medium Quality, Between Bodies	0	2	Not Opened	0	0	0	0	£0.00
344 Low	Residential Parking Permit to Fraud Data, Address Only, Between Bodies	0	1	Not Opened	0	0	0	0	£0.00
701 High	Duplicate creditors by creditor name	0	304	Opened	27	0	0	26	£0.00
702 High	Duplicate creditors by address detail	0	502	Not Opened	0	0	0	0	£0.00
703 High	Duplicate creditors by bank account number	0	69	Opened	62	0	0	0	£0.00
707 High	Duplicate records by invoice reference, invoice amount and creditor reference	0	6	Not Opened	0	0	0	0	£0.00
708 High	Duplicate records by invoice amount and creditor reference	0	4270	Opened	0	16	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2010/2011

10-Nov-2011

AUTHORITY SUMMARY: London Borough of Tower Hamlets

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
709 High	VAT overpaid	0	6	Not Opened	0	0	0	0	£0.00
710 High	Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	0	13	Not Opened	0	0	0	0	£0.00
711 High	Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	0	105	Opened	19	0	0	0	£0.00
712 High	Duplicate records by postcode, invoice date and invoice amount but different creditor reference and supplier invoice number	0	15	Not Opened	0	0	0	0	£0.00
713 High	Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	0	75	Opened	65	0	0	0	£0.00
TOTAL									

IMPORTANT : This summary includes matches that occurred in previous years.

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Agenda Item 5.4

REPORT TO: Audit Committee	DATE 12th December 2011	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO. 5.4
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Head of Risk Management and Audit		Annual Governance Statement for the 2010/11 Accounts Update Ward(s) Affected: N/A		

1. Summary

- 1.1 This report updates the Audit Committee of the progress made in dealing with the significant issues identified within the annual governance statement.

2. Recommendation

- 2.1 The Audit Committee is asked to note the action in dealing with the issues raised on the annual governance contents of the report.

3. Background

- 3.1 The Accounts and Audit Regulations 2003 and its subsequent amendment by regulation 4(2) in 2006 require the Council to conduct a review, at least annually of the effectiveness of its governance arrangements and to publish an Annual Governance Statement (AGS) with the annual financial statements. The Statement of Recommended Practice requires the AGS to be approved by the committee approving the accounts, which at Tower Hamlets is the Audit Committee.
- 3.2 The statement for the year ending 30 June 2011 was presented at the Audit Committee on 28th June 2011. The statement was signed by the Chief Executive and the Leader following completion of the external audit of the annual financial statement.
- 3.3 The table appended to this report outlines the governance issue raised on the AGS, the agreed action and progress to date. The table also refers to directorate or corporate plans to link the actions with the Council's performance management framework.

4. Comments of the Chief Financial Officer

- 4.1 The comments of the Chief Financial Officer are contained within the report of which he is the author.

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

- 5.1. The Council is required under the Accounts and Audit Regulations 2003 to ensure adequate and effective financial management and 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. This must be reviewed at least once each year and a report provided to committee, which must approve a statement on internal control. It is consistent with the maintenance of a sound system of internal control, that the Council should produce an Annual Governance Statement and monitor performance against that.
- 5.2. The Council's Constitution provides that it is the function of the audit committee to be satisfied that the annual governance statement properly reflects the risk environment and any actions required to improve it. It is entirely proper that the audit committee should receive reports on progress against issues identified in the statement.

6. One Tower Hamlets Considerations

- 6.1 This progress update on significant issues from the Annual Governance Statement on 2009/10 Financial Year should allow the Audit Committee to focus on management action taken to date to improve risk management and control in order to provide strong leadership and inclusive services.

7. Anti-Poverty Considerations

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

8. Risk Management Implications

- 8.1. The progress update on significant governance issues should provide assurance to members that key risks associated with progressing these issues are being addressed and managed.

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1 There are no specific SAGE implications.

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

N/A

Minesh Jani, 0207 364 0738

10. Progress Update on Significant Issues from the Annual Governance Statement 2010/11

Governance Issue	Action taken and next steps as at June 2011	Progress Made To Date	CMT Lead
<p>To model an efficiency programme to take account of the reduction in revenue funding for the Council over the next three financial years.</p>	<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 part of the officer member process.</p>	<p>Over £26m of the £55m approved has been delivered with a further £3.6m secured against requirements for future years.</p> <p>A further £20m worth of savings is required to balance the MTFP over the same period. This has been identified and we will be seeking cabinet approval in Jan 2012.</p> <p>Governance arrangements are in place to monitor savings delivery, which continue to be overseen by the Corporate Transformation Board and monitored by the corporate transformation delivery group comprising finance officers and directorate delivery managers.</p>	<p>Corporate Management Team</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Improve information governance across the authority, including paper based records.</p>	<p>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.</p>	<p>Action is ongoing to implement the recommendations in the report –</p> <p>On 20 July 2011, the Information Governance Group (IGG) considered revised versions of the following: records management policy; information security policy; information handling policy; corporate information risk policy; and incident register.</p> <p>On 31 August 2011, the IGG considered the revised scheme documents for a second time.</p> <p>On 4 October 2011, CMT agreed the Council's new records management policy and revised information security policy. CMT requested that a further report be prepared addressing implementation of the information governance framework and a proposed protective marking scheme.</p> <p>On 23 November 2011, IGG discussed a draft implementation report to go to CMT on 13 December 2011.</p>	<p>Corporate Directors, Resources and Assistant Chief Executive (Legal)</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
		<p>The IGG meets monthly and Facilities Management attends. Both records management and information security are standard items of business at the meetings.</p> <p>Further action will be taken after CMT consider the implementation report on 13 December 2011.</p>	

