

Meeting of the

AUDIT COMMITTEE

Tuesday, 20 September 2011 at 7.00 p.m.

A G E N D A

VENUE

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

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair: Councillor David Edgar	
Councillor Khales Uddin Ahmed Councillor Craig Aston Councillor Stephanie Eaton Councillor Denise Jones 1 Vacancy	Councillor Shahed Ali, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones) Councillor Abdul Asad, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones) Councillor Rachael Saunders, (Designated Deputy representing Councillors Carlo Gibbs, Khales Uddin Ahmed, David Edgar and Denise Jones) Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)

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

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Zoe Folley, Democratic Services
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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 20 September 2011

7.00 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

	PAGE NUMBER	WARD(S) AFFECTED
3. UNRESTRICTED MINUTES	3 - 16	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 28 th June 2011.		
4. UNRESTRICTED REPORTS FOR CONSIDERATION		
4 .1 Fraud Briefing from Protecting the Public Purse	17 - 40	
5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
5 .1 Annual Governance Report - Council Accounts - To Follow		
5 .2 Annual Governance Report - Pensions Fund Accounts - To Follow		
6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
6 .1 Statement of Accounts 2010/11 - To Follow		
6 .2 Quarterly Internal Audit Assurance Report	41 - 76	
6 .3 Annual Anti Fraud Report 2010/11	77 - 86	

6 .4	Social Housing Fraud Update	87 - 90
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6 .6	Revised Treasury Management and Investment Strategy 2011/12	109 - 132
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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, 28 JUNE 2011

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

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Khaled Uddin Ahmed
Councillor Craig Aston
Councillor Stephanie Eaton
Councillor David Edgar
Councillor Denise Jones

Other Councillors Present:

None

Officers Present:

John Chilton	– Head of Parking Services
Mike Clarkson	– General Manager, Deloitte and Touche
Peter Hayday	– Interim Service Head - Financial Services Risk & Accountability
Jon Hayes	– District Auditor, Audit Commission
Minesh Jani	– Service Head Risk Management
Kevin Miles	– Chief Accountant, Resources
Chris Naylor	– Corporate Director, Resources
Richard Parsons	– Service Head Procurement and Corporate Programmes
Tony Qayum	– Head of Audit Services
Oladapo Shonola	– Chief Financial Strategy Officer
Les Warren	– Director of Finance and Customer Services, Tower Hamlets Homes
John S. Williams	– Service Head, Democratic Services

Councillor Carlo Gibbs in the Chair

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. APPOINTMENT OF VICE - CHAIR

The Chair nominated Councillor David Edgar to serve as Vice-Chair of the Committee. This was seconded by Councillor Denise Jones.

No other nominations were made and it was:-

RESOLVED

That Councillor David Edgar be appointed as Vice-Chair of the Audit Committee for the remainder of the Municipal Year 2011/12 or until a successor is appointed.

4. UNRESTRICTED MINUTES**RESOLVED**

That the minutes of the meeting of the Audit Committee held on 22nd March 2011 be agreed as a correct record and the Chair be authorised to sign them accordingly.

5. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP

The Committee considered a report of the Assistant Chief Executive, circulated with the agenda papers, which set out the terms of reference, membership, quorum and dates of meetings of the Audit Committee for the municipal year 2011/12.

RESOLVED

That the Committee note its terms of reference, membership, quorum and dates of future meetings as set out in Appendices 1, 2 and 3 to the report.

6. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**6.1 Progress report June 2011**

The Committee considered a report of the District Auditor, circulated with the agenda papers, which provided an update on progress in delivering the 2010/11 audit plan and in planning the 2011/12 audit. The report also identified a number of national emerging issues and developments.

Mr Jon Hayes, District Auditor, introduced his report and highlighted a number of key points. Work on the 2010/11 opinion audit was progressing well and

Mr Hayes was confident that the issues that had arisen last year resulting in late publication of the opinion would not recur this year.

The Auditors' initial plans for the 2011/12 audits of the Council and its Pension Fund were set out in letters to the Chief Executive in March 2011 as appended to the report.

Mr Hayes also updated the Committee on the Government's plans regarding the future of the Audit Committee. These would see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money; and the transfer of the existing in-house Audit Practice to the private sector (via a bidding process that would result in either the TUPE transfer of staff to private sector firms or the establishment via an in-house bid of a new employee-owned or mutual organisation) from 2012/13 onwards.

In response to questions from Members of the Committee, Mr Hayes reported further on a number of points:-

- His confidence regarding the timetable for the 2010/11 opinion was based on progress already made and work undertaken by officers as discussed in preparatory meetings last autumn. Information was being passed to the auditors in accordance with the required timetable.
- In relation to the weaknesses identified in the payroll system, Mr Hayes was aware of work that was underway at officer level. In this regard Minesh Jani, Service Head Risk Management, reported that the Corporate Management Team had agreed new procedures to ensure that the payroll and other systems were updated in a timely manner in every case when an employee left the Council, and other 'leaver' procedures followed.

In relation to the recent Audit Commission publication 'Improving value for money in adult social care' mentioned at page 36 of the agenda, the officers undertook to report back on the matters raised in the publication as they related to Tower Hamlets.

RESOLVED

That the report be noted.

7. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

7.1 Internal Audit Annual Report 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which set out the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted the key points. Overall the report concluded that the Council has an effective system of internal control which was in operation throughout 2010/11. The basis on which this opinion had been reached was set out in the report which also summarised the audit resources utilised during the year, the range of work undertaken and the performance of the Internal Audit team for 2010/11.

In response to a question from the Chair, Mr Jani acknowledged that the percentage of priority 1 and 2 recommendations followed up that had been implemented by the 6 month review date (93% and 90% respectively) was still below the target figures (100% and 95%) although performance was much improved on last year. Corporate Directors were now informed directly when there were any concerns about speed of implementation and a number of directorates had introduced monitoring systems which Mr Jani felt could be utilised across the Council.

Information was not held on implementation rates after the 6 month review, although if an area was identified as high risk it would be scheduled for further review as part of a future audit plan.

The report also included a summary of each audit report not previously submitted to the Committee. In relation to the five reports that had identified a 'limited' assurance level, officers gave further information and answered questions from Members as follows:-

Creditors and R2P

Richard Parsons, Service Head Procurement and Corporate Programmes, reported that the R2P project had achieved significant efficiencies and improved payment performance. The audit had identified an number of issues particularly around links between R2P and legacy systems. All of the recommendations had been addressed as set out in the report and strengthened arrangements were in place in relation to avoiding incorrect payments and supplier set up, reconciliation and suspense account matching.

Effectiveness of Probationary Tenancies (Tower Hamlets Homes)

The Audit had found that very good procedures had been developed around probationary tenancies but that these were not being fully implemented and monitored in all cases.

Les Warren, Director of Finance and Customer Services, Tower Hamlets Homes (THH), reported that this review had been included in the audit workplan at the request of management. He felt that in the housing sector generally the value of probationary tenancies was not always fully recognised or utilised.

Following the audit review an interim solution had been put in place, utilising a spreadsheet to ensure that key stages in the procedure are adhered to. In the longer term a dedicated ICT solution would be developed.

In response to questions from Members, Mr Warren reported as follows:-

- In relation to the minor breaches of probationary tenancies identified in the report, it was unclear whether the warning letters had not been sent or alternatively had been sent but not recorded. It was important that all actions were documented and the new spreadsheet system would ensure this.
- Regarding the development of a longer term ICT solution, THH officers had obtained information on systems in use by other providers in the sector. The software currently used by THH (Northgate) did not currently support a number of the triggers required for probationary tenancies, reflecting the relatively recent focus on this area of work. Officers would feed back via user groups to promote improvements in this regard.
- There were currently 60-70 new tenancies per month on average. This volume could be managed by the interim spreadsheet solution.
- The timetable for workshops with key personnel had slipped slightly as a result of a number of new Area Housing Manager appointments but would be in place by the end of July.

Members welcomed the report, feeling that probationary tenancies were a valuable initiative and it was important that the procedures worked effectively.

Management of Garages, Sheds and Parking Spaces (Tower Hamlets Homes)

Les Warren, Director of Finance and Customer Services, Tower Hamlets Homes (THH), reported that this was one of a number of detailed areas on which THH was now focussing following the initial work to establish the basics of the service and secure the 2 star status achieved in the last year. The Continuous Improvement Plan would give prominence to this area of work and a team of staff with good knowledge of the relevant systems had recently been TUPE-transferred from the Council to provide more focus to the work.

In response to a Members' question, Mr Warren confirmed that underground parking spaces were included in this project and that a bespoke approach would be required depending on the circumstances and needs of each particular estate or neighbourhood.

Registration Service

John Williams, Service Head Democratic Services reported that a number of the issues identified in the audit, including the weaknesses in the accounting arrangements and the maintenance of four separate cash books, reflected the

historic structure of the service which was fully transferred from the Registrar General to the local authority in 2007. In accordance with the recommendations of the audit report an external consultant (a senior Registrar from a neighbouring local authority that had already modernised its service) was engaged to advise on modernisation and a full restructure of the service had now been completed. This provided for an integrated management structure and addressed the accountability issues identified.

In the longer term the service would seek approval from the Registrar General to move to 'New Governance Arrangements' which would provide greater flexibility to develop services to meet local requirements.

In relation to the budgetary control issues raised in the audit report, these had now been addressed and the income targets for the service revised to a more realistic level taking into account the much increased income generated by the Nationality and Citizenship aspects of the service in recent years.

Control and Management of Blue Badges – follow up report

John Chilton, Head of Parking Services, reported that the 11 unimplemented recommendations of the 28 included in the audit report mainly related to the ICT issues. As set out in the management comments, it had been decided to address the matters raised as part of an overall ICT improvement programme which would now see the introduction of a new system in October 2011.

RESOLVED

That the Committee note the content of the Annual Audit Report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

7.2 Annual Governance Statement 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which set out the framework for reviewing and reporting on the Council's system of internal control and governance arrangements in line with regulation 4 of the Accounts and Audit Regulations 2011. The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and any gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted a number of key points. The draft Annual Governance Statement for 2010/11 was set out at Appendix 3 to the report.

In response to questions from the Committee, Mr Jani reported that the change to an elected Mayoral form of executive had required a number of changes to the Constitution. The main changes were agreed at the Council meeting in October 2010 but a number of ancillary issues were addressed

subsequently as the need arose and this process would continue. In this regard Councillor Eaton referred to her recent enquiry regarding the arrangements for appointing Chief Officers under the new system and the Corporate Director (Resources) reported that the Financial Regulations were also being updated.

Regarding awareness of the Mayoral system across the Council generally, Mr Jani felt that this was being cascaded from CMT through the directorates. A number of Committee members asked whether advice was provided to staff in relation to the Mayor's powers and what to do if they felt under pressure to take a particular decision or action. The Corporate Director (Resources) advised that staff roles and management reporting lines were in the main unaffected by the new system and the Member/Officer protocol and other safeguards remained in place.

RESOLVED

That the Committee note the process and findings as set out in the report, and that the Draft Annual Governance Statement for the financial year 2010/11 be agreed as set out at Appendix 3 to the report.

7.3 Audit Draft Statement of Accounts 2010/11

The Committee considered a report of the Corporate Director (Resources), circulated separately in a supplemental agenda pack, which presented the Authority's draft Statement of Accounts for the financial year ending 31st March 2011, prior to audit.

Peter Hayday, Interim Service Head - Financial Services Risk & Accountability, introduced the report and highlighted a number of key points. He apologised to the Committee for the late circulation of the report, which had arisen because of continuing work to finalise the treatment of items impacted by changes in recommended practice. Despite this the Corporate Director wished the Committee to have the opportunity to comment on the draft Statement of Accounts prior to submission to the auditors, in line with CIPFA best practice.

Members of the Committee welcomed this opportunity and the Corporate Director (Resources) confirmed that the Statement of Accounts would come back to the Committee for further consideration after submission for audit. There would be a five-week period from early July during which the accounts would be published but Members' questions and comments would be welcomed at any point after the meeting and for the coming two months.

In response to questions from Members of the Committee, Mr Hayday provided further information as follows:-

- The information included in the report on the Pensions Liability represented a 'snapshot' at a particular point in time. Members sought further information on the factors influencing the movement of this

liability and the officers undertook to report back on this in more detail. Further information would also be included in the Medium Term Financial Plan report to the August Cabinet meeting.

- In relation to Capital Spending, the contribution from developers through section 106 funds was driven by specific schemes and the balance of funding between grants, contributions and prudential borrowing would vary from year to year. Over recent years substantial Government funding had been provided through the Decent Homes and Building Schools for the Future initiatives.
- The figure for 'provision for bad debts' shown on page 83 related only to the Council Tax/NNDR Collection Fund. Council wide, the provision was approximately £50m. There were a number of factors influencing the level of this provision and officers would provide further information on this. The Council did not readily write off debts but rather sought to pursue collection where possible and economic.
- Decisions regarding earmarked reserves were taken as part of the Budget making process and via Executive decision-making mid-year and as part of this there was a challenge process to ascertain that reserves brought forward from year to year are still required for the purpose indicated.
- Any costs arising from the merger of Children's and Adults' Services were expected to be limited in the current financial year and resources could be available from general reserves if necessary. Once a new Corporate Director was appointed a more fundamental review would be carried out which may require the use of some resources on an 'invest to save' basis.
- The information regarding the Housing Revenue Account was set out in a separate section from page 77 of the report. This would be a key area of attention in the coming year as the Government sought to change the way that Housing provision is financed.
- The Pension Fund accounts would also be reported to the Pensions Committee and would be the subject of separate Audit comments.

RESOLVED

That the Committee note the draft Statement of Accounts for the financial year ending 31st March 2011.

7.4 The Future of Local Audit

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which provided an update on the Government's plans for the future of local external audit and the potential

impact of this on Tower Hamlets; and set out a proposed response to the Government consultation on this matter.

Peter Hayday, Interim Service Head - Financial Services Risk & Accountability, introduced the report and highlighted a number of key points. The three main areas covered by the consultation were:-

- Regulation of local public audit;
- Commissioning local public audit services (including proposals to change the membership arrangements for the Audit Committee, under which the committee might include a majority of Independent (i.e. non-Councillor) members); and
- Scope of audit and the work of auditors

Members expressed initial views on the draft response to the Government consultation included at Appendix A to the report as set out below:-

- A number of Members were not convinced that proposed abolition of the Audit Commission and the move to private sector provision of audit services were likely to be beneficial or result in significant savings and those Members felt that the Government's proposals were therefore misjudged. They felt that the existence of the District Auditor had been beneficial to the market and may also have helped to moderate fee levels.
- In relation to the scope of work of the auditors, all Members who expressed a view felt that the value for money work – including benchmarking and spreading best practice - was a valuable part of the auditor's role currently and that any proposal to entirely remove it would not be beneficial. They therefore favoured option 2 or 3 as set out at page 133 of the report.
- Question 5: The National Audit Office (NAO) would be the most appropriate body to maintain the register of local public auditors.
- Question 6: This would be a matter for the NAO to ensure
- Question 7: Any potential auditors should have to demonstrate knowledge and experience of the public sector and the relevant skills to undertake value for money work in that sector.
- Question 12: The language used in the draft ('... clogged with ...') should be reviewed.
- Question 14: It was noted that some authorities, especially outside London, may experience difficulty in recruiting Independent Members. This was not necessarily be the case in Tower Hamlets but there was a need to consider possible remuneration arrangements.

- Question 24: There would be a need to encourage firms to enter the market but either a seven year maximum term or a maximum of two consecutive 5-year appointments would seem sufficient to achieve this.
- Question 28: Yes, the new framework should put in place provision to prevent auditors from seeking to limit their liability in an unreasonable way.
- Question 38: Although it was desirable to modernise the 'right to object' to the accounts, this right should not be removed or diminished.

Members wished to give further consideration to the draft response and forward any further comments for inclusion after the meeting. The officers undertook to seek an extension to the 30th June deadline for responses to facilitate this.

RESOLVED

That the Committee note the report.

That the Council's response to the DCLG consultation document be amended in the light of the comments listed above and that the officers seek an extension to the deadline for Consultation responses to enable any further Member comments to be incorporated following the meeting;

That the Corporate Director (Resources) be authorised to further amend the Council's response in the light of any additional comments received from Members of the Committee and, following consultation with the Chair, to agree the final version for submission to the DCLG.

7.5 Update on Risk Management

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda, which provided an update on the Council's risk management arrangements and the risks reported to the Corporate Management Team in June 2011.

Minesh Jani, Service Head Risk Management, introduced the report and highlighted a number of key points. He and the Corporate Director (Resources) then responded to Members' questions as follows:-

- The risk referred to at AH005 (Accommodation) related specifically to the Southern Grove site that was currently in use by the Adults Health and Wellbeing service.
- In relation to risk AH0028 (Risk of a significant contractor going into liquidation), control measures were in place to identify contingency measures should this happen.

- In relation to risk CSD0011 (Child Protection Service), this was a very important area which in the view of the Corporate Director (Resources) was currently adequately funded. He would liaise with the Acting Corporate Director, Children Schools and Families to ascertain the issues and whether it was necessary to report a risk at this time.
- The risks referred to at CEAC0005 (East End Life) were considered and addressed in detail in the report submitted to Cabinet in June 2011 setting out the findings of the review of East End Life and making recommendations for the future of that publication.

RESOLVED

1. That the Committee note the contents of the report; and
2. That the Committee note the actions planned over the next year to embed risk management, as set out in section 7 of the report.

