



Meeting of the

AUDIT COMMITTEE

Tuesday, 25 June 2013 at 7.00 p.m.

A G E N D A

VENUE

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

Members:	Deputies (if any):
Chair: Councillor Mizan Chaudhury Vice Chair: TBA	
Councillor Craig Aston Councillor Stephanie Eaton Councillor Judith Gardiner Councillor Carlo Gibbs Councillor Shafiqul Haque, (Cabinet Member for Jobs and Skills) Councillor M. A. Mukit MBE	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Denise Jones Councillor Zenith Rahman Councillor Tim Archer
[Note: The quorum for this body is 3 Members].	

Committee Services Contact:

Antonella Burgio, Democratic Services

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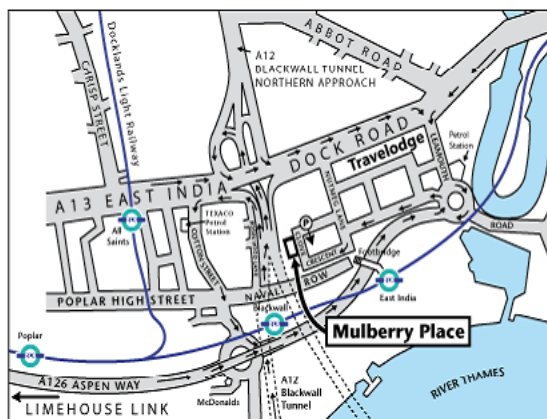
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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 25 June 2013

7.00 p.m.

1. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair of the Audit Committee for the Municipal Year 2013/14.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST (Pages 1 - 4)

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 Monitoring Officer.

	PAGE NUMBER	WARD(S) AFFECTED
4. UNRESTRICTED MINUTES	5 - 16	
5. AUDIT COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS	17 - 24	

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 26 March 2013.

To note the Terms of Reference, Membership, Quorum and Dates of future meetings as set out in Appendices 1, 2 and 3.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 The Annual Financial Report 2012/13

To note the Annual Financial Report for the year end 31 March 2013. - Report to follow.

6 .2	Internal Audit Annual Report 2012/13	25 - 100
	To note the content of the annual audit report, the summary of audits undertaken which have not been previously reported and also the opinion of the Head of Audit.	
6 .3	Annual Governance Statement 2012/13	101 - 124
	To consider the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003 and agree the Annual Governance Statement which forms part of the annual accounts.	
6 .4	Anti-Fraud and Corruption Strategy and Pro-active Anti-Fraud Plan 2013-14	125 - 170
	To note the update provided on the Anti-Fraud and Corruption Strategy and summary of the proposed Proactive Anti -Fraud Plan for 2013-14.	
6 .5	Treasury Management Activity for Period Ending 30 April 2013	171 - 184
	To note the contents of the treasury management activity report for period ending 30 April 2013 and the recent downgrade of the Co-operative Bank.	
7.	ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT	

Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Isabella Freeman, Assistant Chief Executive (Legal Services), 020 7364 4801; or
John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 26 MARCH 2013

**ROOM C1, FIRST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Chair)

Councillor Stephanie Eaton

Councillor Abdal Ullah

Councillor David Snowdon

(Deputy Leader of the Conservative
Group)

Councillor Motin Uz-Zaman

(Chair, Overview & Scrutiny Committee)

Other Councillors Present:

Officers Present:

Chris Holme

– (Acting Corporate Director - Resources)

Minesh Jani

– (Head of Audit and Risk Management ,
Resources)

Tony Qayum

– (Anti Fraud Manager, Internal Audit, Resources)

Oladapo Shonola

– (Chief Financial Strategy Officer, Resources)

Paul Thorogood

– (Interim Service Head Finance and HR
Development, Resources)

Antonella Burgio

– (Democratic Services)

Others In Attendance

Shona Milton

– Auditors KPMG

Andrew Sayers

– (KPMG)

Mike Clarkson

– Deloitte & Touche

Tim Hughes

– Sector

Dan Wilson

– Sector

The Chair welcomed Dan Wilson and Tim Hughes of Sector who had been invited to speak to the Committee on the matter of investment. He noted the Chief Financial Officer's request that this presentation and discussion would be more appropriately undertaken after the Committee had considered the Quarterly Treasury Management report. Accordingly, the Chair moved to all vary the order of business and item 4.2 was considered prior to item 4.1.