Governance Issue	Action taken and next steps - June 2010	Progress Made To Date	CMT Lead
<p>Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts.</p>	<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>	<p>Considerable efforts have been made in recent months to ensure that for all significant contracts, the arrangements for the management of contracts are strengthened. The team is also reviewing its current procedures to make the process more robust.</p> <p>The next steps involve getting instilling good practice in the management of smaller contracts.</p>	<p>Corporate Director, Resources</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Maintain an ongoing drive to deliver decent homes standard.</p>	<p>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.</p>	<p>Decent Homes works began in Oct 2011 as scheduled.</p> <p>LBTH has also brought forward an additional £1.5m offered by the HCA into year 1 delivery, extending the programme to £12.5M.</p> <p>The Decent Homes Governance Framework has been agreed by the Capital Programme Board and the Decent Homes Board (chaired by the Corporate Director). The Council and Tower Hamlets Homes are currently progressing Year 2 procurement via the Citywest Framework however MAB have requested a review of that process with further reporting scheduled for 14th Dec 2011. A Tollgate Review is scheduled in respect of year 3, year 4 and year 5 procurement</p> <p>A robust monitoring process for the programme is in place across LBTH/THH/contractors.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda.</p>	<p>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.</p>	<p>The programme for new affordable homes continues to show at least 1,000 p.a. as an average figure over the 3 years 2010-2013. Units produced in 2013-14 are likely to depend on the new HCA grant programme and now that funding contracts are signed, work is under way to ensure that partner Registered Providers (RP) get schemes on site to enable supply levels to be maintained. A number of partner RPs are working up details of substantial local regeneration schemes e.g. Brownfield and Aberfeldy Estates and the Blackwall Reach area. Work has been done to establish the impact of the new affordable rent product with regard to average local income levels and future welfare reforms. The council continues to examine each new scheme delivering affordable housing to try to ensure a range of rent levels are provided to meet the full range of housing needs in the borough.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Arrangements for Safeguarding Children / Child Protection (implementation of actions arising from the Munro Report)</p>	<p>Action taken already includes a review of the recommendations raised in the 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>	<p>Final report published in July 2011. 15 recommendations made, with full government acceptance of 11, 3 accepted in principle and 1 (regarding the statutory framework for conducting serious case reviews) to be considered further. Additional funding has been made available to local authorities to assist with local implementation of the Munro Review recommendations. Tower Hamlets allocation is £100,401 with 50% recommended for support to the LSCB. The grant will be administered via the CWDC Social Work Improvement Fund and whilst (at present) it is for this financial year only CWDC has indicated that carry forward is permissible, subject to satisfaction of local financial arrangements.</p> <p>CWDC is also planning a series of training and support events focusing on workforce development and the reconfiguration of services and a separate series of events</p>	<p>Corporate Director, Children Schools and Family</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
		<p>for LSCB Chairs.</p> <p>Ofsted is reviewing its inspection framework in line with Munro and has proposed a new inspection framework from May 2012. Progress has been made in the following areas – revision of assessment framework, with new assessment method in place from July 2011, operating alongside existing framework pending anticipated review of Working Together framework; establishment of Family Wellbeing Model with review of operation planned; reconfiguration of Children’s Centres; reconfiguration of social work teams; establishment of intensive family support services. We have shifted existing resources to achieve these changes, making savings in the process.</p> <p>We are investing in social work training and support (including coaching) using Social Work Improvement Fund income.</p> <p>With regard to children in care the new</p>	

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
		<p>Care Planning regulations were implemented in April 2011. The additional responsibilities incurred have not to date required any additional investment in staff or additional direct financial support to care leavers. Briefings on the Munro recommendations have been provided to Social Care staff, DMT and SMT. Proposal is to focus on implementation via a working group, led by a Service Manager within CSC.</p>	

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Pupil Place Planning - expanding school provision to meet rising demand for places.</p>	<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>	<p>Significant review of the pupil place projection methodology undertaken and engagement of GLA projection service.</p> <p>Agreed projections which are now informing needs for both capital and estate strategy to be reported jointly with Development and Renewal by March 2012.</p>	<p>Corporate Director, Children Schools and Family</p>

Agenda Item 5.5

REPORT TO: Audit Committee	DATE 12 December 2011	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO. 5.5
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): MINESH JANI Head of Risk and Audit		Update on Risk Management Ward(s) Affected: N/A		

1. Summary

- 1.1 This report gives an update on the Council's risk management arrangements. The purpose of this report is to fulfil the remit of the Audit Committee as a body responsible for 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 15 November 2011.

2. Recommendation

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

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 champion has changed for the Communities, Localities and Culture directorate. The new member has received considerable training to allow him to make a positive contribution in the management of risks.

5.3 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. The risk champions now meet monthly and report risks to the Corporate Management Team and the Mayors Advisory Board on a regular basis.

5.4 The total number of risks recorded on the Council's risk system (JCAD Risk) is 126, which includes strategic, directorate, service and team risks. Of these a total number of 18 have been identified as strategic risks and escalated to the Corporate Management Team.

5.5 The CMT last received an update on current risks on 15 November 2011. The strategic risks reported to the team are as follows: -

S&EQ0001 – challenges to community cohesion. Recent events have increased the exposure to this risk. The One Tower Hamlets team are working on a number of actions such as Prevent Local proposals to mitigate this risk.