7.6 2010-11 Treasury Management Outturn Report, Update to 31 May 2011

The Committee considered a report of the Corporate Director (Resources), circulated with the agenda papers, which advised Members of treasury management activity for the financial year ended on 31st March 2011 as required by the Local Government Act 2003. The report detailed the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by the Council and the investment returns. In accordance with the Code of Practice the report would also be submitted to the full Council meeting on 13th July.

Oladapo Shonola, Chief Financial Strategy Officer, introduced the report and highlighted a number of key points. The Council had complied with its legislative and regulatory requirements. The prudential and treasury management indicators detailing the impact of capital expenditure activities during the year were set out in the report. Borrowing was only undertaken for a capital purpose and the statutory borrowing limit was not breached.

In response to questions from Members the officers provided further information as follows:-

- Some slippage in the Capital Programme had occurred resulting in a lower Capital spend than estimated. The Capital Programme year-end report to be submitted to the Cabinet on 6th July would give further details of this. The forthcoming budget process would ensure that all schemes were subject to scrutiny to ensure that ongoing slippage from year to year was minimised.

In relation to the maturity structure of the debt portfolio as set out in the table at paragraph 8.2 of the report, Members sought further information on the

basis on which the 'limits' shown were set, and how these related to the actual expenditure.

RESOLVED

That the contents of the report be noted.

8. OTHER BUSINESS

(a) References from the Council Meeting

The Chair stated that the Council meeting on 13th April 2011 had agreed to refer to the Committee a Member's question regarding staff and contractors employed in the Mayor's Office. He asked for an update on this matter.

Minesh Jani, Service Head Risk Management, reported that a protocol was being developed to determine how matters referred from the Council meeting would be dealt with and this would be reported to the next meeting alongside the item referred from the April Council meeting. It was important to ensure that items were considered by the relevant body and that the Committee was able to focus on its core duties.

The Chair asked that the draft protocol be circulated to Members of the Committee in the next two weeks, along with a briefing on the matters referred from the 13th April meeting.

(b) Executive decision making

The Chair reported that at the Cabinet meeting on 8th June 2011 it was stated that certain decisions would be taken by the Mayor under his Executive powers. He sought further information on these powers and the process for such decisions.

The Service Head, Democratic Services confirmed that the Mayor had authority to take Executive decisions including Key Decisions either at the Cabinet Meeting or outside the meeting. Any decisions taken under the latter procedure would be subject to publication on the Council's website and potential call-in just as for a decision taken at the Cabinet Meeting. In the case of a Key Decision there was also a requirement for prior publication on the Forward Plan.

In relation to the specific matters mentioned at the Cabinet Meeting. The Corporate Director (Resources) advised that these were subject to ongoing discussions and had not yet been determined.

(c) Membership of the Audit Committee

The Chair asked for an update on the appointment of a Member to fill the vacant position on the Committee.

The Service Head, Democratic Services reported that the vacant position was to be filled by an 'ungrouped' (Independent) Councillor but that so far none of the Independent Councillors had expressed an interest in joining the Committee. He would remind the relevant Members of the vacancy and ask again for expressions of interest.

The meeting ended at 9.40 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

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Agenda Item 4.1

REPORT TO: Audit Committee	DATE 20 September 2011	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		<i>Fraud Briefing from Protecting the Public Purse</i>		
ORIGINATING OFFICER(S): <i>Minesh Jani, Head of Risk Management and Audit</i>				
		<i>Ward(s) Affected: N/A</i>		

1. SUMMARY

- 1.1. The attached report summarises the work of the Audit Commission who compared Tower Hamlets performance in tackling a range of fraud with other similar authorities. The work of the Commission focused on seven specific types of frauds, highlighted as the most common from an earlier survey of all local authorities in England, these being; housing and council tax benefit fraud; single person discount fraud; housing tenancy fraud; social service fraud (personalised budgets); procurement fraud; Blue Badge fraud and recruitment fraud, payroll and employee contract fulfilment fraud and abuse of position fraud.

2. RECOMMENDATION

- 2.1. The Audit Committee is : -
- asked to note the contents of this report and to take account of the matters raised by the Audit Commission in their report; and
 - make suggestions and recommendations as it considers necessary to assist in the management of fraud risks.

3. NATIONAL PICTURE

- 3.1. The Audit Commission survey shows Councils and relevant bodies in England detected around 119,000 cases of fraud in 2009/10, valued at £135M. The report emphasises the point, these statistics are for *detected* fraud, the actual levels of fraud are likely to be far higher. The majority of detected fraud relates to Housing and Council Tax Benefit, totalling £99M in that year.

4. LOCAL PICTURE

- 4.1. The overall message from this report is that on the whole, Tower Hamlets compares favourably with other inner London Boroughs and others in its peer group in tackling fraud. In 2009/10, the Tower Hamlets detected fraud estimated at £1.3M. Within this, the traditional areas of known fraud such as housing and council tax benefit fraud are particularly well targeted. Our work on more recent initiatives such as tenancy fraud are shown as developing and the report suggests may still require further efforts. (A separate report on this is presented elsewhere in the agenda). The report recommends a number of areas where the risk profiling will be required to better understand fraud risks and how they may be managed better particularly around social services fraud, procurement fraud and recruitment fraud. The other general message that is coming out from the Audit Commission, the National Fraud Authority and others such as the “big 4” is fraud is on the increase and organisations need to be alert to this rising trend.
- 4.2. With this latter point in mind, and to ensure the risk of fraud risk is better managed, in March 2011, all Service Heads responsible for managing the types of frauds identified in this Audit Commission report were contacted and provided with details of how fraudsters can exploit their systems and case studies of what other authorities have done to manage fraud risks in their area better. It is envisaged Service Heads will use this information to safeguard the interests of the Council, particularly in this climate of financial restraint. The Corporate Fraud team will continue to alert Corporate Directors of significant frauds in line with normal protocols. This will alert Corporate Directors to fraud risks that have been exposed by fraudsters.
- 4.3. The Audit Commission will present this report to the Audit Committee on 20th September 2011.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 6.1. There are no immediate legal implications arising from this report.

7. ONE TOWER HAMLETS

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

8. RISK MANAGEMENT IMPLICATIONS

- 8.1. This report highlights the potential areas of fraud risks that any local authority is likely to be exposed to. A considered assessment of the nature and impact of the fraud risks will allow the authority to make better use of its resources.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 9.1. 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

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Fraud briefing

2011

London Borough of Tower Hamlets

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

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

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

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Introduction

- 1 This briefing is intended to help you to understand how well your Council appears to be tackling fraud.
- 2 All councils in England were asked, in summer 2010, to complete the Audit Commission's survey of detected fraud for 2009/10. More than 96 per cent of councils completed the survey and told us how well they consider they are doing in the fight against fraud.
- 3 In this briefing we use the results of the survey to compare your reported performance in preventing and detecting fraud with the reported performance of other councils.
- 4 We recognise stand alone figures do not provide definitive answers about your performance. We therefore compare your fraud data with figures from other councils, including fraud risks where you have provided us with no information. Finally, we suggest issues where you may wish to take action.
- 5 In your case, our analysis compares your results with the national picture, other inner London councils and a cluster of neighbouring councils. Included in your cluster are: Greenwich, Hackney, Lewisham, Newham, and Southwark councils.
- 6 The 2010/11 detected fraud results for all councils in England will be published later this year. Although we are unable to compare your 2010/11 performance with your cluster group, we are able to note your level of detected fraud in 2010/11.
- 7 At the end of this briefing we have included a checklist based on the one published in our national report '*Protecting the Public Purse 2010*' (*PPP 2010*). This is intended to help audit committees, and others responsible for governance, to assess the effectiveness of their counter-fraud arrangements.
- 8 We recommend you use this checklist annually to assess your counter-fraud performance and arrangements.

The national picture

- 9 Our 2009/10 fraud survey results show councils and related bodies detected around 119,000 cases of fraud valued at £135 million. It should be noted the survey results relate only to detected fraud which normally represents only a small proportion of the total amount of fraud committed against councils.
- 10 These cases included:
 - 63,000 housing benefit and council tax benefit frauds amounting to a loss of £99 million to the public purse. These frauds represented almost three quarters of the total detected fraud by councils;
 - 48,000 council tax discount frauds amounting to £15 million; and
 - 7,000 other frauds worth £21 million.

11 In addition to the above figures, councils recovered almost 1,600 homes in 2009/10 from unlawful tenants with an estimated replacement value of nearly £240 million.

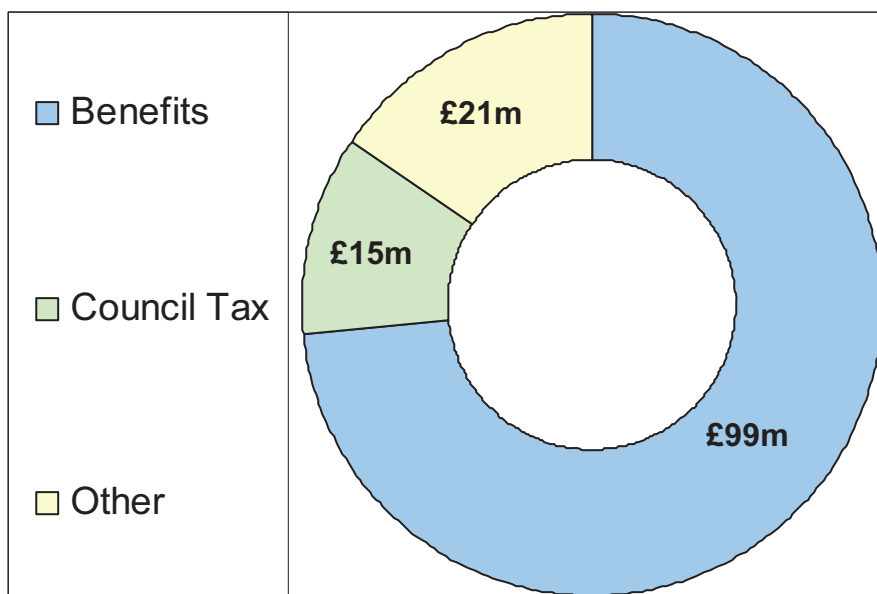
12 In 2009/10 some councils did not keep complete records of all types of fraud and did not always classify fraudulent activity as fraud. Most councils were able to provide us with information for more traditional fraud risks, such as housing benefits. But information about some types of fraud, such as tenancy, council tax and recruitment fraud, was less robust.

13 We recommend all councils treat fraud as fraud and keep complete records in the future.

14 All London councils completed the fraud survey.

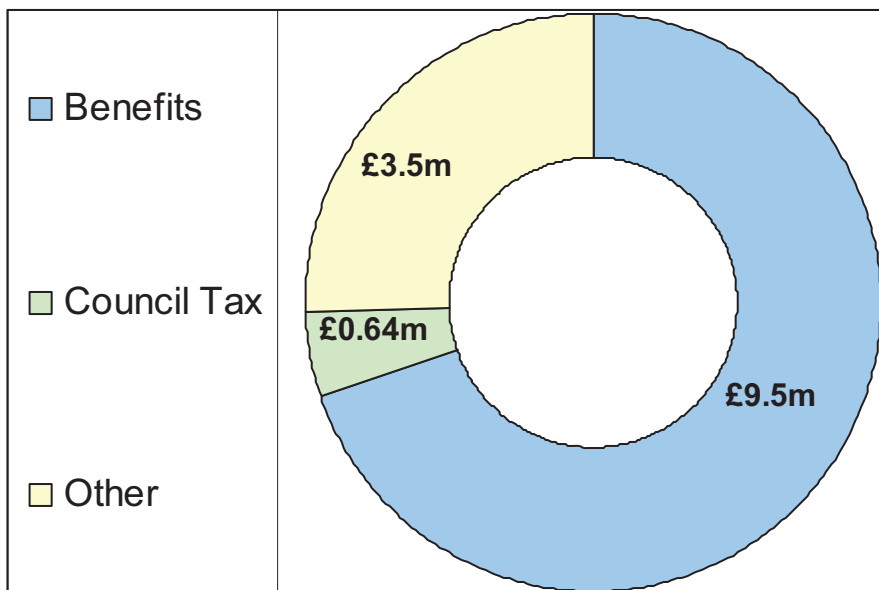
Fraud against councils in England - the big picture

Figure 1: National picture - total value of fraud detected by councils in England (£135 million)



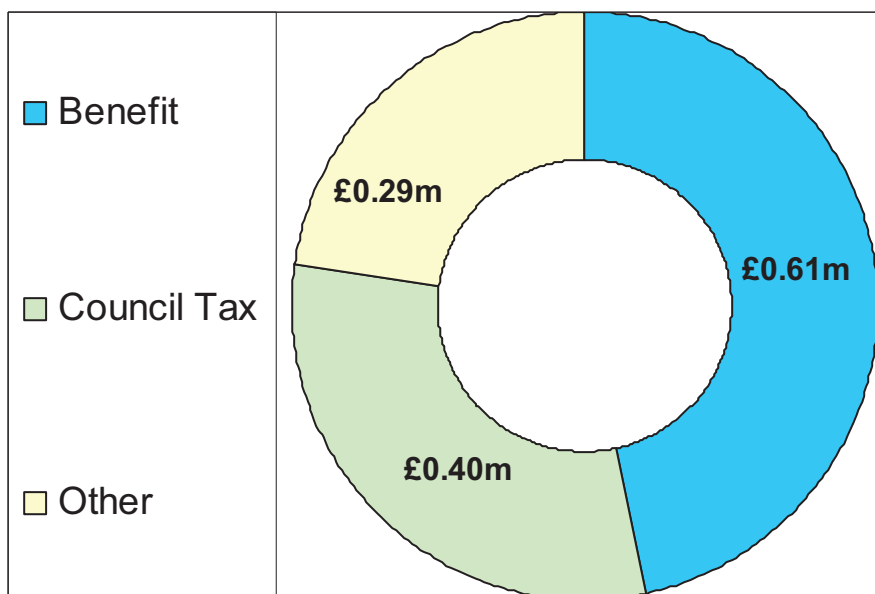
15 Figure 1 shows the amount of detected fraud by councils in England excluding tenancy and recruitment fraud which are covered later in this briefing. Almost three-quarters of fraud detected by councils is benefit fraud.

Figure 2: Inner Londonⁱ - total value of fraud detected by inner London councils (£13.64 million)



16 Figure 2 shows the value of detected fraud by inner London councils. In inner London the detected level of council tax fraud is lower than the national average while benefit fraud is higher.

Figure 3: Tower Hamlets - total value of fraud detected by your council (£1.3 million)



17 Figure 3 shows the total value of fraud detected by your Council. 'Others frauds' includes an estimated value for 27 'payroll and employee contract fulfilment' fraud cases.

ⁱ We have used the Office of National Statistics definition of inner London, as used by Department of Work and Pensions, rather than the Local Government Act 1963 definition. Note Newham and Haringey are counter as inner London boroughs for this purpose.

How does your Council compare?

Housing and council tax benefits (HB/CTB) fraud

The national picture

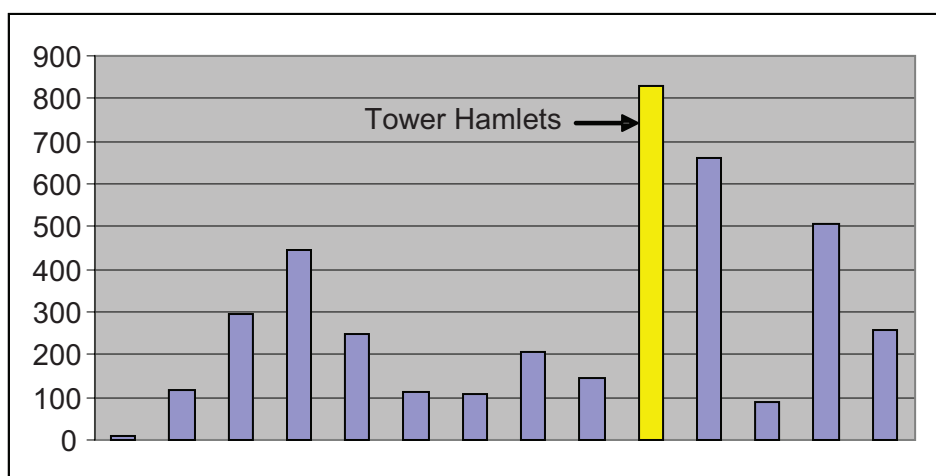
18 In 2009/10, almost £22 billion of HB/CTB was paid to individuals by councils in England. According to the results of our fraud survey councils detected over 63,000 fraudulent claims for benefit with losses of nearly £99 million in 2009/10.

19 Councils used a range of techniques to detect HB/CTB fraud, including our National Fraud Initiative (NFI) data-matching exercise. Outcomes are significant and show preventing and detecting HB/CTB fraud are still important tasks for councils.

Your performance

20 Your HB/CTB caseload for 2009/10 was around 39,000 claims. You reported to us 832 cases of detected HB/CTB fraud for 2009/10, worth £607,392. This was the highest number of cases of detected fraud compared to all other inner London Boroughs.

Figure 4: **You reported the highest number of HB/CTB cases of detected fraud in inner London**



21 You reported the highest number of HB/CTB cases of detected fraud in inner London. When we compared you with your neighbouring authorities, your detected number of HB/CTB cases expressed as a percentage of your total HB/CTB caseload, you had the second highest percentage in London.

22 You reported 26 convictions for HB/CTB fraud in the same period. This is above the inner London average (16) and the average for your neighbours (19). You have the third highest level of convictions of inner London councils.

23 In 2010/11, you maintained this performance, reporting 187 cases with a total value of £646,250.

How you can improve

- 24** You have a strong performance in fighting HB/CTB fraud,
- 25** This is a time of great change within welfare benefits. We suggest you make every effort to ensure your performance is not allowed to slip.