1. APOLOGIES FOR ABSENCE

Apologies absence were received from Councillors Craig Aston, David Edgar and Anwar Khan

The following substitutions were noted: Councillor Snowdon attended in place of Councillor Aston and Councillor Uz-Zaman in place of Councillor Edgar.

2. DECLARATIONS OF INTEREST

No declarations of disclosable pecuniary interest were made.

3. UNRESTRICTED MINUTES

The minutes of the meeting held on 14 January 2013 were presented. Ms Shona Milton noted that a correction at minute 4.1 in paragraph 3 was required and requested the following amendment.

“Regarding the certification of claims and returns, Mr Sayers advised that there were six certified claims reported, two of which were subject to qualification.

He noted the technical qualification against housing audit resulting from a DCLG error. This qualification although not originating the Council was reported to the awarding body in accordance with the grant certification requirements.”

RESOLVED:

Subject to the above amendment the minutes of the meeting were approved

Update on Matters Discussed at the Previous Meeting:

1. It was confirmed that councillor Ullah had pursued the matter of differential valuations arising from the valuations sought in conjunction with the audit of the right to buy scheme.
2. Mr Jani, Head of Risk Management and Audit gave an update confirming that the internal audit of Boishakhi Community Trust Limited had been completed. A meeting had been held with members of the Baishaki Mela Trust two weeks prior and he advised that some action had been required for priority 2 recommendations also noting that a large number of audit recommendations had been implemented. . Concerning the control aspect of the audit, Mr Jani reported that the Trust had been co-operative. . He advised that an audit summary would be presented at the next Audit Committee. Councillor Gibbs expressed concern that the audit had been conducted after the Mela event and enquired if reviews could be undertaken more quickly. Mr Jani advised that in 2012, audit recommendations had coincided with the Mela event and so controls had been put in place while the event was in-train. In 2013, Trust staff were already aware of the required processes and therefore it was expected that the audit should be easier.

The Committee noted the verbal updates.

4. UNRESTRICTED TOWER HAMLETS REPORT

4.1 Presentation from SECTOR

Dan Wilson and Tim Hughes of Sector introduced themselves. Mr Wilson, Head of Credit and Investments, advised the Committee his role was to study markets and their activity. Mr Hughes, Client Manager, advised his role was cash management for clients and customer management, providing support as required. He advised that he worked daily with the Chief Financial Strategy Officer managing the cash requirements of the Council to ensure optimum return for minimum risk as stipulated in the Council's current investment strategy.

Mr Hughes advised that part of the reason for the observed decrease in returns over the past year was the conservative nature of the Council's investment strategy. He noted that most of the investment was in liquid short-term investments which delivered the lowest market yield available. On this matter, the Chief Financial Strategy Officer advised that he had recently been given a mandate to broaden the scope to access better returns. Mr Hughes advised that extending the counterparty list would give access to better returns and this could be undertaken on a short-term basis.

Concerning the Council's investment with OCBC in preference to Santander UK, Mr Hughes advised that Sector had not recommended investment in Santander UK because it does not meet the Council's minimum credit criteria OCBC on the other hand meet the criteria. The Chief Financial Strategy Officer advised that the Council had previously invested with Santander UK; however, since the credit crisis and subsequent downgrade of a number of UK financial institutions, it has not been possible to continue investing with Santander and some other UK banks.. However it was intended that flexibility was increased during the next financial year. Additionally he noted that whilst the Council may wish to invest with a financial institution they may not necessarily require funding. , For example HSBC are not looking to accept deposits despite meeting the Council's minimum credit criteria.

Concerning financial ratings, Mr Wilson advised that many ratings had been reduced by agencies such as Moody's and Fitch, not because the investments were less safe than they had been previously but because these organisations had changed their ratings criteria, hence there was a smaller investment pool.

Concerning Managers' fees, the Chief Financial Strategy Officer confirmed that Sector was paid by results. Payment comprised a fixed fee plus a performance element. Members enquired whether the Chief Financial Strategy Officer could be pressured to obtain maximum investment returns and Mr Shonola advised that he was not authorised to act in this way; hence Sector was not able to apply pressure to get maximum returns.