DRC0007 - The level of resources available to support housing revenue and capital expenditure impact upon the viability of the council's Housing Revenue Account (HRA) 30 Year Business Plan. This risk is recognised within the HRA 30 Year Business Plan. The plan drew attention to the uncertainties and risks inherent in the assumptions used in the financial model and further reports are scheduled to develop risk mitigation plans over and above those already identified.

DRA0012 - The council is unable to deliver the target level of affordable housing. Key actions to manage this risk include to continue to explore opportunities to use council owned land for affordable housing and investigate alternative funding sources.

CSC0024/8 and CSFO0001 - Impact of the Olympics on Tower Hamlets;

- Reputational risk resulting from misdirected blame for Olympic Games disruption to the Community (e.g. Imposition of TfL's Olympic Route Network, police security restrictions, LOCOG trading enforcement restrictions)
- LBTH ICT inability to deliver and maintain critical IT systems and related support services in Games-time
- Failure of critical LBTH services supporting vulnerable local people, key universal services (e.g rubbish collections) and compliance with statutory duties
- Failure to communicate key service and strategic messages to residents, businesses and staff
- Late information from central government agencies on for planning for the 2012 Olympics (CSF)

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 6 – 18 months, these related to the decant requirements of both operational and 'back office' services.

RS0039 - There is a risk that additional savings required to respond to the local government financial settlement and budget growth pressures need to be fully formulated, which may impact on the financial resilience of the Council and its medium term financial strategy from 2012/13. The Council, in response to the financial settlement, has already approved a savings programme of £55m over the three years to 2013-14. However, it is recognised that further savings proposals are necessary to allow the council to set a balanced budget in 2012-13 and 2014-15.

The Medium Term Financial Planning process has been developed to ensure that there is robust intelligence to support future funding and inflation projections, cost and service demand trends are closely monitored as part of the on-going budget monitoring process, budget savings options are considered in a timely manner.

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. This risk has been recognised as a strategic risk for a number of months and the strike action on 30th November and the possibility of further action means the authority will need to plan its priorities carefully on strike affected days.

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. This risk focuses on more specifically on housing but the welfare reform will impact more broadly on people living in Tower Hamlets and will have an effect on the Council's service provision.

DRA0009 – Failure to deliver Decent Homes by 2016. The major element financing the Decent Homes Programme is Backlog Funding of £94.5m from the Homes and Community Agency. This government funding is profiled over four years (2011 - 2015) and it is important to note that only the first two years of the allocated funding is guaranteed. Funding of £71m for 2013 - 2015 is subject to meeting agreed performance and decent homes targets and dependant on the continuation of government policy and resources.

DRA0011 – Insufficient resources are available, or committed to deliver carbon reduction projects. The key actions to mitigate the risk are; investigate the potential of accessing funding from LDA RE:FIT programme ; the Capital & Asset Board ensure engagement and commitment to the Carbon Management Plan and to enter into agreement with Carillion to bring forward works under CERT programme.

CEAC0004 – Publication or broadcast of content that presents reputational risk to the Council. A programme of media training for key spokespeople is scheduled.

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.

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.

ICT0011 – Major ICT service infrastructure and/or failure of framework I, care alarm, JD Edwards, Iworld, etc leading to a potential business continuity risk. There have been recent instances of key applications and the ICT is working to ensure action is taken to manage the risk in future.

TP-SW0007 - Failure to vacate and surrender Anchorage House lease on time. A number of actions are underway and the risks are being managed by the project team tasked with delivering this project.

RS0038 - The approved savings programme for 2011/12 - 2013/14 of £55m may not be delivered either in full or to the original timescales. Individual savings proposals have been developed with associated implementation programmes. Governance arrangements are in place for reporting on delivery against programme to CMT and MAB with a clear link to the monthly budget and performance monitoring process. For 2011/12, the planned savings amount to £31M, for 11/12, the savings target is £14M and for 12/13, the target is £10M. This risk is primarily focused on the financial risk of savings not being achieved in the current financial year.

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.

6. Emerging risks and risk management update for October 2011

Emerging risks are those that have not yet occurred but are at an early stage of becoming known and/or coming into being and expected to grow greatly in significance. The CMT considered the following as possible emerging risk to the Council:

- Risks arising out of the *proposed merger of the Children’s Schools and Families directorate and the Adults, Health and Wellbeing directorate*;
- Risks around the *delivery of the transformation agenda* still need to be articulated at the corporate level;

- The *Welfare Reform Bill* if implemented as proposed will have a significant impact on our community. Although the strategic risk is recognised, further consideration of specific risks will be required; and
- *Strategic risks around the Olympics* need to be fully articulated. Over the last few weeks, a number of discussions have taken place to elaborate the nature and significance of risks relating to the Olympics. The complexity of the Olympics arising from the number of organisations involved and the reliance and coordination associated with working together requires a clear understanding of how that could impact on the Council and the services provided by the Council. Further, following discussions of the Civil Contingencies Board, a paper will be brought to CMT shortly to deal with the specific issue relating to the management of the Borough Emergency Control centre during Olympic Games time.