Council tax - single person discount (SPD) fraud

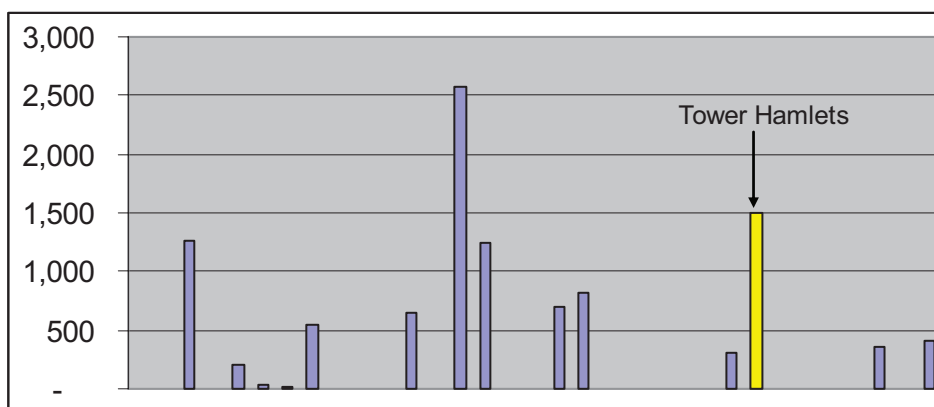
The national picture

- 26** In 2010/11, it is estimated £26.3 billion was raised from council tax in England. Householders may claim single person's discount (SPD) where there are no other residents aged 18 or over living at that address. SPD gives individuals a 25 per cent discount on their council tax bill.
- 27** Nationally, councils have noted a sharp increase in the number of people claiming SPD in recent years and an increased number of fraudulent applications. In 2010, we analysed the results of action taken by 26 councils to tackle this type of fraud.
- 28** We found fraudulent levels of claims were commonly between four and six per cent of SPD claims. This confirms our previous estimate that SPD fraud is costing councils in England at least £90 million each year.

Your performance

- 29** You reported 1,500 detected cases of SPD fraud for 2009/10. This was the highest number for inner London councils and second highest for London as a whole. The value of your detected cases of SPD was £400,000, again the highest for inner London councils.

Figure 5: **You had the second highest number of SPD cases in all London**



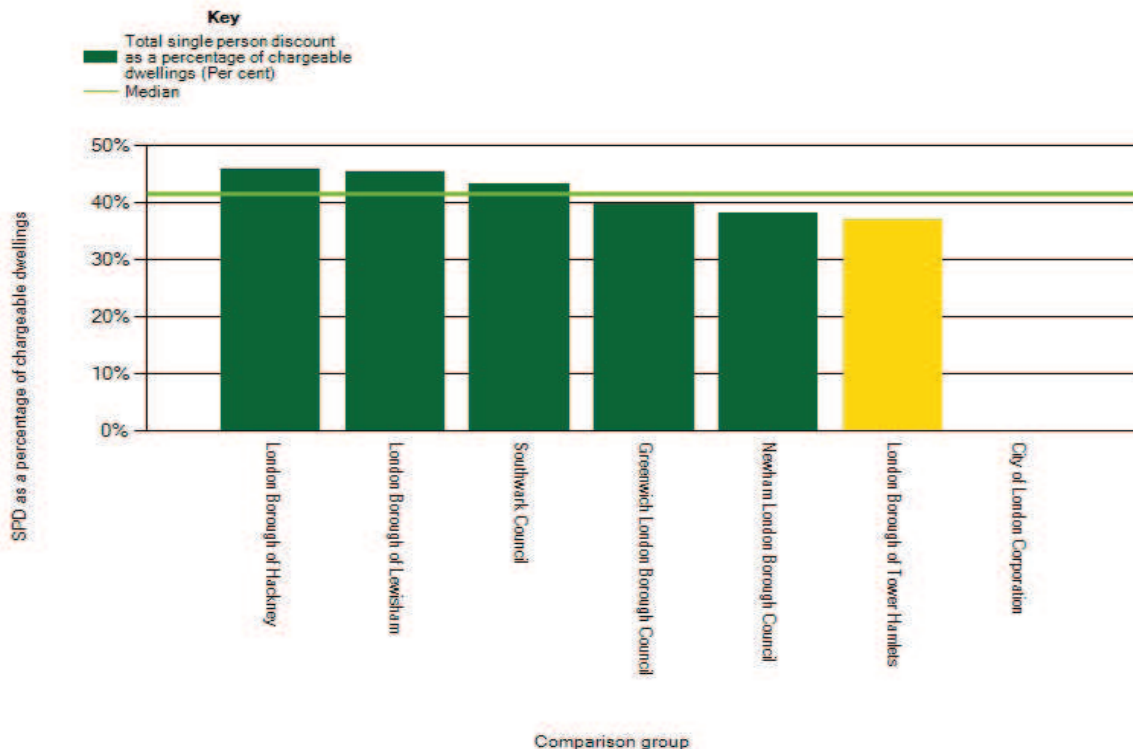
- 30** We recognise that some councils may have taken action on SPD fraud but may not have recorded it as fraud and therefore not reported any cases to us in our 2010 survey.

31 Our SPD predictor toolkit [<http://spd.audit-commission.gov.uk>] shows you have a level of SPD claims broadly comparable with your neighbours.

32 Our toolkit predicts that 42.05 per cent of your council tax payers will claim SPD discounts. Your actual level of SPD claimants in 2009/10 was 37 per centⁱ. This drops to 36.8 per cent in 2010/11.

33 In 2010/11, you reported no cases of detected SPD fraud.

Figure 6: **This bar chart shows your level of SPD claims is comparable with your neighbours**



How you can improve

34 You should review the cost and benefits achievable by further targeting of SPD fraudsters.

Housing tenancy fraud

The national picture

35 There are nearly four million social housing properties in England. Registered housing providers, such as councils and housing associations, are the guardians of these valuable assets. They should ensure only eligible and lawful tenants occupy their properties.

ⁱ The actual SPD level shown in the toolkit is derived from data published by the Department for Communities and Local Government, and thus includes fraudulent cases yet to be addressed. As a result, if a council is close to the predicted level then typically it can expect to have a fraudulent discount level of about 4 per cent.

36 Nationally about 1.8 million households are on councils' housing waiting lists. In *PPP 2010* we estimated there may be at least 50,000 social homes in the hands of tenancy fraudsters, with a replacement cost of over £7 billion.

37 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

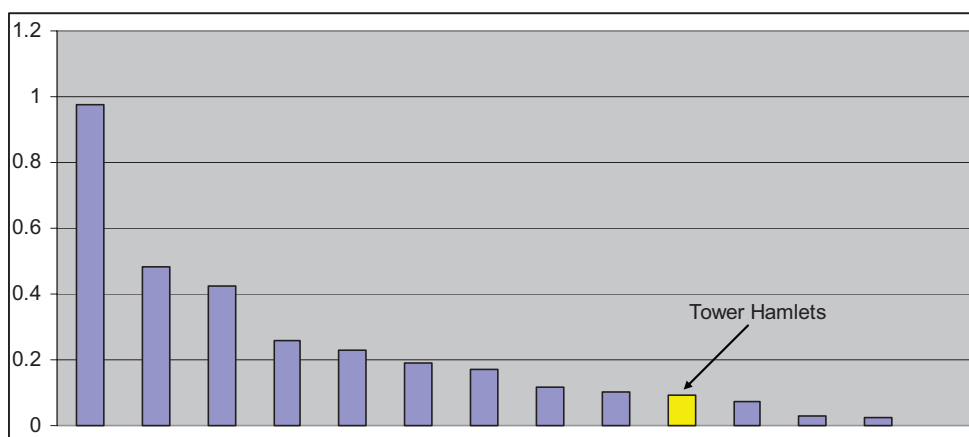
- the unauthorised sub-letting of a property for profit to individuals not allowed to live there by the conditions of the tenancy;
- submitting false information in a housing application to gain a tenancy; and
- wrongful tenancy succession where the property is no longer occupied by the original tenant.

Your performance

38 Tower Hamlets, along with 13 other inner London councils, manage their own housing stock. Your Council detected 12 cases of tenancy fraud in 2009/10. The replacement value of these properties is about £1.8 million.

39 Comparing your detected tenancy fraud cases against the number of properties you manage, you had the fifth lowest level of detected cases as a proportion of your total housing stock in 2009/10.

Figure 7: **This bar chart shows the number of your detected tenancy fraud cases as a percentage of the number of properties you manage**



40 In 2010/11 you recruited three specialist investigators who became fully operational in September 2010. To date this team has recovered 43 properties, with many more potential successes in the pipeline. The team is working closely with Tower Hamlet Homes and your Housing Benefit team. In line with your Anti Fraud Plan for 2011/12, guidance is being provided on 'Right to Buy' irregularities and tenancy succession.

41 In your feedback to our survey you said you work with other registered social landlords (RSLs) and with other councils through, East London Solutions to tackle tenancy fraud. This has included the provision of counter fraud specific training for RSL staff.

42 Increasingly, London councils are working more actively in partnership with RSLs to counter tenancy fraud and this is producing mutual benefits to both councils and RSLs.

43 Some councils provide skilled and experienced investigators to investigate alleged tenancy frauds at RSL properties. In such cases, when a property is recovered by council investigators on behalf of the RSL, the council concerned receives nomination rights for an RSL property equivalent in size to that recovered. This has benefited both councils and RSLs

How you can improve

44 Assess your current response to housing tenancy fraud and determine if you are deploying sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used.

45 Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.

Social services fraud

The national picture

46 A significant number of respondents to our survey identified social services fraud as an emerging issue. In *PPP 2010* we also recognise the provision of adult social care in England is undergoing significant change. Councils are increasingly using personal budgets, in particular direct payments, to manage and deliver care.

47 A personal budget is a direct allocation by a council of funding for an individual to spend to meet their agreed needs. These budgets provide users with more choice and control to spend money in the way most suitable for them.

48 In March 2010, there were about 170,000 care users with personal budgets receiving about £900 million of public funding. This represents a large increase in the amount of public funds channelled through direct payments.

49 The change in the way care is being provided and the need to safeguard vulnerable people as well as the concerns expressed by councils make this an important area of fraud risk for councils to consider.

Your performance

50 In 2009/10 you reported only one case of social services fraud to us. This is similar to the picture for most inner London councils. However, one inner London council detected 13 cases of social service fraud that amounted to over £400,000. In *PPP 2010*, we acknowledge that cases of financial abuse in social services, particularly in relation to personal budgets, can be difficult to detect and prove.

51 In 2010/11 you reported two cases of social services fraud, with a total value of £165,000.

How you can improve

52 You should consider the risk of social service fraud in your area and your response.

Procurement fraud

The national picture

53 In *PPP 2010*, we noted that councils spend around £80 billion each year buying goods and services. There is, currently, no credible estimate of the level of procurement fraud in local government. The National Fraud Authority has highlighted that, in the private sector, procurement fraud is typically between two per cent and five per cent of expenditure. If that were to be reflected throughout local government, the potential cost to the public purse would be very significant.

54 A number of professional bodies and associations in the public and private sectors have recognised that more needs to be done to prevent and detect procurement fraud. They have concluded that, although the number of reported cases of procurement fraud is currently low compared to other types of fraud, this is likely to be a reflection of the lack of work in this area.

Your performance

55 Your Council reported 15 cases of detected procurement fraud in 2009/10, with a value of £12,000. Inner London councils in total reported 31 cases of procurement fraud amounting to £135,616. Only two of your neighbours reported procurement fraud cases: two cases valued at £15,000 and one case valued at £3,000.

56 In 2010/11 you reported no cases of procurement fraud.

How you can improve

57 You should consider the risk of procurement fraud and, in the light of any counter-fraud work you have undertaken, reflect on whether you need to do more.

Blue badge fraud

The national picture

58 People with severe mobility problems receive parking concessions if they have a blue badge. There are about 2.3 million blue badges in use in England. Criminals forge badges and steal genuine ones from cars. Badges can change hands for as much as £500 in the illicit market. Fraudsters use these badges to avoid parking charges in all areas and the congestion charge in London.

59 This means genuine badge holders cannot park in the places provided for them and councils lose income.

Your performance

60 Your Council reported it had 16 cases of detected blue badge frauds in 2009/10. One of your neighbours reported 172 cases valued at around £86,000.

61 In 2010/11 you reported 13 cases of blue badge fraud.

How you can improve

62 You should consider the risk of blue badge fraud in your area and your response.

Recruitment fraud, payroll and employee contract fulfilment fraud and abuse of position fraud

The national picture

63 Councils employ more than two million permanent staff and many thousands of temporary and agency staff. In *PPP 2009* we underlined the importance of verifying the identity, qualifications and past employment records and, where appropriate, the criminal history of those already employed and those applying for posts with a council.

64 As a result, some councils have strengthened their recruitment and vetting procedures. For example, one council adopted an enhanced vetting approach and found in 2009/10:

- 6 per cent of all successful candidates for a permanent position failed the vetting checks; and
- almost 13 per cent of all successful candidates for a temporary position failed the vetting checks.

Your performance

65 Your Council reported eight cases of recruitment fraud to us relating to 2009/10. Your neighbours reported 11, eight, seven, five and no cases respectively.

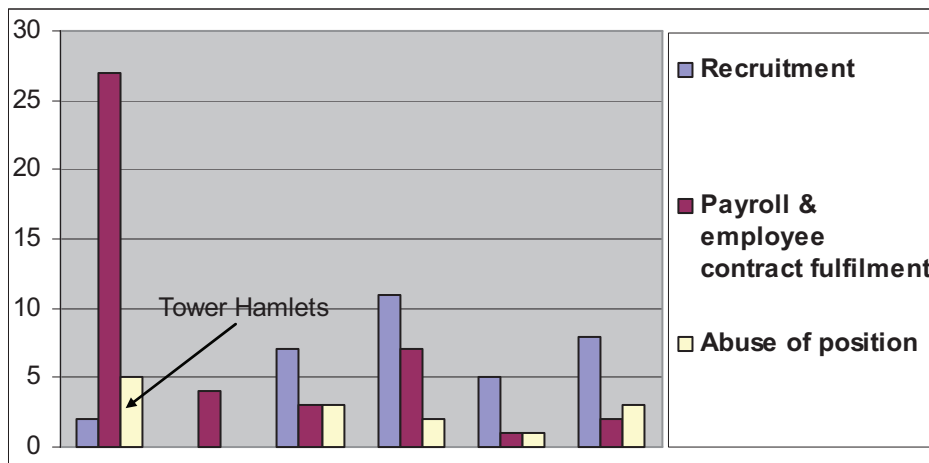
66 In 2010/11 you reported no cases of recruitment fraud.

67 Evidence from councils which employ enhanced vetting procedures indicates your previous detected fraud cases could be just the tip of the iceberg in terms of the total amount of recruitment fraud targeted against your Council.

68 You report 27 cases of payroll and employee contract fulfilment fraud. This was by far the highest number in London. You did not place a value on these cases, but using the average for other London councils this could amount to over £199,000 of potential fraud against your council.

69 You reported five cases of abuse of position fraud. This was the highest amongst your neighbours.

Figure 8: **This chart shows the number of your detected recruitment fraud, payroll and employee contract fulfilment, and abuse of position cases compared with your neighbours.**



How you can improve

70 As jobs, particularly in the public sector, become harder to find, ever more people could be tempted into recruitment fraud. Also, the risk of internal fraud, such as payroll and abuse of power, are likely to increase.

71 You should ensure, in difficult economic times, that you have in place appropriate safeguards to prevent fraudsters getting work in your Council and that internal controls remain robust.

Whistleblowing and anti-money laundering

The national picture

72 Our fraud surveys regularly identify whistleblowers as one of the principal sources of information by which public bodies identify and stop frauds. The Public Interest Disclosure Act, 1998 established protection for employees victimised or dismissed after raising a concern about wrongdoing or malpractice.

73 The adoption of good practice by many organisations means whistleblowing arrangements have improved significantly since the Act came into force. Organisations increasingly view the Act as the starting point to developing a transparent culture which supports and encourages whistleblowing.

74 In relation to anti-money laundering, many of the provisions of the Money Laundering Regulations, 2007 do not apply to local government organisations. However, the size and scope of local authority activities are such that few, if any, are likely to be immune from the risks surrounding money laundering. As a result most councils have adopted a voluntary anti-money laundering policy.

Your performance

75 You reported to us you have policies and arrangements to manage whistleblowing and anti-money laundering. You take active steps to raise awareness of both policies every year.

76 In 2009/10 you reported 60 whistleblowing disclosures by staff. This was the highest number for inner London and the second highest for all London.

How you can improve

77 Continue to promote your whistleblowing and anti-money laundering arrangements.

Governance arrangements

The national picture

78 The audit committee of a public organisation exists to provide independent assurance that the organisation has adequate controls to mitigate key risks and to ensure the organisation is operating effectively. Audit committees hold organisations to account and should make sure their organisation is taking effective action to counter fraud.

79 Some councils do not record all types of fraud, or do not always classify all fraudulent activity as fraud. All councils were able to provide information for the more traditional fraud risk areas such as housing benefits. For other types of fraud such as tenancy, SPD and recruitment, information was not comprehensive.

Your performance

80 Your Council has an audit committee with a remit covering governance and counter-fraud issues.

81 You also reported to us that your Council has:

- a dedicated counter-fraud resource;
- a counter-fraud plan approved by your councillors;
- an annual performance report of your counter-fraud work sent to councillors and made available to the public; and
- that you undertake an annual assessment of your exposure to the risk of fraud.