7. Embedding Risk Management

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

- Development of an action plan to highlight key risks to officers;
- Half day training courses for risk management as part of the corporate Learning and Development programme. The last training on 7 November attracted 12 candidates and the training scheduled for 24 November has five officers booked to attend;
- Appointment on an experienced Strategic Risk Advisor;
- Development of an assurance map with performance and financial;
- Risk management workshops for services to develop their risk management practices;
- Implementation and embedding of the JCAD Risk Management database;
- Continuous review of 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;

8. Next Steps

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

- Integrate risk management into the culture of the Council;
- Identify and report risks specifically around bribery;
-
- Support the strategic aims and objectives of the Council;
- 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 processed around project management;
- Fund 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

9. Comments of the Chief Financial Officer

9.1 These are contained within the body of this report.

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

10.1 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.

11. One Tower Hamlets Considerations

11.1 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.

12. Anti-Poverty Considerations

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

13. Risk Management Implications

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

14. Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications.

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	Minesh Jani, 0207 364 0738

Agenda Item 5.6

COMMITTEE: Audit Committee Council	DATE: 12 December 2011 25 January 2012	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO. 5.6
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Peter Hayday , interim Head of Finance, Risk and Accountability Oladapo Shonola, Chief Financial Strategy Officer		TITLE: Mid Year Review Report on 2011/12 Treasury Management and Investment Strategy Ward(s) affected: All		

1. SUMMARY

- 1.1 This report reviews the Treasury Management and Investment Strategy that was approved by Full Council on 8 March as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (Revised 2009).
- 1.2 The report reviews how the Treasury Management team has managed the Council's cash balances, investments and treasury related risks. The report also sets out the economic environment and how this has impacted on investment returns.

2. DECISIONS REQUIRED

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

3 REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 Furthermore, the CIPFA Treasury Management Code of Practice requires that Full Council/Committee should receive a Mid-year Report reviewing Treasury Management/Investment.

4 ALTERNATIVE OPTIONS

- 4.1 The Council is bound by legislation to have regard to the CIPFA Treasury Management (TM) Code. The Code requires that the Council should receive a mid-year report reviewing treasury management and investment.
- 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 Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) has been adopted by the Council.
- 5.2 One of the requirements of the Code is that Full Council/Committee should receive an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- 5.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 8 March. The Outturn report was included in the Treasury Management Activity Report to 28 June Cabinet.
- 5.4 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for the first six months of 2011/12.
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
 - The Council's capital expenditure (prudential indicators).
 - A review of the Council's investment portfolio for 2011/12.
 - A review of the Council's borrowing strategy for 2011/12.
 - A review of any debt rescheduling undertaken during 2011/12.
 - A review of compliance with Treasury and Prudential Limits for 2011/12.

6. AN ECONOMIC UPDATE FOR THE FIRST SIX MONTHS OF 2011/12

6.1 GLOBAL ECONOMY

- 6.1.1 The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the £440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support. Although the crisis in Italy is easing and heading toward a resolution, it is yet to fully play out.

- 6.1.2 There are also political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.
- 6.1.3 Growth prospects in the US, UK and the Euro zone have been lower than expected, with future prospects similarly cut and concerns of a double dip recession in some Western countries have been increasing. World stock markets fell in the second quarter of 2011/12 as a consequence.

6.2 UK ECONOMY

- 6.2.1 Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.
- 6.2.2 Inflation remains higher than expected, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.), and the negative impact a rate rise would have on the UK economy, is likely to stop the Monetary Policy Committee (MPC) from raising the Bank Rate for some considerable time to come. An indicator of the worsening position arose from the Monetary Policy Committee minutes recently signalling a greater willingness to expand the quantitative easing programme.
- 6.2.3 Although still high, CPI and RPI have started to fall in line with expectation and currently stand at 5.0% and 5.4% respectively in October 2011 – falling from 5.2% and 5.6% respectively in September 2011. The MPC is confident inflation will fall back under target of 2% in the long term.
- 6.2.4 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis, although we are yet to see the impact the Chancellor's autumn budget statement will have on investor confidence. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PwLB borrowing rates to low levels.

6.3 COUNCILS TREASURY ADVISOR'S VIEW (SECTOR)

- 6.3.1 There remain huge uncertainties in economic forecasts due to the following major difficulties:
- the speed of economic recovery in the UK, US and EU;
 - the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012;
 - the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy;
 - the degree to which government austerity programmes will dampen economic growth;
 - the potential for more quantitative easing, and the timing of this in both the UK and US;
 - the speed of recovery of banks' profitability and balance sheet imbalances

6.3.2 The overall balance of risks is weighted to the downside:

- We expect low and modest growth in the UK to continue, with a low Bank Rate to continue for at least 12 months, coupled with a possible extension of quantitative easing. This will keep investment returns depressed.

6.3.3 The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

6.4 Sector's interest rate forecast is detailed in the below table.

	Sep-11	Dec 11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.90%	3.00%	3.10%	3.20%	3.40%	3.60%	3.80%	4.00%	4.10%	4.20%
10yr PWLB rate	3.80%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%
25yr PWLB rate	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%
50yr PWLB rate	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%

7. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

7.1 The Treasury Management Strategy Statement (TMSS) for 2011/12 was approved by the Council on 08 March 2011. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

7.2 Full Council will be recommended to approve a revised investment strategy at its January meeting. The revised strategy broadly maintains the same risk criteria whilst providing further flexibility that should result in higher returns on cash balances. The council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity.

7.3 In the current economic climate it is considered appropriate to keep investments short-term (maximum loan period of 12 months) unless where investing with UK Government partly owned banks, and only directly invest with highly (AA-) credit rated financial institutions, the UK government or AAA rated money market funds (a definition of the various credit ratings is attached at Appendix 1).