82 Your governance and counter-fraud arrangements comply with recommended good practice.

How you can improve

83 Continue to collect information about all types of fraud perpetrated against your Council so that your annual risk assessment is comprehensive. And then take action, where necessary.

Summary

84 We suggest you take the following action to improve your fight against fraud.

Your fraud risks	Action we recommend	Tower Hamlets response
Housing benefit and council tax benefit - HB/CTB	This is a time of great change within welfare benefits and we suggest you make every effort to maintain your performance.	
Council tax - SPD	You should review the cost and benefits achievable through further targeting of SPD fraudsters.	
Housing tenancy	Assess your response to housing tenancy fraud and determine if you deploy sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used. Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.	
Social services	You may wish to consider the risk of social service fraud in your area and what responses may be required.	
Procurement	You should consider the risk of procurement fraud. In the light of any counter-fraud work you have undertaken reflect on whether you need to do more.	
Blue badge	You could consider the risk of blue badge fraud in your area and what response may be required.	
Recruitment, payroll and employee contract fulfilment, and abuse of position	You should ensure that you have appropriate safeguards to prevent fraudsters getting work in your Council and internal controls are robust.	
Whistleblowing and anti-money laundering	Continue to promote your whistleblowing and anti-money laundering arrangements.	

Your fraud risks	Action we recommend	Tower Hamlets response
Governance arrangements	Ensure that you continue to collect information about all types of fraud perpetrated against your Council.	

Audit Commission counter fraud checklist for you to complete

Governance	Y/N	Action to be taken
1. Do we have a zero tolerance approach against fraud?		
2. Do we have appropriate counter-fraud strategies, policies and plans?		
3. Do we have dedicated counter-fraud resources?		
4. Do the resources cover all of the activities of our organisation?		
5. Do we receive regular reports on fraud risks, plans and outcomes?		
6. Have we assessed our management of counter-fraud resources against good practice?		
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> ■ new staff (including agency staff)? ■ existing staff? ■ elected members? ■ our contractors? 		
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?		
9. Do we have effective working arrangements with relevant organisations to ensure appropriate sharing of knowledge and data about fraud?		
10. Do we identify areas where our internal controls may not be performing as intended?		
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive and act on reports on outcomes?		
12. Do we have effective fidelity insurance arrangements?		

Governance	Y/N	Action to be taken
Anti-money laundering		
13. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?		
Whistleblowing		
14. Do we have effective whistleblowing arrangements?		
Fighting fraud in the post recessionary environment		
15. Have we reassessed our fraud risks in the light of the current financial climate?		
16. Have we amended our counter-fraud action plan as a result?		
17. Have we reallocated staffing as a result?		
Housing tenancy		
18. Do we take effective action to ensure social housing is allocated only to those in need?		
19. Do we ensure social housing is occupied by those to whom it is allocated?		
Procurement		
20. Are we satisfied that procurement controls are working as intended?		
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?		
Recruitment		
<p>22. Are we satisfied our recruitment procedures:</p> <ul style="list-style-type: none"> ■ prevent the employment of people working under false identities? ■ validate employment references effectively? ■ ensure applicants are eligible to work in the UK? ■ require agencies supplying us with staff to undertake the checks we require? 		

Governance	Y/N	Action to be taken
Social services		
23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate arrangements proportionate to risk and in line with recommended practice?		
Council tax		
24. Are we effectively controlling the discounts and allowances we give to council taxpayers?		
Housing and council tax benefits		
25. In tackling housing and council tax benefit fraud do we make full use of:		
<ul style="list-style-type: none"> ■ National Fraud Initiative? ■ Department for Work & Pensions Housing Benefit matching service? ■ Internal data matching? ■ Private sector data matching? 		

Source: Audit Commission 2010

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June 2011

Agenda Item 6.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	20 September 2011	Unrestricted		
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 June to August 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 June 2011, 21 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	-	7	1	-	8
	Moderate	-	8	5	-	13
	Low	-	-	-	-	-
Total Numbers		-	15	6		21
Total %		-	71%	29%		100%

- 5.4. From the table above it can be seen that of the eight finalised audits which focused on high risk or high value areas; seven were assigned Substantial Assurance and one received Limited Assurance. A further thirteen audits were of moderate significance and of these; eight were assigned Substantial Assurance and five, Limited Assurance.
- 5.5. Overall, 71% of audits resulted in an adequate assurance (substantial or full). The remaining 29% 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 July 2011	23%	23%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	88% 7/8
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	91% 20/22

- 6.2. The table above shows that the proportion of internal audit work completed to August 2011 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was 88%, whereas the percentage of priority 2 recommendations was 91%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3.

7. Comments of the Chief Financial Officer

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

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

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

9. One Tower Hamlets

- 9.1. There are no specific one Tower Hamlets considerations.

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

10. Risk Management Implications

10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This 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

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Corporate	Information Security – Paper Based Data Storage and Disposal - Systems Audit
	Moderate	Adult, Health and Wellbeing	Community Equipment Store – Systems Audit
	Moderate	Adult, Health and Wellbeing	Apasenth Day Service Provision - Contract Management and Monitoring
	Moderate	Children, Schools and Families	Marion Richardson Primary School - Probity Audit
	Moderate	Children, Schools and Families	Cyril Jackson Primary School - Probity Audit
	Moderate	Children, Schools and Families	St Anne's Primary School - Probity Audit
SUBSTANTIAL			
	Extensive	Development and Renewal	Building Schools for the Future – Current Contract Audit on Morpeth and Swanlea Secondary Schools
	Extensive	Children, Schools and Families	Youth Offending Service - Systems Audit
	Extensive	Children, Schools and Families	Programme and Project Management for CSF Directorate - Systems Audit
	Extensive	Children, Schools and Families	Youth Service – Contract Monitoring Systems Audit
	Extensive	Adult, Health and Wellbeing	Homeless Payments and Placements - Follow Up audit
	Extensive	Resources	Pensions
	Extensive	Tower Hamlets Homes	Caretaking Services – Follow Up

Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
SUBSTANTIAL	Moderate	Children, Schools and Families	Bygrove and Elizabeth Selby schools New Extensions projects - Current Contract Audit
	Moderate	Children, Schools and Families	Payments to Claims Based Staff within CSF Directorate Systems Audit
	Moderate	Children, Schools and Families	Common Assessment Framework (CAF) Follow Up Report
	Moderate	Children, Schools and Families	Harbinger Primary School – Probity Audit
	Moderate	Children, Schools and Families Children	Canon Barnet Primary School
	Moderate	Children, Schools and Families Children	Smithy Street Primary School
	Moderate	Children, Schools and Families Children	Banga Bandhu Primary Schools
	Moderate	Children, Schools and Families Children	Alice Model Nursery School

**Summary of Audits Undertaken
Limited Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Information Security – Paper Based Data Storage and Disposal Systems Audit</p>	<p>Aug 2011</p>	<p>The purpose of this audit was to assure management that the systems for securing and protecting the Authority’s paper based data were sound, secure and adequate.</p> <p>This review identified that whilst policies and guidance relating to the security and management of ICT based systems were clear, there was no explicit guidance to staff on handling, storing and disposing of paper based material. There were no risk plans to test and monitor the effectiveness of the Council’s paper based data. A system required to be developed to capture and record paper based security incidents and to ensure that these incidents are collected from all sources, categorised and analysed to identify trends. In addition, the systems for data disposal of confidential waste was weak, with little control over the recording of disposal sacks collected by Facilities Management and reconciling these with the sacks collected by the contractor for destruction.</p> <p>Due to the corporate implications emerging from this audit, we have recommended that a working group should be set up to steer, manage and embed the principles of robust information security around paper based data across the Council.</p> <p>The findings and recommendations were agreed with the Information Governance Manager and Head of Legal Service (Community). The final report was issued to Assistant Chief Executive (Legal Services) and Corporate Director – Resources.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments

Action is being taken to meet the recommendations in the report. 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. The IGG is an officer group with representation from across the Council, including legal, risk, ICT, facilities management (from August 2011) and information governance. Further revisions to these documents have been made following the 20 July meeting and these are to be considered by the IGG on 31 August 2011. The revised suite of documents is to be presented to the corporate management team in September 2011, together with recommendations for further implementation.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Community Equipment Stores Systems Audit	July 2011	<p>The objective of this audit was to provide assurance that systems for procuring, ordering, issuing and controlling the Community Equipment Stores (CES) were sound and secure. Our review showed the following issues:-</p> <ul style="list-style-type: none"> • There were policies and procedures in place to govern the procurement, ordering, issuing and stock control of the stores. However, some of these procedures needed to be reviewed. • CES staff did not check to ensure that prescribers / supervisors had obtained the necessary number of quotations in accordance with the policy before placing orders with suppliers. • There was evidence of a lack of authorisation by individuals with delegated responsibility before the issue of special equipment to patients. • Procedures for condemning obsolete equipment were inadequate. A high quantity of equipment was condemned annually with a cumulative total value of £292,427.16, all of which was not adequately recorded and verified by two individuals. • Review of the last inventory check found there were many discrepancies between equipment recorded on ELMS (Equipment Loan Management System) and actual quantity held in stock. There was no evidence of discrepancies having been investigated and reported to the CES Management Board. <p>All findings and recommendations were agreed with the Service Head Adult Social Care and copy of final report was issued to the Corporate Director – Adults, Health and Wellbeing.</p>	Moderate	Limited

Management Comments

The CES has been without a manager for almost a year. There is a new manager in place and work on completing and updating policies and procedures are underway. The new manager will work with staff to remind them of the procedural requirement in relation to the issue of special equipment and checking that financial regulations have been adhered to by prescribers. There was an issue with a particular member of staff in relation to condemning of equipment and this has been dealt with via disciplinary procedures. All staff will be updated on procedures and a record of this kept.

The audit report will be discussed at the next Pooled Budgets Governance Board in September with the proposal that progress on the recommendations is monitored via this Board including monitoring of discrepancies in the equipment record.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Apasenth Day Service Provision</p> <p>Contract Management and Monitoring</p>		<p>This audit was undertaken at management's request and its objective was to assure management that systems in place for controlling and monitoring the contract were sound, adequate and secure. The Council commissions' community based services from Apasenth to provide support to Bangladeshi/Sylheti speaking people in Tower Hamlets with a learning disability.</p> <p>Our review showed that a service specification had been drawn up with the company which set out the framework for day service including the service description and aims, referral process, obligations of the service provider, monitoring and evaluation and quality assurance. However, we noted that the arrangement had not been formalised.</p> <p>Referrals made to the organisation for day care services for adults with a learning disability were commissioned via spot purchase arrangement, and we recommended consideration be given to use of block purchasing arrangement. If spot purchasing was to be continued we recommended that an individual placement contract/service agreement be put in place to minimise risks to the authority.</p> <p>All findings and recommendations were agreed with the Service Head – Commissioning and Strategy, and final report was issued to the Corporate Director – Adults, Health and Wellbeing.</p>	Moderate	Limited

Management Comments

Since completion of the audit, Cabinet has agreed the Learning Disability Day Opportunities Modernisation Strategy which includes a plan to re-commission all day services including the Apasenth Day Service which is the subject of this audit. This means that new contract monitoring arrangements will be put in place.

In the meantime, work is in progress with Legal Services, to update our existing contract documentation (which we would do from time to time routinely). This includes individual placement agreements for providers with whom we place users on a spot basis. Regarding value for money, the Directorate is currently working on the procurement strategy to be used in implementing the strategy. This is likely to include a mix of block and spot arrangements but consideration will be given to a “preferred provider” framework that enables us to control spot prices. This will be subject to sign off via the Council’s tollgate process.

Finally, the reorganisation of Commissioning has created a specialist Contract Monitoring Team to strength our monitoring function. This includes quarterly meetings chaired by Service Head Commissioning and Strategy to review contract activity (block and spot) by provider – to cover utilisation rates, overall activity, spend, and quality issues.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marion Richardson Primary School Probity Audit	July 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • Significant improvements were required in the Scheme of Delegations, declaration of business interests, budget monitoring, governance arrangements, clerking of governing body meetings, purchasing systems, ordering and receipt of goods, control of credit card and in preserving good audit trails; and • Segregation of duties between ordering, receipting of goods, processing and certifying invoices needed to be improved to safeguard against the risk of errors, omissions, irregularity and fraud. <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 for All Schools with Limited Assurance

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. .

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cyril Jackson Primary School Probity Audit	July 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below:-</p> <ul style="list-style-type: none"> • The Scheme of Delegations needed to be amended to ensure that it referred to the correct legislation and that it reflected delegations of financial limits for credit card purchases and delegations to the Deputy Head Teacher, Bursar and departmental Heads; • A system for raising official orders and for receipting of goods and services needed to be established. Payments needed to be made only after receipt of satisfactory service; and • All invoices / supporting documents required to be certified by an independent authorised signatory and records maintained to maintain a good audit trail. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Anne's Primary School Probity Audit	July 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. The following issues were raised:-</p> <ul style="list-style-type: none"> • The Code of Practice for Financial Management & Delegation of Financial Authority needed to be reviewed to ensure that it specified the delegation for authorising virements exceeding £10,000 and to clarify the responsibility for authorising expenditure between £5,000 and £20,000; • The school needed to obtain business interest declarations from all Governors and staff with financial management responsibility; and • An annual inventory check was not being undertaken by an officer other than the person who is responsible for maintaining the 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

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Building Schools for Future Programme</p> <p>Current Contract Audit on Morpeth and Swanlea Secondary Schools</p>	Aug 2011	<p>This audit sought to provide assurance that the client-side systems in place for controlling and monitoring the cost and work programmes for Morpeth and Swanlea Schools costing some £21.5M and £16.4M respectively were sound and secure.</p> <p>Our review found that there was a structured monitoring system in place to ensure that the controls associated with the currency of contract around cost control, programme control, interim valuations and variation control were adequate. On a monthly basis, the contractor submitted to the appointed Independent Certifier and the Council a valuation list in support of the milestone payment schedule for construction activities undertaken that month. The Independent Certifier verified that the Contractor's Application for payment represented works which had been carried out and was in accordance with the activities in the milestone payment schedule.</p> <p>However, our review showed that there were some errors between the amounts recorded within the total project cost on the valuations list and the amounts certified for payment. This had led to small underpayments of £34,509 to the contractor.</p> <p>All findings and recommendations were agreed with the Service Head – Building Schools for the Future programme and a copy of the final report was issued to the Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Youth Offending Service Systems Audit	June 2011	<p>The objective of this audit was to provide assurance that there were sound administrative and financial management systems in place for the service so that its main business activities operate efficiently and effectively. The Youth Offending Service is a statutory function provided under the Crime and Disorder Act 1998 administered via the Home Office Youth Justice Board. Youth Offending Services are provided locally by a multi-agency team and the local authority takes the lead role.</p> <p>Our review showed that there were adequate governance arrangements in place through the Youth Offending Team Management Board (YOTMB) which brings all appropriate services and partnering organisations together as one forum. However, agendas and minutes of these meetings showed that individual partners' progress and compliance to demonstrate accountability needed to be improved. There were some critical success factors such as grant funding for the service, which needed to be identified, assessed and reflected on a risk register with clear mitigating action plan. Detailed testing showed that improvements were needed in the operational and financial management arrangements in relation to quality assurance, performance management, control of attendance, leave and sickness, petty cash management, inventory control and management of staff travel costs.</p> <p>The findings and recommendations were agreed with the Service Head, Youth and Community Learning and copy of final report was issued to the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Programme and Project Management for CSF Directorate Systems Audit	July 2011	<p>The purpose of this audit was to assure management that the systems of control for Programme and Project Management (PPM) within CSF were in accordance with the Corporate Project and Programme Management framework.</p> <p>Our review found that policy and procedures for PPM were in place. There were systems for identifying and initiating programmes and projects. However, the Programme Management Office (PMO) was not always informed of new programmes and projects on a timely basis, and had to intervene at a later stage to regularise the project management process. There was risk that some projects were not in compliance with the corporate framework. Each programme/project was steered by a dedicated Project Board. Officers were generally complying with the principles under the guidance of the PMO, but there were variations and omissions of key documents that were being used / prepared for the recording of project information. We recommended that the PMO's role in monitoring compliance with the required procedures needed to be made more effective. High level reports on programmes and projects which required focused discussion were reported to the DMT. However, this forum may not provide an effective challenge and scrutiny of individual programmes and projects, thereby leading to potential risk. Consequently, we recommended that a Directorate Level Strategic Programme Board be established to provide challenge and scrutiny on a Directorate-wide basis.</p> <p>All findings and recommendations were agreed with the Service Head Resources and final report was issued to the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Youth Service Contract Monitoring Systems Audit	Aug 2011	<p>This audit sought to provide assurance that there were sound systems in place for managing the contract to achieve the objectives and priorities of the Council.</p> <p>Our review showed that there were adequate contract monitoring systems in place. Each of the five contracts contained clear work specification and performance standards against which the performance of the contractors was monitored. We have, however highlighted the following issues:-</p> <ul style="list-style-type: none"> • The contract was not risk assessed to identify critical aspects that needed monitoring. We have recommended that once the risks are identified and assessed, a mitigation plan/action should be formulated to ensure that the risks are managed appropriately; • The system for monitoring contractors' compliance with Insurance and CRB requirements needed to be strengthened; • Action points arising from the minutes of each meeting needed to be recorded separately and attached to the minutes together with outcomes; and • We could not locate signed copies of all the contracts within Legal Services, within Procurement or within the Youth Service. We have recommended that once contracts are signed by all the parties, copies of signed copies should be retained by the contract monitoring officer. <p>All findings and recommendations were agreed with the Service Head – Youth and Community Learning and final report was issued to the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homeless Payments and Placements Follow Up audit	July 2011	<p>The objective of the audit was to provide assurance that the agreed recommended actions at the conclusion of the original audit in July 2010 had been implemented. There were 6 recommendations in the original report, all of which were categorised as Priority 2 recommendations. Our follow-up review showed that 3 recommendations had been fully implemented, one had been partially implemented and two had still to be implemented. It was noted that completion of the outstanding recommendations was partly reliant on enhancing the Comino system.</p> <p>We reported that a comprehensive system for monitoring accommodation officers' activities and performance needed to be set up. Regular reports were required from all managing agents in respect of their units which should then be recorded on a database and form part of overall performance management. Action needed to be taken on managing agents who fail to make inspection returns as per the lease agreements. In addition, written procedures needed to be produced covering all aspects of officers' duties. A planned approach required to be adopted to undertaking visits to ensure all temporary accommodation units are visited over a set period of time.</p> <p>All findings and recommendations were agreed with the Head of Homeless and Housing Advice Services and final report was issued to the Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Systems Audit	June 2011	<p>The objective of this audit was to provide assurance on whether the systems of control around the management and administration of Pensions were sound and secure.</p> <p>Our review of a sample of new joiners identified that a P1 opt in form was not found / fully completed in all instances. Forms received by HR and/or notifications advised to Payroll are not always passed to the Pensions Team. Testing also identified that the Pension Team was not always evidencing that they had followed up pension transfer-in requests.</p> <p>Our review also identified that only one of the Pensions Team Leaders received relevant training to run the interface between Resource Link and AXIS, therefore it cannot be run in his absence. Testing also identified that high value payment vouchers were being certified and approved for payment by the two Pensions Team Leaders as there were no delegated limits in place requiring authorisation of high value payments by the Pensions Manager.</p> <p>The monthly reconciliation of transfers-in income code did not reconcile. The amount stated on JDE was higher than that recorded on AXIS. This was as a result of the cashiers coding payments to the pension codes incorrectly as the payer had entered wrong / incomplete reference numbers on bank payments. In addition, although the completed reconciliations were stored electronically on the pensions shared drive the reconciliations were not reviewed by a second officer.</p> <p>All findings and recommendations were agreed with the Pensions Manager and a final report was issued to the Corporate Director – Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Caretaking Services</p> <p>Follow Up audit</p>	<p>July 2011</p>	<p>This follow up audit assessed the progress in implementing the recommendations made in October 2010. Twenty two recommendations were made in the Final Audit report, of which; eight were priority 1 and fourteen priority 2 recommendations.</p> <p>From our testing, we found that three priority 1 and four priority 2 recommendations had been implemented and 14 in the process of being implemented and/or partially implemented with new findings emerging. Improvements had been made since the original audit with regards to the publication of revised cleaning standards, enhanced approval processes for weekly attendance records and for working overtime, stricter controls over the use of the corporate credit cards and purchases for caretaking stores and materials which were now centrally processed via the R2P system. There were also clear and up to date records of current mobile phone users. Furthermore, a great deal of work had been undertaken with regards to the development of a Health & Safety manual which was in the process of being issued to all caretaking staff.</p> <p>However, the requirement for detailed written procedures covering key elements of service delivery, monitoring procedures and the controls over caretaker's stores had not been completed but would be finalised through the proposed ISO90001 accreditation process planned for completion in March 2012. Furthermore, the lack of specific budgets for cleaning materials and store material still needs to be addressed by THH Finance. We further noted that not all delivery notes are being signed and dated by the receipting officer.</p> <p>All findings and recommendations were reported to the Director of Housing Management and Customer Services and final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bygrove and Elizabeth Selby schools New Extensions projects Current Contract Audit	July 2011	<p>The objective of this audit was to provide assurance over the soundness of systems for making interim payments; for controlling and issuing variation orders; for receiving and evaluating claims; and for monitoring cost and work programmes for the contracts.</p> <ul style="list-style-type: none"> • Our review showed that controls in place for a number of the Contract Administration procedures covering these two projects were compliant with the JCT Standard Form of Contract used and Procurement Procedures; and • However, the review showed weaknesses in the tendering criteria used for evaluating the tenders, the lack of a documented assessment of contractor's claims, the timeliness of the receipt of health and safety file and performance reviews of the contract, contractor and consultant. <p>All findings and recommendations were agreed with the Head of Building and Technical Services and Head of Building Development. The final report was issued to the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payments to Claims Based Staff within CSF Directorate Systems Audit	Aug 2011	<p>The objective of this audit was to assure management that there were sound systems in place for making, approving and processing payroll claims by Music Tutors, Community Language Tutors and Youth Workers. Our review showed that generally there were adequate controls over the payment, approval and processing of claims. However, the following issues were highlighted: -</p> <ul style="list-style-type: none"> • Out of the three services examined, only the Thames Tutors provided written procedural guidance for their staff to follow for making claims; • For Community Languages, 8 out of 10 employment contracts were out of date. In these cases the hours claimed and paid did not match with the contracted hours. Tutors were regularly given additional hours by means of an engagement form and in a number of cases these additional hours were higher than the contracted hours. We therefore, recommended that all Tutor contracts should be reviewed to ensure that the control over additional hours is improved; and • The certification of claim forms needed to be improved to ensure that certifying officers check the hours claimed are in line with the hours recorded on their timesheets. <p>All findings and recommendations were agreed and Final Report was sent to the Service Head – Youth and Community Learning; Service Head – Learning and Achievement and Corporate Director Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Common Assessment Framework (CAF) Follow Up Report	July 2011	<p>The objective of the audit was to follow up recommendations raised at the conclusion of the original audit finalised in May 2010.</p> <p>There were 2 recommendations in the original report which were all categorised as Priority 2 recommendations. Our follow-up review showed that all the recommendations had been implemented. The minutes of the Early Intervention for Vulnerable Workstream Group clearly showed the name of the officer chairing the meetings. Decisions were summarised and names of officers responsible for key actions were recorded and followed up at the next meeting. Periodic progress reports which compared actual project outcomes against those planned were being produced and achievement was monitored.</p> <p>The final report was sent to the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harbinger Primary School Probity Audit	July 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>A number of issues were raised around the management and financial processes and the key issues (priority 1 recommendations) are detailed below: -</p> <ul style="list-style-type: none"> • The school should ensure that declarations of interest are obtained for all Governors and staff with financial responsibilities on an annual basis. Where Governors or staff have no interests to declare, “nil” returns are to be completed; and • The School Development Plan should be approved by the Governing Body on an annual basis. The approval of the School Development Plan should be clearly recorded in the meeting minutes. <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
Canon Barnet Primary School	July 2011	<p>The audit sought to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>The following issues were raised: -</p> <ul style="list-style-type: none"> • Budget monitoring reports needed to be reported to the Finance Committee and full Governing Body meeting on a timely basis; • The school's procurement procedures were not being complied with; • Purchase orders were not raised for some goods and services procured; and • Sufficient separation of duties was not in place for payroll and personnel administration. <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
Smithy Street Primary School	July 2011	<p>The objective of the audit was to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>The following issues were reported: -</p> <ul style="list-style-type: none"> • Transfer of cash collected between staff was not recorded and signed for; • Free School Meals authorisation was not obtained in some cases, and hence there was no evidence to show that these children were eligible for free meals; and • Inventory check needed to be undertaken and recorded on an annual basis. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Banga Bandhu Primary Schools	July 2011	<p>The objective of the audit was to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>The following issues were reported: -</p> <ul style="list-style-type: none"> • Learning Committee needed adequate support to ensure that names of attendees and minutes of the meetings are recorded adequately; • Transfer of monies between staff needed to be recorded and signed for; • Reporting of the Head teacher's and Deputy Head teacher's performance and pay needed to be formalised; and • Inventory control required to be strengthened. <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>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Alice Model Nursery School Probity Audit	July 2011	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school.</p> <p>The following issues were reported:-</p> <ul style="list-style-type: none"> • Official purchase orders were not being raised and approved in some cases; • Free School Meals were being provided to a few children without confirming eligibility; and • IT security and access needed to be regulated. <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 2 Recommendation still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
Caretaking Services	Written procedures should be developed which cover the current work flows and key elements of service delivery and management processes which should be linked to service standards for the caretaking service.	Barbara Brownlee	Nicholas Spenceley
Homeless Payments and Placements Follow Up audit	Management should ensure that regular reports are received from all managing agents in respect of all their units which should then be recorded on a database and form part of overall performance management. Action should be taken on managing agents who fail to make inspection returns as per the lease agreement requirements.	Colin Cormack	Colin Cormack

At the Corporate Management Team Meeting on 6th September, it was agreed that the Corporate Director with oversight of these areas will follow and seek assurance the recommendations raised have been implemented. Since that date, the Head of Audit and Risk has received confirmation the recommendation for Caretaking Service has now been implemented

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Agenda Item 6.3

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	20 September 2011			
REPORT OF:	<i>Annual Anti Fraud Report 2010-11</i>			
Corporate Director, Resources				
ORIGINATING OFFICER(S):	<i>Ward(s) Affected: N/A</i>			
<i>Tony Qayum, Corporate Fraud Manager Minesh Jani, Head of Risk Management and Audit</i>				

1. **Introduction**

- 1.1 This report provides the Audit Committee with an update of reactive and Anti Fraud work undertaken during 2010/11.
- 1.2 The report captures the work of the Audit Service as well as that of the Housing Benefit Investigations Team, Parking Service and the insurance claims experience.

2. **Recommendations**

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

3. **Background**

- 3.1 This report provides the Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2010/11. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and Insurance Services.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	2	<ul style="list-style-type: none"> • Head of Audit Services • NFI Co-ordinator and Corporate Fraud Manager
	3 1	<ul style="list-style-type: none"> • Tenancy Fraud Officers • Insurance Claims Officer
Central Benefits Fraud Team	1	<ul style="list-style-type: none"> • Fraud Manager
	2	<ul style="list-style-type: none"> • Team Leaders
	8	<ul style="list-style-type: none"> • Investigation Officers
	1	<ul style="list-style-type: none"> • Intelligence Officer
	1	<ul style="list-style-type: none"> • Admin Support
Parking Services	2	<ul style="list-style-type: none"> • Parking Fraud Investigation Officers

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

4. Key matters arising from the Audit Service Outturn for 2010-11

- 4.1 There have been five substantial inquiries which have involved close working between the relevant Directorates, Audit Services, the Police and Legal Services. The matters arose from internal referrals.
- 4.2 The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality. The matters were referred to the Metropolitan Police in all cases.
- 4.3 The Audit Service has also provided support to Directorates upon request. This included an ongoing review of the National Indicator Performance returns, a review of systems and procedures associated with the management of petty cash systems and arrangements for care assessments for officers required to work abroad.
- 4.4 We have also reviewed the control environment for the provision of services to those placed in residential care and for which the Council has taken responsibility for client's financial affairs and undertaken inquiries around officers working at two sites simultaneously.

- 4.5 We have continued to work closely with the Council's Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of Resident Parking Permits and Blue Badge irregularity has involved members of staff.
- 4.6 We have further developed the small team of Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties. A separate paper on the progress of this initiative is covered in detail on a separate report elsewhere on the agenda.
- 4.7 We have organised and run several training sessions with staff on Risk Management and the Anti Fraud and Corruption Strategy as part of our proactive initiatives and more are planned for this financial year.
- 4.8 Appendix B attached is a summary of the results and value of anti fraud work carried out in 2010/11 including the outturn of the findings for the NFI 2008/09.

5. The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported, and our efforts continue to maximise the benefits from its output. The Audit Commission manage this under their powers in the Audit Commission Act 1998.
- 5.2 The NFI is managed and co-ordinated by the Audit Service with joint working and protocols with all the key services including Central Benefits Investigations Team, Payroll, Pensions, Rents and Right-to-Buy services to examine, refine and investigate the data matches.
- 5.3 For this exercise there were also formal joint working arrangements in place between the Central Benefits Team and the local fraud team from the Department of Works and Pensions (DWP) to work on cases which affected both Housing and Council Tax benefits along with the DWP benefits.
- 5.4 The work on the NFI is largely finalised with all reports having been examined and refined. Investigations have also been generally completed although there are still some investigations in progress.
- 5.5 The Audit service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.

5.6 The following is a summary of the results of the LBTH outcome from the NFI work -

- § £641,455.46 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
- § £238,267 in Housing Benefit / Council Tax overpayments.
- § £15,675 representing 9 deceased pensioners
- § £79,840 representing Payroll to UK Visa's
- § 5 Staff members left the Councils employment following the NFI probity checks

5.7 In addition to the above there were thirteen employees who have left the Councils employment following investigative work

6. Other Audit Activity

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

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

7. Insurance Claims Experience

7.1 The Council operates a system for the management of its Insurance risks through a specific team within Risk Management. During 2010-11 the Council introduced a new case management system that lends itself to better reporting of claims activity.

7.2 The table below shows the Councils claims experience for information. It is envisaged that this will be a regularly reported to reflect trends and the outcome of anti fraud initiatives designed to minimise the Insurance Fund's exposure to Fraudulent/ exaggerated claims.

Year	No Claims	Closed) (settled £0)	Closed (Paid)	Open	Total Paid £	Total Est Outstanding £	Total Claim £
2009	557	225	181	151	225,062	238,477	1,684,272
2010	510	157	110	243	36,405	2,295,879	2,332,285
2011*	183	24	8	151	1,162	1,519,945	1,521,107

* represents part year only.

8. Housing Benefits Investigation Service

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

- § Benefits Whistle-blowing hotline;
- § Internal Referrals;
- § External Referrals (Agencies and public);
- § Joint working with Department of Work and Pensions (DWP);and
- § Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

8.2 During 2010/11 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-

- § 187 cases being dealt with;
- § 29 convictions at court;
- § 53 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- § 42 Parking Offence Cautions
- § 63 Administrative Penalties; and
- § Total Housing and Council Tax overpayments that represent these cases equates to £542,860.94.

9. Parking Services

9.1 The Parking Service investigations have resulted in twelve parking fraud cases being presented for prosecution.

9.2 Of the twelve cases investigated all resulted in convictions with fines amounting to £1,125 and costs in the sum of £1,550 - both of which were awarded to the Council.

10. Comments of the Chief Financial Officer

10.1 These are contained within the body of this report.

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

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

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

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

13. Risk Management Implications

13.1 This report highlights fraud risks arising from weaknesses in controls. Effective risk management is an essential part of good governance and management is responsible for putting in place adequate controls to manage the authority's exposure to risks.

14. Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

N/A

Tony Qayum, 0207 364 4773

APPENDIX A

<u>Tower Hamlets Homes</u>		
<i>No. of Days</i>	<i>Audit Activity</i>	<i>Comments/Outcome</i>
5	Whistle blow concerning in appropriate allocation of property.	Allegations of inappropriate allocation were not substantiated, although systems control weaknesses identified. Improved system of control being implement by management
10	Lettings and Housing Management Support and Advice	Close working on Lettings and General Housing Management issues arising from the work of Tenancy Fraud Team
5	RTB valuation and litigation	On-going support on the litigation resulting from in-appropriate valuations of RTB's
6	Follow-up work RTB employee	Support to management, employee has now left organisation
8	6 Police and other external agency referrals	Joint working with other agencies concerning THH current and employees
15	7 Whistle bows under 5 days	Management of whistle blows and investigations as necessary
10	Allegation that repairs recharges had been incorrectly applied through Council's Insurance	Investigation of complaint regarding misuse of Councils Insurance policy and misrepresentation by officers. Matter fully reviewed and outcome assessed independently to ensure transparency. No material issues found.
15	NFI investigations and apportionment of preparatory work for the 2010-11 exercise	National fraud initiative 2006-7 and 2008-9 meeting requirements for Section 151 officer under the Audit Commissions Code of Data matching Practice 2008
5	Governance	Examination of governance matters within THH
5	Allegation of manipulation of control by family of Caretakers	Management processes reviewed and reorganisation of workloads.
5	Theft of Cheque	Leaseholder refund received by the wrong person. Complicated case regarding entitlement. No loss to THH incurred and procedures revised.
19	8 Enquiries under 3 days	
10	Allegation of Lift Maintenance abuse	Allegation that Lift Maintenance/renewal was being manipulated for gain. Systems and procedures reviewed and enhanced. No evidence found to support allegation.
5	Anti fraud arrangements and partnership	
<u>123</u>		

<u>LBTH Re-active</u>		
<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
3	Anti Fraud Forums	3 Anti fraud forum groups were setup across the Council as a proactive co-ordination of anti fraud work in key areas
20	Data Quality Review and National Indicator Performance verification	This output includes all internal Audit work on supporting data quality and joint working with the Performance Review Team including review and assurances on quality of services data sampling, testing and preparation of documentation for National Indicator returns. It also includes comprehensive reviews of high risk indicator's in preparation for the external auditor's review.
4	Freedom of information enquires	Investigating and responding to freedom of investigation enquiries
5	Allegation that officer provided false reference for staff member at PCT	Investigation found that officer had made a false reference and had been running own business without Councils consent. Officer dismissed.
12	Internal referrals	Joint working and referrals from Payroll Services, Benefits Services and Trading Standards
10	Officer working at two sites	Support to department where officer was working at two sites and claiming time for both -
15	Evidence of significant Petty cash abuse	Officer had mismanaged Petty cash system resulting in inability to adequately reconcile all monies due. Officer dismissed and case referred to the police
40	National Fraud Initiative	Finalising the 2006/07 exercise and publicising consulting and initiating the 2008/09 to meet the requirements of the Audit Commission Code of Data Matching Practice. Including resultant review of output data, and co-ordinating follow-up work.
11	Outside agencies	Requests for information, and whistle blow referrals from other local Authorities, DWP and other agencies, Banks, Building Societies, Health Authorities, etc.
15	Illegal Money Lending Team	Providing assurance that the functions and governance arrangements for the initiative met good practice and that risks were adequately managed
60	Setting up and management of the Social Housing Team	Recruitment, creation and development of the Social Housing Fraud team to tackle sub letting of property
15	Police Enquiries	Reactive support to police enquires from local Financial Investigation Units on recovery of assets and support to enquires to Metropolitan Police