7.4 The Council uses Fitch ratings (or equivalent from other agencies if Fitch does not provide a rating) to derive its counterparty criteria, but will take into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council will take an overall view on its counterparties so that an organisation could be removed from the list if the predominant view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.

7.5 The revised credit criteria is detailed in the tables below:

Specified Investments:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable). The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA- long-term credit rating.

Institution	Minimum High Credit Criteria	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house	£100m*
Term deposits – Other Local Authorities	Not applicable	In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating	In-house	£30m
UK Government Gilts	Long Term AAA	In-house	£20m
Institutions with UK Government support.	Sovereign rating	In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating	In-house	£45m
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	In-house	£10m

Non-Specified Investments:

All investments that do not qualify as specified investment are termed non-specified investments. The credit criteria for non-specified investments are detailed in the below table.

Institution	Minimum High Credit Criteria	Use	Limit
Term deposits – Banks and Building Societies	Sovereign rating AAA Short-term F1+, Long-term AA-	In-house	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-	In-house	£25m
UK Government Gilts	Long Term AAA	In-house	£25m

7.6 A breakdown of the Council's investment portfolio is shown in Section 9 of this report. Investments and borrowing during the first six months of the year have been in line with the Strategy, and there have been no deviations from the Strategy.

8. The Council's Capital Position (Prudential Indicators)

- 8.1 HRA Reform - The proposed reform of the HRA subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council receiving funds from CLG which will remove the Council from the HRA subsidy system. The expected receipt is £238m. This will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement will fall by the size of the CLG receipt), and the treasury management service will need to consider the funding implications for the borrowing. The Council's prudential indicators shown in Appendix 3 highlight the position in relation to the original position, and may have to be reviewed in advance of the 28 March 2012. The new HRA Capital Financing Requirement will form a cap on any future HRA capital expenditure.
- 8.2 Prudential Indicator for Capital Expenditure - This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The programme has been revised to take account of new schemes approved in-year, new grant allocation from central government, and also the inclusion of the site improvement programme which was approved by the Mayor of London after the initial budget was approved.

Capital Expenditure by Service	2011/12	2011/12
	Original Estimate £m	Revised Estimate £m
Adults, Health and Wellbeing	0.060	0.295
Children , Schools and Families	24.823	21.931
Building Schools for the Future	91.601	77.858
Communities, Localities and Culture	10.959	21.097
Development & Renewal (Excluding HRA)	4.693	15.329
Chief Executive & Resources	0.220	1.951
HRA	17.400	38.251
Total	149.756	176.712

8.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2011/12 Original	2011/12 Revised
---------------------	---------------------	--------------------

	Estimate £m	Estimate £m
Total Spend	149.756	176.712
Financed By		
Capital receipts	8.410	12.740
Capital Grants	117.659	110.549
Capital Reserves	12.500	17.680
Schools Contribution	0.000	0.420
S106 - Developers Contribution	1.383	12.963
Revenue	0.038	2.176
Total Financing	139.991	156.528
Supported	8.977	19.336
Unsupported	0.788	0.849
Total Borrowing Need	9.765	20.185

- 8.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary are detailed in the below table. The Capital Financing Requirement has been amended in line with the borrowing requirement to support the 2011/12 approved capital programme.

	2011/12 Original Estimate £m	2011/12 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	152.599	163.223
CFR – housing	298.480	306.332
Total CFR	451.079	469.555
Net movement in CFR	-4.941	18.523
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	476.079	476.079
Other long term liabilities	0.000	0.000
Total debt 31 March	476.079	476.079

8.5 Limits to Borrowing Activity

8.5.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2011/12 Original Estimate £m	2011/12 Revised Estimate £m
Gross borrowing	353.475	327.735
Less investments	201.136	188.572
Net borrowing	152.339	139.163
CFR (year end position)	451.079	469.602

8.5.2 The Corporate Director, Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

8.5.3 A further prudential indicator limits the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2011/12 Original Indicator	2011/12 Revised Indicator
Authorised limit for external debt		
Borrowing	476.079	476.079
Other long term liabilities*	0.000	0.000
Total	476.079	476.079

* Excludes PFI schemes and finance leases etc.

9. INVESTMENT PORTFOLIO 2011/12

9.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low. The revised strategy aims to increase returns whilst broadly maintaining the same level of risk as before.

- 9.2 The council held £189M of investments as at 30 September 2011 (£201M at 31 March 2011) and the investment portfolio yield for the first six months of the year is 1.41% against a benchmark of 1.25%.
- 9.3 A summary of investments held as at 30th September 2011, compared to investments at the start of the year (1 April 2011) is shown below with a detailed list of investments attached at Appendix 2 of this report:

Investments as at 01 April 2011		
	Amount	Average Interest Rate
Total Investments	201,136,000	0.94%
Investments as at 30 September 2011		
	Amount	Average Interest Rate
Total Investments	188,572,000	1.41%

- 9.4 As illustrated in the economic background section above, rates are very low and in line with the 0.5% Bank Rate. The average level of funds available for investment purposes in the first six months of 2011/12 was £194M. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Benchmark	Council Performance	Investment Interest Earned at 30 Sept
1.25%	1.41%	£909.5k

- 9.5 As illustrated, the authority out performed the benchmark by 16 bps. The Council's budgeted investment return for 2011/12 is £1.950m, and performance for the year to date is in line with the budget.

10. BORROWING

- 10.1 There has been no new borrowing during the period April to September 2011.

11. DEBT RESCHEDULING

- 11.1 No debt rescheduling was undertaken during the first six months of 2011/12

12. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

- 12.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved TMSS.

- 12.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 3 at the end of this report.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

14 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 14.1 The Committee is asked to note the information in the report concerning the Council's treasury transactions undertaken by the Corporate Director of resources under delegated powers.
- 14.2 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.
- 14.3 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.

15 ONE TOWER HAMLETS CONSIDERATIONS

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

16 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

17 RISK MANAGEMENT IMPLICATIONS

- 17.1 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.

18 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

19 **EFFICIENCY STATEMENT**

- 19.1 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

Investment Reports; Sector Treasury Advisory Services

Oladapo Shonola Ext. 4733

Mulberry Place, 4th Floor.

Appendix 1: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

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

Long-term Ratings

Rating	Current Definition (August 2003)
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA	Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacities for timely payment of financial commitments are 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.

Appendix 2 – Investment Portfolio

Investments as at 01 April 2011			
Bank or Building Society	Amount	Maturity	Interest
Bank of Scotland (Call Account)	15,000,000		0.75%
Abbey (Call Account)	5,000,000		0.80%
Goldman Sachs Sterling Reserve Fund	10,000,000		0.54%
Insight (Money Market Fund)	10,000,000		0.64%
DMO	37,600,000	01/04/11	0.25%
Cater Allen	5,000,000	11/04/11	2.20%
Clydesdale (Call Account)	23,536,000		0.75%
Bank of Scotland	5,000,000	26/04/11	1.17%
Cater Allen	3,000,000	13/05/11	1.50%
Cater Allen	2,000,000	13/05/11	2.10%
Nationwide	5,000,000	03/06/11	1.35%
Barclays	10,000,000	03/06/11	1.40%
RBS	10,000,000	10/06/11	0.70%
RBS	10,000,000	11/07/11	0.81%
Cater Allen	5,000,000	18/07/11	2.50%
Bank of Scotland	5,000,000	25/07/11	1.30%
Barclays	5,000,000	10/08/11	1.05%
Nationwide	10,000,000	10/08/11	0.95%
Nationwide	5,000,000	14/10/11	1.37%
Barclays	5,000,000	10/11/11	1.30%
Nationwide	5,000,000	17/01/12	1.43%
Cater Allen	5,000,000	17/01/12	2.50%
North Tyneside Council	5,000,000	20/01/12	1.30%
Total Investments	201,136,000		0.94%
Investments as at 30 September 2011			
Bank or Building Society	Amount	Maturity	Interest
Santander UK (Call Account)	5,000,000		0.80%
Ignis (Money Market Fund)	9,900,000		0.70%
Insight (Money Market Fund)	9,400,000		0.64%
Clydesdale (Call Account)	24,272,000		0.75%
Nationwide	5,000,000	14/10/11	1.37%
Santander UK	5,000,000	17/10/11	1.42%
Barclays	5,000,000	10/11/11	1.30%
Nationwide	5,000,000	10/11/11	1.03%
Barclays	5,000,000	02/12/11	1.03%
RBS	10,000,000	10/12/11	0.98%
Nationwide	5,000,000	17/01/12	1.43%
Cater Allen	5,000,000	17/01/12	2.50%
North Tyneside Council	5,000,000	20/01/12	1.20%
Bank of Scotland	5,000,000	25/01/12	1.45%
Barclays	10,000,000	05/03/12	1.29%
Bank of Scotland	10,000,000	05/04/12	2.10%
RBS	10,000,000	11/04/12	1.23%
Cater Allen	5,000,000	12/04/12	2.50%
Bank of Scotland	5,000,000	27/04/12	2.10%
Barclays	5,000,000	04/05/12	1.55%
Cater Allen	5,000,000	14/05/12	2.50%
Cater Allen	5,000,000	19/07/12	2.50%
Bank of Scotland	5,000,000	27/07/12	2.65%
Bank of Scotland	5,000,000	27/07/12	2.65%
Barclays	5,000,000	10/08/12	1.50%
Nationwide	10,000,000	10/08/12	1.44%
Nationwide	5,000,000	07/09/12	1.55%
Total Investments	188,572,000		1.41%

Appendix 3 – 2011-12 Prudential and Treasury Indicators

Prudential indicators	2010/11	2011/12	2012/13	2013/14
	actual	estimate	estimate	estimate
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non - HRA	111,348	138,461	88,652	50,300
HRA (applies only to housing authorities)	37,227	38,251	39,250	30,587
TOTAL	148,575	176,712	127,902	80,887
Ratio of financing costs to net revenue stream				
Non - HRA	2.62%	2.51%	2.56%	2.48%
HRA (applies only to housing authorities)	18.75%	19.39%	19.90%	20.31%
Net borrowing requirement				
brought forward 1 April	354,250	255,284	326,602	75,623
carried forward 31 March	255,284	326,602	89,675	75,620
in year borrowing requirement	-98966	71318	-236,927	-3
In year Capital Financing Requirement				
Non - HRA	9,298	224	-4,979	0
HRA (applies only to housing authorities)	16,393	12,958	-239,948	0
TOTAL	25,691	13,182	-244,927	0
Capital Financing Requirement as at 31 March				
Non - HRA	163,046	163,270	158,291	158,291
HRA (applies only to housing authorities)	293,374	306,332	66,384	52,332
TOTAL	456,420	469,602	224,675	210,623
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	4.27	0	0	0
Increase in average housing rent per week (housing authorities only)	0	0	0	0