<u>No. of Days</u>	<u>Audit Activity</u>	<u>Comments/Outcome</u>
20	Proactive Fraud Training and advertising	Preparing and providing training to Members, Senior Management for cascading to staff and Investigating Officers. Review of revised Anti Fraud and Corruption Strategy and Risk management awareness training
4	Public Sector Partnership (PSP)	Active members of the PSP Training Group with the Met Police, which meet during the year and feed into the overall PSP.
10	Scheme for undertaking care assessments abroad	Joint working with CSF on control arrangements associated with Staff allocated to work abroad on Child assessments as prescribed by Court.
28	Reactive work 3-5 days	11 jobs - include management inquiries and NFI investigations concerning code of conduct follow up including reporting and supporting any subsequent action.
9	Reactive work/enquiries under 3 days	45 Reactive responses to internal inquiries under three days, these include review and response to appropriate Service Head.
10	Support for evidence gathering on the Annual Governance Statement	This review was undertaken to support the Council's submission on its arrangements to discharge its governance effectively
8	Theft of client funds	Officer accused of manipulating system to abuse client funds. Officer dismissed, referred to Police and procedures improved.
5	Attempt to fraudulently change bank account details of major council contractor	Potential loss of £800,000 to false instruction to change bank details. Prompt action resulted in no loss to the Council but systems improvements introduced and matter being prosecuted. This was an early example of a now widespread attempt to re route large payments to contractors via false banking instructions.
3	Allegation of overcharging for dilapidation by former PLA provider.	Matter focused on sample of cases. Review found that all work had been reviewed by several staff within the Council and segregation of duties existed on the approval of payments made. No evidence of fraud but need to tighten procedures.
10	Servicing Committees and management support	
15	Theft of monies x2 cases	Investigations into theft of monies from clients within Ault services by employee's and support to both internal action and police
15	Third Sector Provider	Department and Third Sector provider invited Audit to under take a review of its governance arrangements following the concerns around adequacy of grant claims made
<u>347</u>		
<u>470</u>	<u>Total days</u>	

APPENDIX B				
	No.	Notional future savings value	Notional future savings value total	Actual Value
<u>NFI 2010/11 (Final 2 year outturn)</u>				
Identified value of overpayment/losses - recovery in the process				641,455.46
Housing properties recovered.	36	75,000.00	2,700,000.00	7,200,000.00*
5 Staff members left the Councils employment following the NFI probity checks	5	5,000.00	25,000.00	
			<u>2,725,000.00</u>	7,841,455.46
<u>Value of other anti Fraud work carried out in 2010/11</u>				
Employees leaving after identity checks	14	5,000.00	70,000.00	
Benefits Prosecutions	29	3,200.00	92,800.00	
Benefits Cautions	53	1,200.00	63,500.00	
Benefits Administrative penalties	63	1,200.00	75,600.00	
Housing benefits overpayments under recovery				542,860.94
Blue badge recoveries	12	1,500.00	18,000.00	
			<u>319,900.00</u>	<u>542,860.94</u>
<i>overall totals</i>			<u>3,044,900.00</u>	<u>8,384,316.40</u>

* Figure based on a conservative open value valuation of £200,000 per unit.

Agenda Item 6.4

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	20 September 2011			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Tony Qayum, Corporate Fraud Manager	Social Housing Fraud Update Ward(s) Affected: N/A			

1. Introduction

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

2. Recommendations

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

3. Background

- 3.1 The Audit Committee has received reports previously on the creation of this team and its funding arrangements. The Audit Commission has continued to highlight the abuse of Social Housing and in its last paper "Protecting the Public Purse" issued in October 2010, it reported that through the efforts of some sixty councils in England 1,600 properties with an asset value of £240 million were recovered from unlawful tenants.
- 3.2 The paper stated that fewer than 5% of those evicted from Sublet properties sought assistance from Homeless Services as in most cases they found alternative accommodation in the private rented sector. This is not dissimilar to the experience at Tower Hamlets.
- 3.3 Following on from the Audit Commission paper and a report by the National Fraud Authority on abuse of Social Housing the Government advised that those authorities that had made the most effective use of earlier funding would be further supported by an award of £100,000 to continue the crackdown on tenancy cheats.

4. Current Position

- 4.1 In December 2010 the government assessed the Council's eligibility for further funding and made £100,000 available for the continuation of the function for financial year 2011-12.
- 4.2 We intend to maximise effectiveness by extending the existing arrangements for a further full financial year and to utilise, wherever possible, the use of technology to risk assess potential cases for follow up. To this end we have acquired and developed a Fraud Case Management system funded from existing resources, and are testing it while under development with the provider.
- 4.3 The Team have enhanced the joint working arrangements with Tower Hamlets Homes and a team member is now located for one day per week at each of the three THH housing offices to provide advice and support along with identifying new cases.
- 4.4 For a more comprehensive service and "joined-up working" the Team are supporting the Letting Service on potential fraudulent housing applications and THH housing services on potential irregular mutual exchanges, assignments and successions to avert inappropriate access to property.
- 4.5 The Team are also looking into inappropriate "right-to-buy" applications or potential unlawful subletting property with live "RTB" applications. These are either from referrals from THH "Right-to-Buy" team or from whistle blows, to avert an in-appropriate disposal of property and consider prosecution action.
- 4.6 The East London Solutions working group of six local authorities and a number of Registered Providers meets regularly and this has helped to share experience and intelligence on areas to target and how to work smarter.
- 4.7 The Council is providing training on how we set up our anti fraud team, its scope and working practices to other authorities within the East London Solutions. We have also taken the lead on the training of both the East London Partners and Registered Partners and a robust training and development programme has been produced to take forward during the autumn of 2011.
- 4.8 The publicity on the whistle blowing hotline and the anti-fraud email together with referrals through the Council and THH have proved effective with over 350 referrals for investigations being received.
- 4.9 The following is a summary of the team's case load, progress and successes to date:-

Open Cases

- 162 current cases
- Of these 94 have Housing Benefit and/or Council Tax Benefit in payment
- 125 of these cases are Tower Hamlets Homes managed properties
- 17 cases are currently in various stages of recovery.

Closed Cases

- 183 closed cases (excluding recovered properties)
- Of these 143 had Housing Benefit and / or Council Tax Benefit in payment.
- 89 were Tower Hamlets Homes managed properties

Recovered Cases

- 50 properties recovered (as at end of August)
- 23 had Housing Benefit and / or Council Tax Benefit in payment.
- 30 were managed by Tower Hamlets Homes

4.10 There has been much national debate to assess the notional value of properties recovered by the work of the fraud team. The Audit Commission have attached an average notional value of £75,000 for each property across England. Being an inner London borough, properties in Tower Hamlets are likely to attract a far higher figure; we have used £200,000 as an estimate. Based on this notional sum, the work of the fraud team has brought back properties valued at £10 million. A comparator using the Audit Commission notional value would be £3.5 million.

5. Next Steps

5.1 A report has been circulated to the Corporate Management Team highlighting the work of the tenancy fraud team and the manner in which the team is responding to this type of fraud. Following discussions, the tenancy team has been tasked with putting together a business case to assess whether there is any justification to do more work in this area.

6. Comments of the Chief Financial Officer

6.1 These are contained within the body of this report.

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

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

8. One Tower Hamlets

8.1 There are no specific one Tower Hamlets considerations.

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

9. Risk Management Implications

9.1 This report highlights risks relating to illegal letting of social housing properties. The report identifies potential risks to the control framework that may be exploited by fraudsters.

10. Sustainable Action for a Greener Environment (SAGE)

10.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

N/A

Tony Qayum, 0207 364 4773

Agenda Item 6.5

REPORT TO: Audit Committee	DATE 20 September 2011	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	<i>Annual Internal Audit Report for Schools – 2010/11</i>			
ORIGINATING OFFICER(S): <i>Minesh Jani, Head of Risk Management and Audit</i>				
		<i>Ward(s) Affected: N/A</i>		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2010/11.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by audit. It is envisaged this assessment will be used by the Local Authority in enhancing the governance framework around schools and an update is submitted to the Audit Committee with this report.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by audit in each of the areas examined by audit (Appendix A) and the action taken by the education service (Appendix B).

3. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

4. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 4.1. There are no immediate legal implications arising from this report.

5. ONE TOWER HAMLETS

12.1 There are no specific one Tower Hamlets considerations.

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

6. RISK MANAGEMENT IMPLICATIONS

13.1 This report highlights risks identified from the work of the internal audit team from its planned audits of schools. The management of risks is an essential element of good governance and the purpose of this report is to set out the highlight broad issues so that risks identified in the report can be better managed by schools.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

14.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

N/A

Minesh Jani, 0207 364 0738

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2010/11**

REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2010/11

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2010/11.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.
- 1.3. During the 2010/11 financial year, Internal Audit carried out probity audit visits to 24 primary schools, two junior schools, one secondary school (follow-up) and one nursery school. An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are:-
 - Operation of Governance Processes;
 - Financial Planning and Budgetary Control;
 - Control and Monitoring of Schools Bank Account;
 - Procurement, including Large Single Purchases, Tendering and Value for Money;
 - Accounting of Income and Expenditure;
 - Charging Policy, Income Collection and Banking;
 - Personnel and Payroll Management;
 - School Meals;
 - Voluntary Fund and School Journey;
 - Asset Controls and Security of Assets;
 - Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
 - Risk Management and Insurance.

- 1.5. 23 schools were assigned a Substantial assurance and five schools assigned a Limited assurance as a result of the 28 probity visits conducted during 2010/11.

2. Most Common Findings

- 2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that inconsistencies between the Code of Financial Practice and the Scheme of Delegation are addressed and that the amended document, tailored to the requirements of the school, is formally approved by the Governing Body. The most common weakness in the document was the lack of delegated financial limits specified for the authorisation of financial transactions.
- 2.2. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and all staff with financial management responsibilities.
- 2.3. Committee meeting minutes were not always produced and signed by the respective Chair and, hence in some instances we were unable to confirm whether meetings have been quorate.
- 2.4. A common weakness identified was the lack of evidence to show that the Schools' Development Plans had been formally approved by the full Governing Body. In a number of instances we were unable to verify that schools had a timetable in place for tasks involved in the construction of the School Development Plan and Budget.
- 2.5. In a number of cases we noted that schools did not produce any cash flow forecast reports by profiling income across the year and comparing this to expenditure plans to monitor cash surpluses and deficits. There was often no audit trail available from the approved to the amended budget and budget virement reports were not always regularly presented to the Governors.
- 2.6. Un-reconciled items older than six months had not been investigated in a prompt manner. Bank reconciliations were not always signed by both the individual performing and the individual carrying out its independent review.
- 2.7. In a number of instances schools did not retain an up-to-date bank mandate for its current and special interest bearing bank accounts. In addition, not all schools have appropriate arrangements in place for high yield accounts.
- 2.8. Formal tendering processes were not undertaken as required in some cases and there was no evidence of best value being achieved for some high value purchases. Official orders were not raised by all schools as required to support purchases and there was a lack of

documentary evidence that the goods and services received are checked for accuracy and that delivery documentation was appropriately annotated as such. In a number of cases, approved procedures around the use of credit or store cards were not in place or were not consistently followed by staff.

- 2.9. In a number of instances, petty cash claims were not appropriately authorised or the financial limit, as stipulated by the School's Financial Procedures Manual, was exceeded. Accruals have not been raised at year-end to account for payments due for committed expenditure.
- 2.10. Governors have not always approved a documented charging policy. Where in place, the policy was not always up to date. Records were not always maintained in relation to transfer of income between staff. Furthermore, in some instances there was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked.
- 2.11. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date. We found evidence of salary assessments not being carried out on a regular basis. There was often no evidence of the Governing Body or delegated Committee having been informed of performance management outcomes. Adequate segregation of duties was not always in place between processing personnel and approving payroll transactions. Pre-recruitment checks, such as CRB and medical, remained outstanding in a number of instances. Moreover, where an external payroll provider is used, they had not always provided schools with an annual assurance confirming the soundness and adequacy of their payroll system.
- 2.12. Schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Effective controls were not always in place to ensure that income due from school meals were identified, collected and properly accounted for.
- 2.13. Documentary evidence for the costing of school trips and journeys were often not maintained and details of school journeys had not been presented to the Governing Body prior to the journey. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.
- 2.14. Inventory records were not consistently maintained and where such processes were in place the format and level of information recorded was often inadequate. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body.

Portable, attractive and valuable assets were, in many cases, not visible and indelibly security marked by the school. Furthermore equipment loan registers did not generally specify employees' liability/responsibility for equipment. Disposals of assets were not appropriately authorised by an individual with delegated responsibility.

- 2.15. Administration staff were not required to change their passwords on a periodical basis.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

3.1.1 All schools had in place a Scheme of Delegation and Finance Procedures policy. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified, resulting in schools not being compliant with Financial Management Standards in Schools. In particular, inconsistencies were identified in respect to establishing financial limits for authorising expenditure, budget virements, writing off debts and disposal of assets.

3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In a number of instances, there was no evidence of meeting minutes being presented to and approved by the appropriate Chair.

3.1.3 Decisions made and papers laid in the full Governing Body meetings are clearly documented within the minutes and the minutes usually made reference to budget monitoring. In some instances, the attendees of the meetings were not recorded in the meeting minutes.

3.1.4 Where the Governing Body has set up sub committees the Terms of Reference often did not outline quorum requirements, frequency in which meetings were to occur and financial limits where appropriate.

3.1.5 In most schools, the Register of Business Interest was not up-to-date with missing declarations for Governors on the Governing Body and staff with financial management responsibilities. However, the opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

3.2.1 Schools have produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to ensure resource implications are considered in the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in several instances

approval of the plan was not evidenced and schools did not have a timetable for tasks involved in constructing the School Development Plan and Budget.

- 3.2.2 The Chair of Governors and the full Governing Body approved the budget plans in a timely manner. However, in a number of instances cash flow forecast reports were not regularly prepared and there was a delay in providing budget monitoring reports to the Governors. Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken monthly or as a minimum on a quarterly basis and generally material variances were investigated and corrective action identified. However, in a number of instances cash flow forecast reports were not regularly prepared and there was a delay in providing budget monitoring reports to the Governors.
- 3.2.4 Any virements are generally agreed and approved within the school's framework for delegated authority and are approved or reported to the Governing Body or delegated sub-committee. Approved virements are mostly updated on the school's financial accounting system and notified to the LEA. In some instances, there was no audit trail from the approved to the amended budget and a lack of evidence to show that virements had been presented to the Governing Body or delegated Committee.

3.3. Control and Monitoring over School Bank Accounts

- 3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a significant number of cases. Several schools also did not retain a copy on site.
- 3.3.2 Adequate arrangements have been established to support separation of duties over cheque production and cashing cheques. Safe security and printed cheque security procedures were adequate in most cases.
- 3.3.3 Schools are required to ensure that surplus funds are identified and adequate arrangements made to maximise returns on the account balances. Whilst this requirement has generally been satisfactory, we noted a few instances where no arrangements were in place for high yield accounts.
- 3.3.4 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some cases, schools had not investigated un-reconciled items in a timely manner. Furthermore, in most instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.4. Procurement (including Large Single Purchases, Tendering & VFM)

- 3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified, above which prior approval from the Governing Body is required. In practice however, formal tendering processes were not undertaken as required in some cases. There was no evidence of best value being achieved for some high value purchases.
- 3.4.2 Official orders were not raised by all schools as required to support purchases therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with approved financial delegations. There was a lack of documentary evidence that the goods received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 3.4.3 In the majority of cases, invoices sampled were arithmetically correct and had been certified as approved for payment by an officer with delegated financial authority. The level of segregation of duties for procurement was generally adequate.
- 3.4.4 Robust procedures were not always in place for procurements using debit cards. In some instances, the Code of Practice did not include approved procedures with authorised users or financial limits for the use of store, debit or credit cards and documented authorisation of card usage could not be evidenced.

3.5. Accounting of Income and Expenditure

- 3.5.1 In the majority of cases, direct credits and debits were posted in a timely manner and journal entries on the financial accounting system were reasonable. However, in some instances accruals had not been raised at the year-end to account for payments due for committed expenditure.
- 3.5.2 There were several instances where a weakness in the petty cash process was identified. These related to vouchers not being completed fully or being supported by valid receipts. In addition, petty cash reclaims were not always authorised or authorisation limits exceeded the threshold laid out in the Code of Practice.

3.6. Charging Policy and Income Collection and Banking

- 3.6.1 Governors have not always approved a documented charging policy. Where one was in place, the policy was not always up to date.