TABLE 4: Treasury management indicators	2010/11	2011/12	2012/13	2013/14
	actual	estimate	estimate	estimate
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
borrowing	501,420	496,079	248,620	248,620
other long term liabilities	0	0	0	0
TOTAL	501,420	496,079	248,620	248,620
Operational Boundary for external debt -				
borrowing	481,420	476,079	228,620	228,620
other long term liabilities	0	0	0	0
TOTAL	481,420	476,079	228,620	228,620
Actual external debt	456,420	327,735	74,119	58,597
Upper limit for fixed interest rate exposure				
expressed as either:-				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper limit for variable rate exposure				
expressed as either:-				
Net principal re variable rate borrowing / investments	20%	20%	20%	20%
Upper limit for total principal sums invested for over 364 days (per maturity date)	0	25000	25,000	25,000

TABLE 5: Maturity structure of new fixed rate borrowing during 2010/11	upper limit
under 12 months	10%
12 months and within 24 months	30%
24 months and within 5 years	40%
5 years and within 10 years	80%
10 years and above	100%

Agenda Item 5.7

COMMITTEE: Audit Committee	DATE: 12 December 2011	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Peter Hayday, Interim Service Head, Finance, Risk & Accountability Oladapo Shonola, Chief Financial Strategy Officer		TITLE: Treasury Management Activity for Period Ending 31 October 2011 Ward(s) affected: N/A		

1. **SUMMARY**

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 October 2011 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

2. **DECISIONS REQUIRED**

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

3. **REASONS FOR DECISIONS**

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

4. **ALTERNATIVE OPTIONS**

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

treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council

5 BACKGROUND

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

6. TREASURY MANAGEMENT STRATEGY 2011/12

- 6.1 The Council's Treasury Management Strategy was approved on 9 March 2011 by Full Council. The Strategy comprehensively outline how the treasury function was to operate over the financial year 2011-12 and it covered the following:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
 - Prudential and Treasury Indicator;
 - The current treasury position;
 - Prospects for interest rates;
 - The borrowing strategy (including policy on borrowing in advance of need);
 - Debt Rescheduling;
 - The Investment Strategy;
 - Credit Worthiness Policy'
 - Policy on use of external service providers; and
 - The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April to 31 October 2011

- 7.1 This section of the report sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 31 October 2011.

8 CREDIT CRITERIA

- 8.1 The following credit criteria for investment counterparties were established by the Council in March 2011 as part of the budget setting exercise. Explanation of credit ratings criteria is attached at Appendix 1.

Institution	Minimum High Credit Criteria	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house	£100m*
Term deposits – Other Local Authorities	Not applicable	In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating AAA	In-house	£30m
UK Government Gilts	Long-term rating AAA	In-house	£20m
Institutions with UK Government support	Sovereign rating AAA	In-house	
Term deposits over 1 year – Banks and building Societies	Sovereign rating AAA Short-term F1+ Long-term AA-	In-house	£12m
UK Government Gilts over 1 year	Long-term rating AAA	In-house	£12m
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds (MMF)	AAA rated	In-house	£10m

*Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK Government

** The group limit for local authorities has been set at £100m.

9 **INVESTMENT STRATEGY**

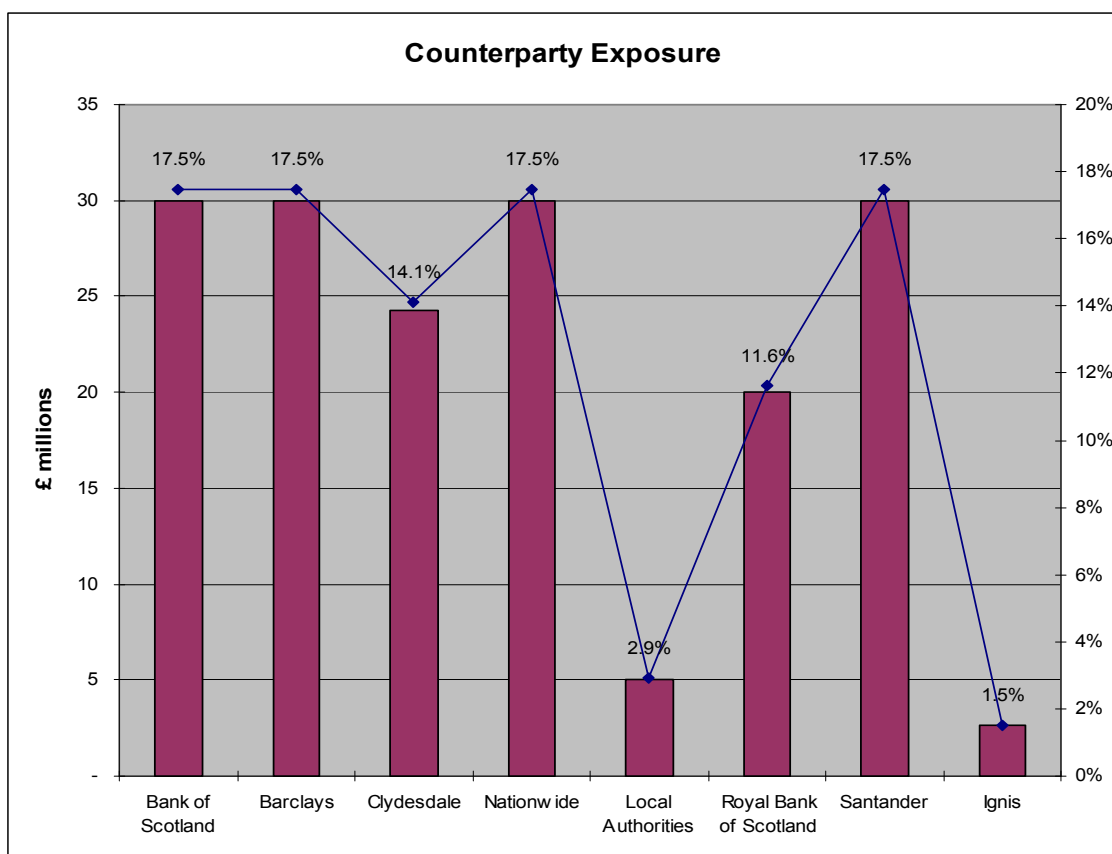
- 9.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.
- 9.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 9.3 Sector's current interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until the second quarter of 2013. Although, the outlook for interest rate is below expectation, return on investment is expected to outperform budget this financial year.
- 9.4 The Council's bankers, the Co-operative Bank plc, are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.
- 9.5 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
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Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	40.000	0.80%	Santander UK	Call	5.000	0.80%
Overnight		0.75%	Clydesdale Bank	Call	24.272	0.75%
Overnight		0.75%	Ignis	MMF	2.600	0.74%
Overnight			Goldman Sachs	MMF		
Overnight			Insight	MMF		
			SUB TOTAL		31.872	
3 Months	25.000	0.75%	Nationwide	17-Jan-12	5.000	0.91%
			Santander	17-Jan-12	5.000	1.27%
6 Months	20.000	1.20%	Nationwide	10-Nov-11	5.000	1.03%
			Barclays	02-Dec-11	5.000	1.03%
			Bank of Scotland	25-Jan-12	5.000	1.45%
			Royal Bank of Scotland	10-Dec-11	10.000	0.98%
9 Months	20.000	1.40%	Barclays	10-Nov-11	5.000	1.30%
			Barclays	05-Mar-12	10.000	1.29%
			Royal Bank of Scotland	11-Apr-12	10.000	1.23%
12 Months	20.000	1.75%	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%
			Bank of Scotland	05-Apr-12	10.000	2.10%
			Cater Allen (Santander)	12-Apr-12	5.000	2.50%
			Bank of Scotland	27-Apr-12	5.000	2.10%
			Barclays	04-May-12	5.000	1.50%
			Cater Allen (Santander)	14-May-12	5.000	2.50%
			Cater Allen (Santander)	19-Jul-12	5.000	2.50%
			Bank of Scotland	27-Jul-12	5.000	2.65%
			Bank of Scotland	27-Jul-12	5.000	2.65%
			Barclays	10-Aug-12	5.000	1.50%
			Nationwide	10-Aug-12	10.000	1.44%
			Nationwide	07-Sep-12	5.000	1.55%
			SUB TOTAL		140.000	
	150.000		TOTAL		171.872	

9.6 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 October 2011.



10 INVESTMENT RETURNS

- 10.1 Investment returns since inception of the cash management arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance has been improving month by month this financial year and currently stands at 1.37%.
- 10.2 Although balances continue to decrease in line with expectations, performance has been strong throughout the year.
- 10.3 The Strategy approved at the 9 March Council allowed for more flexibility and the benefits of this Strategy are now being fully reflected in investment returns. As an illustration of, core investments have performed particularly well throughout the year and ticked up again this period to an average return of 1.61%.
- 10.4 The Council has outperformed benchmark of 1.25% for most of the year and returns have been significantly above the 7 day London Interbank Bid Rate (LIBID), which currently stands at 0.50%. Although, the level of balances held in call accounts and overnight is still high, it is reducing and was as low as 18% at a point in October.
- 10.5 A report went to the September Audit Committee proposing changes to the Investment Strategy to take advantage of further opportunities for better returns without significantly increasing the risk level within the portfolio. This report will be considered by Full Council on 30 November 2011.

- 10.6 The budgeted investment return in 2011/12 is £1.95m, but it is expected that this will be exceeded by £375k. It should be noted that outperformance has been achieved without taking undue/increasing risk.
- 10.7 Another positive outcome from the Strategy approved by Council in March is the much reduced frequency of investments placed with the Debt Management Office (DMO). Any surplus balances are now placed with financial institutions that pay higher interest rates than the DMO. This has been implemented in a way that does not increase risk in the portfolio and in line with the Investment Strategy.
- 10.8 Below is a table that details performance of investments. The table shows that performance has been consistently good against LIBID.

Period	LBTH Performance	7 Day LIBID	(Under)/Over Performance
Full Year 2010/11	0.989%	0.43%	0.56%
Quarter 1 2011	1.002%	0.45%	0.55%
Quarter 2 2011	1.148%	0.46%	0.69%
Quarter 3 2011	1.290%	0.48%	0.81%
Return October 2011	1.370%	0.50%	0.87%
Average for 2011/12	1.16%	0.47%	0.69%

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 12.1. 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.
- 12.2. 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.

12.3. 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.

13. ONE TOWER HAMLETS CONSIDERATIONS

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

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

14.1 There are no Sustainable Actions for A Greener Environment implications.

15. RISK MANAGEMENT IMPLICATIONS

15.1 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.

16 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

17 EFFICIENCY STATEMENT

17.1 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***

October 2011 Investment Portfolio Analysis Report

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

Appendix 1: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

Rating	
F1	Highest short-term 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 short-term 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 short-term 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 Rating Scales

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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