- 3.6.2 Official receipts were used where appropriate and where receipts were not issued compensatory records were generally adequate and reliable.
- 3.6.3 Most schools had a documented lettings policy, which included the terms and conditions for hiring the premises. Agreements were signed between the school and persons/ groups hiring the use of the premises and lettings were authorised by the Head Teacher. Charges were made in compliance with an approved rate.
- 3.6.4 In the majority of cases income was regularly and fully banked and bankings were periodically reconciled to the cash-book within the school's financial accounting system.
- 3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

- 3.7.1 Where the Governing Body has approved a pay policy, these were not maintained up-to-date in several schools. Where they had been reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.
- 3.7.2 Evidence of pre-recruitment checks is not always maintained, such as CRB checks, identity checks, references, medical checks, and qualifications checks.
- 3.7.3 We noted that in a number of instances starter and leaver forms had been processed electronically by the same individual who receives and monitors payroll reports, resulting in a lack of segregation of duties.
- 3.7.4 Payroll reconciliations are undertaken and authorised for most schools. Adequate remuneration authorisation evidence was not maintained in a number of schools. There was often a lack of evidence to demonstrate the Governing Body complying with the Teachers Pay and Conditions Document 2000, by annually approving the remuneration of the Head Teacher, Deputy Head Teacher and Assistant Head Teacher(s) following their performance management reviews.

3.8. School Meals

- 3.8.1 Some Schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Apart from a few exceptions,

income due from pupils for school meals is recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

3.9.1 The Governing Body has not always approved the Objectives of the Voluntary Fund account. Adequate records were not always maintained to document income and expenditure through the unofficial fund. The accounts for the school fund were not independently audited for some schools by a person who is not involved in the day to day administration of the account.

3.9.3 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.4 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained and where in place, the format and level of information recorded was inadequate in several cases.

3.10.2 Inventory checks are not always performed and the results of the inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11. Security of the IT Infrastructure, Disaster Recovery, Data Protection

3.11.1 All schools, except for one, had proper registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.

3.11.2 A common weakness across all schools has been the lack of requirement to enforce periodical password changes for administrative user accounts.

3.12. Risk Management and Insurance

3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School

Journey, and Health and Safety was appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

- 4.1. In general, schools met the minimum standard of financial control and management. However, improvements were required in the areas of operation of governance processes; financial planning; accounting for income and expenditure; procurement; personnel and payroll management; and asset control including security of assets.

Appendix B

Response to the Internal Audit Annual Report on Schools for 2010/11

1. The Children, Schools and Families 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 Childrens, Schools and Families Services Finance to feed into systems to determine schools requiring priority support;
 - Internal Audit assurance rating is used to target specific support to schools.
2. The intervention put in place by CSF Finance to assist and support schools in improving governance, financial management and control is detailed at paragraph 3 below. As a result of this intervention, we have seen a marked improvement in the control environment within schools over a period of time which is shown in Table 1 below:. During 2010/11 Internal Audit visited 28 schools (see Appendix 1) and these probity visits show a vastly improved picture emerging.

Table 1 – Improvement in Control Environment

Audit Assurance	2009 -10	2010 -11	Difference
Substantial	13	23	10 more than in 2009-10
Limited	17	5	12 less than in 2009-10
No Assurance	2	0	2 less than in 2009-10
Total	32	28	

3. Specific intervention has been undertaken by CSF Finance section in the following areas:-

Governance

- Model Financial Code of Practice has been circulated and reiteration of the compulsory nature of the Scheme;

- Reminders are issued to all schools ref: expected standard of full governing body and committee meetings;
- Circulation of a 'Declaration of Pecuniary Interest' every September. In addition, many governing bodies have this declaration as an agenda item at each full meeting;
- Minimum standards are required from a clerking service;
- Training workshops and inductions have been held, for governors highlighting key areas of the role and their responsibilities.

Resource management / Budgetary control

- Changes to Schools' Finance procedures include standardised formats for schools budgets and monitoring; including cash flow statements.
- Pre-Audit Checks, is available as an additional support:
- Introduction of more robust monitoring of submissions;
- The schools finance newsletter highlights areas for compliance
- The Schools' Finance Manual has been updated;
- Standard documentation is provided for Finance Scheme for schools, Model Scheme of Delegation, Model Best Value Statement and Model Whistle blowing policy.
- LBTH benchmarking data for all schools in Tower Hamlets is carried out based on schools consistent financial reporting year end returns.
- Financial Management Standard in Schools (FMSiS) – The DCSf introduced the Standard to improve Financial Management in Schools. This is because effective financial management and benchmarking is essential for schools in order that they can (a) exercise proper control and stewardship over the significant amounts of public money entrusted to them and (b) allocate and deploy resources effectively to meet school priorities for development and improvement.
- From 18 July 2011 the Department of Education (DfE) has launched the SFVS which replaces the Financial Management Standard in Schools (FMSiS), which was withdrawn by the Secretary of State with effect from November 2010. The standard is a requirement for local authority maintained schools, **Governing bodies** have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors.

The standard consists of 23 questions which governing bodies should formally discuss annually with the head teacher and senior staff.

The questions which form the standard are in sections A to D

A: The Governing Body and School Staff

B: Setting the Budget

C: Value for Money

D: Protecting Public Money

Each question requires an answer of Yes, In Part, or No.

In Section E, governors should summarise remedial actions and the timetable for reporting back. Governors should ensure that each action has a specified deadline and an agreed owner. The governing body may delegate the consideration of the questions to finance or other relevant committee, but a detailed report should be provided to the full governing body and the chair of governors must sign the completed form. The school must send a copy of the signed standard to local authority finance department

Control and Monitoring over school Bank Accounts

- Reminders to the revised Financial Regulations for Schools provide a detailed description of various requirements outlined in the Scheme for Financing Schools. Headteacher are responsible for regular, detailed control of the school budget issued.
- The schools finance team have introduced an annual (September 2011) checking process to ensure schools review their list of authorised signatures, for their Bank Accounts.

Procurement

- Governing Bodies are responsible for securing best value for money in relation to their activities, and for achieving performance targets.
- Consistent Financial Reporting (CFR) has been introduced as a framework of income, expenditure and balance sheet headings. One of the main aims of CFR is to allow schools to benchmark expenditure and income at a national level. By comparing spending and consumption patterns of services, all schools will have the tools to promote self-management and value for money.
- Schools requesting a procurement card (debit cards) are reminded of the Tower Hamlets Procedures for the issue and use of purchase cards are contained in section 19 of the Finance Manual. Schools governors are responsible to ensure that a control environment is maintained for its use
- Schools procurement officer stated in September 2010, to support schools on “value for money” by enabling schools to join the LA’s and government’s framework contracts including supporting schools on compliance testing with standard procurement

procedures and adhere to the schools finance manual procedures.

- All schools are to receive revised procurement guidance and workshops Organised for schools governors in the autumn term including standing agenda item at the schools bursars meetings

Accounting of Income and Expenditure

- Governing Bodies are responsible for operating adequate and effective systems for ongoing monitoring and feedback of information about the school's activities, and initiating any necessary action to maintain financial standards and objectives required
- Schools newsletter to Heads and Finance bursars reminding Management of the school's bank and any petty cash accounts including ensuring that all payments are made according to the schools finance procedure Manual

Charging Policy and Income Collection and Banking

- Reminder has been sent that a model policy has been updated in 2010
- Head teachers and finance bursars are reminded of the frequency of banking monies including procedures for collection and banking.

Personnel

- Reminder has been sent to ensure that the Governing Body shall establish procedures for the management and administration of personnel and payroll matters
- Rolling programme of updating personnel procedures has been put in place;
- Termly meetings are held with Personnel providers;
- Schools sickness management procedure has been reviewed and training has been provided.
- HR Workforce advisors provide advice and guidance to all schools including annual reminder of processing and advisory service regarding CRB checks for staff, An article will be placed in HT Bulletin, reminding Head teachers and school governors of their responsibility around this

- HR Team provide reminders to schools on the Teachers Pay and conditions Document including referring to the performance management of teachers.

School Meals

- It is the responsibility of Governing Bodies and school management to ensure that internal controls are adequate and effective, and to take all necessary action to secure this on an ongoing basis.

Voluntary Fund and School Journey

- A reminder has been sent of the useful guide in the “schools finance procedure Manual” for the recording of private funds and reporting to governing bodies.

Asset Controls and Security of Assets

- Reminder has been issued to all schools to ensure that they undertake physical check on an annual basis, to confirm the existence of all assets recorded on the inventory. Any discrepancies identified should be formally reported to the governors.

Conclusions

A number of initiatives are taken to improve the overall assurance in schools via access to a range of key documents on finance and governance procedures and policies, monthly newsletters on best practices, events, training courses and update on current developments, workshops for governors including heads and bursars, termly meetings via bursars to discuss financial management including systems and procedures and direct email reminders on an ad hoc basis for compliance.

Appendix 1

Names of Schools Visited by Internal Audit during 2010/11

School	Internal Audit Assurance Rating
Osmani Primary	Substantial
Alice Model Nursery	Substantial
Bangabandhu Primary School	Substantial
Bigland Green Primary School	Substantial
Blue Gate Fields Junior School	Substantial
Bonner Primary School	Substantial
Bygrove Primary School	Substantial
Canon Barnett Primary School	Substantial
Chisenhale Primary School	Substantial
Christchurch CofE School	Substantial
Clara Grant Primary School	Substantial
Columbia Primary School	Substantial
Cubitt Town Junior School	Substantial
Cyril Jackson Primary School	Limited
Hague Primary School	Substantial
Halley Primary School	Substantial
Harbinger Primary School	Substantial
Hermitage Primary School	Substantial
Manorfield Primary School	Substantial
Marion Richardson Primary School	Limited
Marner Primary School	Limited
Mayflower Primary School	Substantial
Mowlem Primary School	Substantial
Old Ford Primary School	Substantial
Smithy Street School	Substantial
St Anne Roman Catholic Primary School	Limited
Stebon Primary School	Limited
Langdon Park Secondary	Substantial (follow up)

Agenda Item 6.6

COMMITTEE Audit Committee Council	DATE 20th September 2011 30 November 2011 (Council meeting)	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director-Resources ORIGINATING OFFICER(S): Peter Hayday: Interim Service Head – Finance, Risk & Accountability Oladapo Shonola – Chief Financial Strategy Officer		TITLE: REVISED TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2011/12 Ward(s) affected: <p style="text-align: center;">All</p>	

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. **SUMMARY**

- 1.1 The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are :
- A Treasury Management Strategy which sets out the Council’s proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities;
 - An annual Investment Strategy sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments; and
 - A policy statement on the basis on which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement.
- 1.2 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.
- 1.3 The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised November 2009) which requires the following:
- A Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities
 - Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
 - Approval by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy, and prudential indicators - for the year ahead, a Mid-year Review

Report and an Annual Report (stewardship report) covering activities during the previous year.

- Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is attached at **Appendix 5**

- 1.4 In line with the requirement of the Code, the Council should formally adopt the revised Code and the Treasury Management Policy Statement as set out in **Appendices 3 and 4**.
- 1.5 Officers will report details of the council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid year and full year report will be presented to Council. Full reporting arrangement is attached at **Appendix 6**.

2. DECISIONS REQUIRED

Audit Committee is requested to:-

- 2.1 Recommend that Full Council adopt:
 - 2.1.1 The Treasury Management Strategy Statement set out in sections 7-11 of this report.
 - 2.1.2 The Annual Investment Strategy set out in section 12 of this report.
 - 2.1.3 The Minimum Revenue Provision Policy Statement set out in section 13 of this report, which officers involved in treasury management must then follow.
- 2.2 Delegate to the Corporate Director-Resources after consultation with the Lead Member for Resources authority to vary the figures in this report to reflect decisions made in relation to the Capital Programme prior to submission to Budget Council.

3 REASONS FOR DECISIONS

- 3.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:
 - Treasury Management Strategy, including prudential indicators
 - Investment Strategy; and
 - Minimum Revenue Provision Policy Statement.
- 3.2 The Treasury Management/Investment Strategies are continually reviewed to ensure that returns are being maximised within set credit risk criteria. Following recent meetings with the Council's treasury management consultants, further opportunities to achieve additional return on investments with similar credit risk criteria to that approved by Council in March 2011.

4 ALTERNATIVE OPTIONS

- 4.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. 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 the Council's capital investment plans are affordable, sustainable and prudent.
- 4.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

5 BACKGROUND

- 5.1 The Local Government Act 2003 Act requires the Council to establish a treasury strategy for borrowing, and an investment strategy for each financial year, which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 5.2 The strategy for 2011/12 encompasses elements of the treasury management function and incorporates the economic forecasts provided by the Council's treasury advisor. It specifically covers:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
 - Prudential and Treasury Indicators;
 - The current treasury position;
 - The borrowing requirement;
 - 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 strategy

6 TREASURY LIMITS FOR 2011/12 TO 2013/14

- 6.1 The Council must have regard to the Prudential Code when setting an Authorised Limit for borrowing (the level of borrowing to fund capital investment that is affordable), which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is affordable for taxpayers and tenants.
- 6.2 The Authorised Limit is to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit and other indicators are attached at **Appendix 1**.

6.3 The Prudential Code requires that the Council set a series of indicators on a three year time frame, which are classified in two main categories; prudential and treasury indicators. It should be noted that these indicators are not for comparison with other local authorities, but are a means to support and record local decision-making.

6.4 The prudential indicators are there to demonstrate that the Council can afford the proposed capital programme in addition to the borrowing undertaken to fund expenditure in the past and that such expenditure is sustainable and prudent going forward. Also it highlights the impact of capital investment decisions on council tax and housing rents. The Council has set the following prudential indicators, which are detailed at **Appendix 1** of this report as prescribed by the Code:

- **Capital Expenditure** – the amount the Council will spend
- **Ratio of Financing Costs to Net Revenue Stream** – Financing cost as a percentage of revenue budget, to ensure that borrowing does not overwhelm the capacity for other expenditure.
- **Net Borrowing Requirement** – Amount of external borrowing that will be required in the year.
- **In Year Capital Financing Requirement** – The amount of borrowing required in year
- **Capital Financing Requirement** – Overall capital financing required for all capital expenditure
- **Incremental Impact of Capital Investment Decisions** – Measures the impact of capital investment decisions on council tax and housing rents.

6.5 Treasury indicators are about setting parameters within which officers can take treasury management decisions. The Council has set the following treasury indicators, which are detailed at **Appendix 1** of this report as prescribed by the Code:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external permitted. It must not be breached without Full Council approval.
- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement.
- **Actual External Debt** – This is the actual gross external debt that the Council currently has, which will not be comparable to the operational boundary or authorised limit, since the actual gross external debt will reflect the actual position at any one point in time.
- **Maturity Structure for Borrowing** – Profile of when loans in the Council's portfolio of debt are expected to mature

7 CURRENT PORTFOLIO POSITION

- 7.1 The Council's borrowing and investments as at the 30 June 2011 are as set out in Table 1. The Council's external borrowing total £335m. Investments currently total £190m.

Table 1

Type of Borrowing	Principal Amount £m	Total Principal Amount £m	Average Rate %	Total Average Rate %
Fixed Rate Borrowing				
PWLB (Public Works Loans Board)	257.173		7.786	
Market	13.000		4.370	
		270.173		7.633
Variable Rate Borrowing				
PWLB and Market	64.500		1.134	
				1.134
Total Debt		334.673		6.448
Investments				
Debt Management Office	0			
UK Banks & Building Societies	163.536			
Overseas banks				
Other UK Institutions	27.00			
Total Investments	190.536			

8 PROSPECTS FOR INTEREST RATES

- 8.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates.
- 8.2 The Council has appointed Sector Treasury Services as treasury adviser and part of the service they provide is to assist the Council to formulate a view on interest rates. The following table gives Sector's overall view on interest rates for the next three years.

Table 2

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%
5Yr PWLB Rate	3.41%	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%
10Yr PWLB Rate	4.64%	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25Yr PWLB Rate	5.29%	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%
50Yr PWLB Rate	5.21%	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%

- 8.3 Sector's current interest rate projections are based on moderate economic recovery and moderate Bank of England Monetary Policy Committee concerns about the outlook for inflation.

8.4 Sector projects that Bank Rate:-

- will hold steady at 0.50% until the end of Q3 2012
- will start to rise from 0.50% in Q4 2012 reaching 3.25% by the end of Q2 2014; and
- long term (50 Year) PWLB rates to steadily increase reaching 5.70% by end of Q4 2013

8.5 At the time of writing, the Bank of England base rate stands at 0.5%. Inflation has remained above the Bank of England Monetary Policy Committee's (MPC) 2% target, and has recently been increasing. but the MPC is confident that inflation will fall back under the target over the next two years Some commentators are suggesting that interest rate may go up early to help dampen inflation If such a move takes place before the report is considered any implications of this will be reported at your meeting, although small upwards movements in base rate are unlikely to change the strategy in the short term. At present the council's treasury advisor's view is that there is unlikely to be any increase in Bank Rate until the end of 2012.

9 BORROWING STRATEGY

9.1 The Council will continue to borrow for the following purposes where it is deemed affordable, sustainable and prudent to do so:

- Supported Capital Expenditure Allocations
- Repayment of Maturing Debt (net of Minimum Revenue Provision)
- Unsupported (Prudential) Borrowing Capital Expenditure
- Short Term Cash Flow Financing

9.2 The Corporate Director-Resources under delegated powers will determine the timing, term, type and rate of new borrowing to take into account factors such as:

- Expected movements in interest rates
- Current maturity profile
- The impact of borrowing on the council's Medium Term Financial Plan
- Approved prudential indicators and limits

9.3 Officers will continue to monitor interest rate movements closely and adopt a pragmatic approach to changing circumstances. For example, the following potential scenarios would require a reappraisal of strategy:

- A significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap
- A significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

9.4 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

- 9.5 In determining whether borrowing will be undertaken in advance of need the Council will;
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - consider the merits and demerits of alternative forms of funding
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

10 DEBT RESCHEDULING

- 10.1 The Corporate Director-Resources will continue to consider options to reschedule and restructure the Council's debt portfolio, having due regard for the broad impact of such exercises on the following:
- The maturity profile – council will only undertake debt restructuring where it benefits the maturity profile
 - Ongoing revenue savings will be achieved
 - The effect on the HRA
 - The impact of premiums and discounts has been fully considered; and
 - The impact on prudential indicators.

11 ANNUAL INVESTMENT STRATEGY

- 11.1 The Investment Strategy for 2011/12 has been put together in recognition of the recent relative recovery in the financial sector following the banking crisis that led to a global recession. Money markets are becoming more stable although Bank of England base rate is still being held at the historical low rate of 0.50%.
- 11.2 In 2009, the Corporate Director-Resources in response to market uncertainties implemented interim credit criteria which restricted term investments to UK institutions which had support guarantees from the British Government. This policy is however difficult to sustain in the long term because of the limited number of counterparties and the relatively low returns obtainable given historically low interest rates being offered by UK institutions.
- 11.3 Following meetings with the Council's treasury management consultants, it was agreed that a revision of the Investment Strategy could lead to additional returns being achieved with similar credit risk criteria to that approved by Council in March 2011.

11.4 In reviewing the investment strategy, officers along with the Council's treasury advisers are looking to balance risk and reward in a way that result in a balanced investment portfolio for the Council. It is proposed that;

- the capacity for overseas investment in counter-parties from high-rated sovereign jurisdictions be included within the strategy,
- the individual/group limit for investment in an institution or group that is wholly/part owned by the UK government is increased to £45m (currently £30m). This measure will not introduce new risk into the portfolio given the UK government limit within the last approved Strategy is only a notional limit. The individual/group limit for all other institutions will remain at £30m.
- up to £25m (previously £12m) of available cash balances may be invested for periods over 364 days and up to 3 years. Although, only £15m can be invested between 2 to 3 years maturity. This change is necessary to reflect the higher level of balances currently held.

The detailed credit criteria are set out in section 11.4.5 and it is recommended that these criteria be adopted.

11.5 Investment Policy:

11.5.1 The Council will have regard to the Department of Communities and Local Government's (DCLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities are:

- The security of capital;
- The liquidity of investments to ensure that the Council has cash available to discharge its liabilities as necessary; and that;
- Within these priorities, the Council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity; and
- All investments will be in Sterling.

11.5.2 To achieve these objectives, the Council is required to classify investment products as either "specified" or "non-specified" as defined within the guidance.

11.5.3 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The guidance issued by the Government considers that specified investments have the following characteristics: -

- Denominated in Sterling and have a term of less than one year
- Have "high" credit ratings as determined by the Council itself.

11.5.4 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.

11.5.5 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

11.5.5.1 **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.

Table 3

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

Definitions of credit ratings are attached at **Appendix 2**.

* 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.

11.4.5.2 **Non-Specified Investments:**

The Council revised its investment strategy in the wake of the banking crisis in 2007. This led to wide ranging restriction being placed on the counterparty list. As part of the strategy review in 2007, a temporary cessation of investment with overseas institutions and all investment restricted to a term of less than 365 days until stability returned to the banking sector, globally. The situation has now settled enough for clear decisions to be made on whether the council should return to investing with overseas banks.

It is recommended that the Council should make non-specified investment as outlined in below table.

Table 4

Institution	Minimum High Cred 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

11.5 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.

11.6 The minimum credit rating required for an institution to be included in the Council's counterparty list is as follows:

Table 5

Agency	Long-Term	Short-Term	Individual	Support
Fitch	AA-	F1	C	1
Moodys	Aa3	P-1	N/A	C
Standard & Poors	AA-	A-1	N/A	N/A

Sovereign Rating	AAA
------------------	-----

Money Market Fund	AAA
-------------------	-----

11.7 The Council will only use approved counterparties from countries with minimum sovereign credit rating of AAA from Fitch as outlined above. The following countries are currently rated AAA:

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg

- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- United Kingdom
- United States of America

11.8 All credit ratings will be monitored on at least a monthly basis and the Council is alerted to changes in ratings through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria as outlined in 11.5, its further use as a new investment will be withdrawn immediately.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body as outlined in 11.5, then no further investments will be made with that body.

11.9 The credibility of credit ratings providers has been called into question because they failed to identify the potential problems with Icelandic Banks prior to the Icelandic Banking Crisis. In order to further improve the security of council funds and in line with CIPFA guidance, the Council as well as using credit rating agencies will now also use financial press, market data, information on government support for banks and the credit ratings of that government support when compiling its counterparties list.

11.10 Institutions with which the Council can place funds are as follows:

- Bank of England Debt management Office (DMO).
- The institutions that were included in the UK Government's permanent capital investment and short-term liquidity support programme.
- Other UK institutions meeting our minimum credit rating criteria
- UK AAA rated Money Market Funds
- Other local authorities
- Overseas institutions (falling within the Council's minimum credit criteria) from countries with sovereign ratings of AAA from all rating agencies

- 11.11 The Council anticipates its fund balances in 2011/12 to average approximately £175m. Although the actual amount available for investment at any one time will fluctuate as a result of timing of significant items such as:
- Expenditure on capital projects
 - Council tax, business rates, council house rent income
 - Receipt of government grants
 - Capital receipts in respect of major asset sales
- 11.12 It is proposed that the Council adopts a prudential indicator limit of £25m for 2011/12 for term deposits over 365 days (but no more than 3 years). Although, only £15m can be invested between 2 to 3 years maturity.
- 11.13 Investment Strategy:
- 11.13.1 **In-house funds:** The Council's in house investments are principally related to cashflow. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.
- 11.13.2 **Interest rate outlook:** Bank of England Base Rate has remained at 0.50% since the initial tumble down from a high of 5.75% in November 2007 to the current rate in March 2009. The council's treasury advisors forecast that interest rates will start to rise steadily from Q4 of 2012 and would have risen to 3.25% by Q4 of 2014.
- 11.13.3 The pace of the economic recovery has slowed and the outlook for global economy is for slow/flat growth in the medium term. There remains a distortion in the inter-relationships between money market rates and bank rate. The 2011/12 budget has been set to take account of low interest rates, but officers will continue to invest to maximise returns in line with the Council's counterparty criteria.

12 MINIMUM REVENUE PROVISION POLICY STATEMENT 2010/11

- 12.1 The Council is required to provide an annual amount in its revenue budget to provide for the repayment of the debt it has incurred to finance its General Fund capital investment. The calculation of this sum termed the Minimum Revenue Provision (MRP) was previously prescribed by the Government.
- 12.2 The Department of Communities and Local Government (DCLG) now require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.
- 12.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Governments Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.
- 12.4 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

- 12.5 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:
- **Option 1 (Regulatory Method):** To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
 - **Option 2 (Capital Financing Requirement Method):** The statutory calculation without the dampener which will increase the annual charge to revenue budget.
- 12.6 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.
- 12.7 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.
- 12.8 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-
- **Option 3 (Asset Life Method):** To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.
 - **Option 4 (Depreciation Method):** A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.
- 12.9 It is recommended that option 3 is adopted for unsupported borrowing.
- 12.10 The Council is required regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent. It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

13 COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 13.1 The comments of the Chief Finance Officer have been incorporated into the report.

14 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 14.1 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.

- 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 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. 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. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.
- 14.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Council to have regard to the CIPFA publication “Prudential Code for Capital Finance in Local Authorities” (“the Prudential Code”) when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 14.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full council.

15 ONE TOWER HAMLETS CONSIDERATIONS

- 15.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets.. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

16 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 16.1 There are no sustainable actions for a greener environment implication.

17 RISK MANAGEMENT IMPLICATIONS

- 17.1 There is inevitably a degree of risk inherent in all treasury activity.
- 17.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.
- 17.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

17.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Sector Treasury Services who specialise in Council treasury issues.

18 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

19 EFFICIENCY STATEMENT

19.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that 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.

20. APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Adoption of the revised CIPFA Treasury Management Code of Practice 2009

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Local Government Act, 1972 Section 100D (As amended)

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.
<i>Sector Guidance</i> <i>CIPFA Treasury Management Code of Practice2009</i>	<i>Oladapo Shonola (x4733), Chief Financi</i> <i>Strategy Officer, 4th Floor Mulberry Place</i>

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Prudential indicators	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Probable Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Non – HRA	88,878	149,876	134,012	83,159	50,656
HRA	50,497	47,587	37,636	36,911	30,000
TOTAL	139,375	197,463	171,648	120,070	80,656
Ratio of financing costs to net revenue stream					
Non – HRA	2.98%	2.62%	2.51%	2.55%	2.43%
HRA	16.91%	18.75%	19.39%	19.9%	20.31%
Net borrowing requirement					
brought forward 1 April	322.198	354.250	303.764	308.079	315.622
carried forward 31 March	354.250	303.764	308.079	315.622	322.424
in year borrowing requirement	32.052	-50.486	4.315	7.543	6.802
In year Capital Financing Requirement					
Non – HRA	1.352	0	0	0	0
HRA	15.500	15.500	6.000	6.000	6.000
TOTAL	16.852	15.500	6.000	6.000	6.000
Capital Financing Requirement as at 31 March					
Non – HRA	161.570	160.784	152.599	146.142	139.944
HRA	276.480	292.480	298.480	304.480	310.480
TOTAL	438.050	453.264	451.079	450.622	450.424
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	8.46	4.27	0	0	0
Increase in average housing rent per week	0	0	0	0	0

TABLE 4: Treasury management indicators	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Probable Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
Borrowing	483,,050	498,264	496,079	495,424	495,424
other long term liabilities	0	0	0	0	0
TOTAL	483,,050	498,264	496,079	495,424	495,424
Operational Boundary for external debt -					
Borrowing	463,050	478,264	476,079	475,424	475,424
Other long term liabilities	0	0	0	0	0
TOTAL	463,050	478,264	476,079	475,424	475,424
Actual external debt					
Upper limit for fixed interest rate exposure					
expressed as either:-					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
expressed as either:-					
Net principal re variable rate borrowing / investments	20%	20%	20%	20%	20%
Upper limit for total principal sums invested for over 364 days (per maturity date)	0	0	12,000	12,000	12,000

TABLE 5: Maturity structure borrowing during 2011/12	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months*	30%	0%
24 months and within 5 years*	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

* This upper limit has been increased to allow for the risk of lenders option being exercised on the Council's debt portfolio in 2012/13. It is not anticipated that this will happen.

Appendix 2: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

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

Long-term Ratings

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

Individual Ratings

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

Adoption of the revised CIPFA Treasury Management Code of Practice 2009

INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. full council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to The Corporate Director-Resources, who will act in accordance with the organisation's policy statement and TMPs and if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. This organisation nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:
“The management of the authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

Treasury Management Scheme of Delegation

1. Full Council / Cabinet

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

2. Cabinet /Section 151 Officer

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment.

3. Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations

Treasury Management Reporting Arrangement

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Mid year of financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	
Annual Treasury Outturn Report	Audit Committee	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director-Resources	
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

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Agenda Item 6.7

COMMITTEE: Audit Committee	DATE: 20 September 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 August 2011 Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 August 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 August 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 August 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. Although, there is an item on this agenda that this list and the Investment Strategy are revised to raise additional income in the current financial year. Explanation of credit ratings criteria is attached at Appendix I.

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.

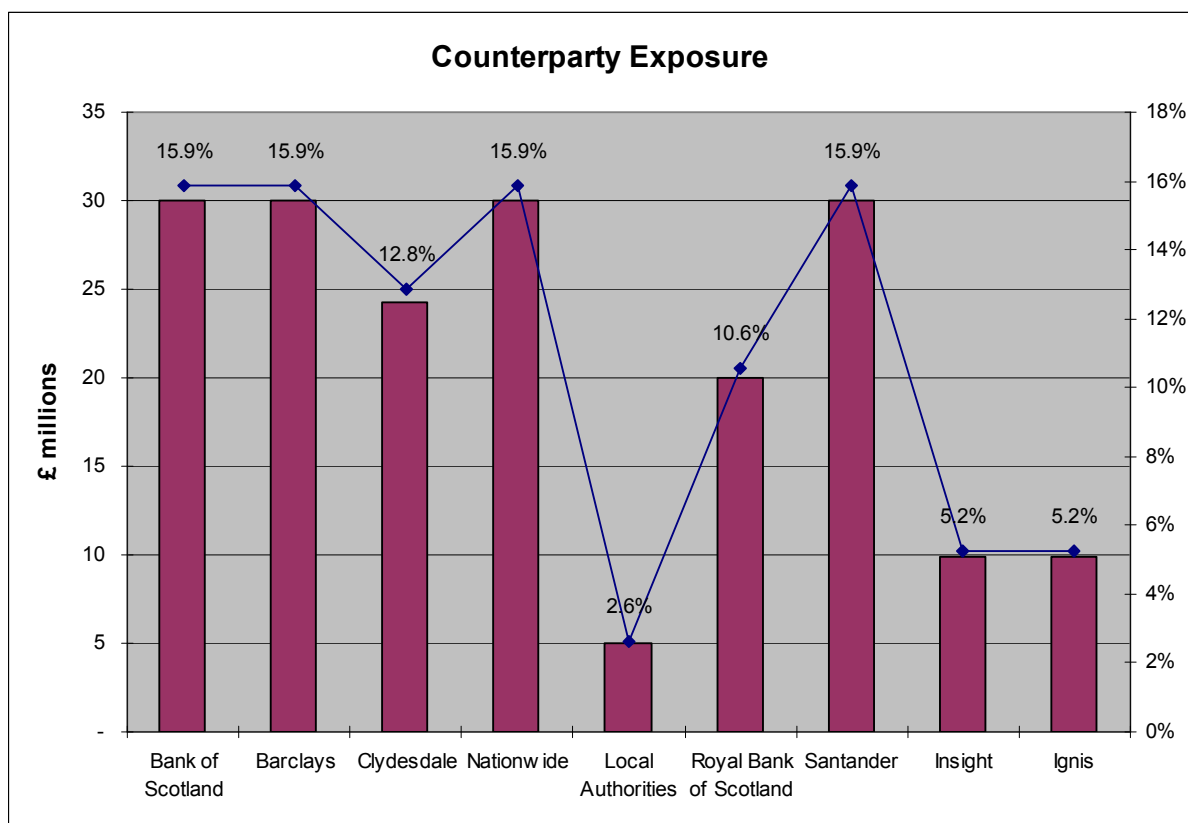
9 INVESTMENT STRATEGY

- 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 fourth quarter of 2012 moving to 3.0% by the first quarter of 2014. Although, the outlook for interest rate is below expectation, return on investment should be in line with budget expectations.
- 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

Term	Projection		Counterparty	Actual Deal		
	Amount £M	Rate %		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	9.900	0.74%
Overnight			Goldman Sachs	MMF		
Overnight			Insight	MMF	9.900	0.64%
			SUB TOTAL		49.072	
1 Month	25.000	0.45%	Nationwide	05-Sep-11	5.000	0.76%
3 Months	25.000	0.75%	Nationwide	15-Oct-11	5.000	1.37%
			Cater Allen (Santander)	17-Oct-11	5.000	1.42%
			Barclays	10-Nov-11	5.000	1.30%
			Nationwide	10-Nov-11	5.000	1.03%
			Barclays	02-Dec-11	5.000	1.03%
			Royal Bank of Scotland	10-Dec-11	10.000	0.98%
6 Months	20.000	1.20%	Nationwide	17-Jan-12	5.000	1.43%
			Cater Allen (Santander)	17-Jan-12	5.000	2.50%
			North Tyneside Castle	20-Jan-12	5.000	1.20%
			Bank of Scotland	25-Jan-12	5.000	1.45%
			Barclays	05-Mar-12	10.000	1.29%
9 Months	20.000	1.40%	Bank of Scotland	05-Apr-12	10.000	2.10%
			Royal Bank of Scotland	11-Apr-12	10.000	1.23%
			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	1.55%
			Cater Allen (Santander)	13-May-12	5.000	2.50%
12 Months	20.000	1.75%	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%
			SUB TOTAL		140.000	
	150.000		TOTAL		189.072	

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 August 2011.



10 INVESTMENT RETURNS

- 10.1 Investment returns since inception of the new arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance has been improving month by month this financial year and currently stands at 1.29%, this is an increase of 0.03 percent from July.
- 10.2 The Council has outperformed the benchmark of 1.25% so far this year and returns have been significantly above the 7 day London Interbank Bid Rate (LIBID), which currently stands at 0.47%. This is despite a high proportion of balances being held in call accounts and overnight balance. Performance would have been even better had this not been the case. To illustrate this point, average returns is 1.52% when call accounts and overnight investments are stripped out.
- 10.3 The budgeted investment return in 2011/12 is £1.95m, but it is expected that this will be exceeded. It should be noted that outperformance has been achieved without taking undue/increasing risk.
- 10.4 Cash balances are still higher than forecast due to slippage in the capital programme and reserves not being spent down has had been expected. The amount of cash available for investment on a daily basis has meant that the Strategy is not able to optimise returns. Therefore, Members are being asked to recommend to Full Council to revise the investment strategy to take advantage of higher than expected cash balances.

- 10.5 Another positive outcome from recent revisions to the Strategy is the much reduced frequency of investments placed with the Debt Management Office. 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.
- 10.6 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%	0.55%
Quarter 1 2011	1.002%	0.45%	0.55%
Quarter 2 2011	1.148%	0.46%	0.69%
Return August 2011	1.290%	0.48%	0.81%
Average for 2011/12	1.199%	0.47%	0.73%

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"

August 2011 Investment Portfolio Analysis Report

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

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

Appendix 1: Definition of Credit Ratings

Support Ratings

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

Short-term Ratings

Rating	
F1	Highest 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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