Concerning whether the Council should consider being less risk averse and allocate a larger percentage (e.g. 10%) to larger risk investments, Mr Hughes advised that such a decision would lie with the Council but a proposal could be considered if the authority wished. On this matter, the Chief Financial Strategy Officer advised that the strategy was presently well-balanced in accordance with the agreed strategy and contained some low and medium rated risks. He added that the 2013/14 Investment Strategy will provide further flexibility that will allow the Council to invest in some A+ and A rated banks and he recommended that investments with banks lower than A rated should not be undertaken. The Acting Director of Resources further advised that the situation was kept under review because it was necessary ensure that risks were balanced. Mr Wilson advised it was also necessary to quantify risks to confirm whether or not there was value-added in taking them. He noted that issues became clouded where liquidity risk occurred and this made looking at how to invest more difficult. He noted that the Council could, if it wished, invest in small building societies which would support local economies and support the Council's ethical stance and advised doing so would bring greater risks. Therefore the Council needed to consider how far down the liquidity-or-risks scale it wanted to travel to benefit from better returns.

Concerning whether Sector took account of the non-financial benefits of certain investments (e.g. the social benefits of investing with small building societies who would promote local economies by lending to individual borrowers), Mr Wilson advised that Sector worked within the parameters and policy decisions set by their clients who, if they wished, were able to step outside their chosen security - liquidity yield. The Chief Financial Strategy Officer advised that the Council's guidance stated that it must look at security first but if the Council wished to permit this type of investment he was able to explore what options were available. He added that any schemes to lend to local businesses/entities will have to be agreed outside of the Investment Strategy.

Councillor Ullah noted that options for ethical investing had been considered previously; however the Council was required to be a good steward of its public money and therefore the strategy needed to consider safety and due diligence in investing the Council's money.

Councillor Gibbs enquired whether the Council might directly invest with UK-based small/medium enterprises (SME) to support local business. Mr Wilson advised that there were organisations with whom the Council could invest, but the Council needed to be aware that a percentage of such businesses would inevitably become bankrupt and therefore it needed to consider what loss it would be prepared to bear. Additionally a bigger quantity of investments would be made and therefore a bigger range of investments would need to be monitored by the Council.. He noted that banks were not presently lending to SMEs therefore any such proposal would need to be considered outside of the Council's investment strategy. The Chief Financial Strategy Officer advised that a form of investment of this kind was possible through the proposals around the Council's Housing Revenue Account; The Acting

Director of Resources noted Members would need to consider if they wished to pursue this as the issue of balancing risk against the need for stability remained. Additionally it was noted that investing in local HRA's would mean that money was tied up for a long term and would not provide quick returns.

Councillor Eaton enquired whether those on apprenticeship training might also receive training in treasury management and Mr Shonola advised that this would be investigated.

RESOLVED:

That the presentation be noted

4.2 Treasury Management Activity for Period Ending 28th February 2013

The Chief Financial Strategy Officer introduced the report and highlighted the following elements:

- the changes to the investment strategy at paragraph 6.1
- the criteria for investment set out at paragraph 9 had been approved by the Council
- investment returns set out at paragraph 10.5
- the maturity profile detailed at paragraph 10.5 and
- counterparty exposure detailed at paragraph 10.7
- investment returns since inception of the cash management arrangement with Sector at paragraph 11.

He advised the Committee that the average performance over the financial year had been slightly below target by 0.01%. The rate of return over the year also was reduced.

In response to Members' questions the following information was provided:

The Chief Financial Strategy Officer agreed that investment inception dates would be included within the investment portfolio data reported to the Committee.

Action: O Shonola, Chief Financial Strategy Officer

The term 'projection' indicated the maturity period/bucket in which the investments listed in the 'Investment Portfolio' occurred.

50% of Council assets were linked to Bank of Scotland (BoS) and Royal Bank of Scotland (RBS) because these were the institutions which were backed by the Government.

Concerning whether investment in OCBC posed a significant risk because of the systemic risk associated with the Chinese banking system, Members were advised that the OCBC investment was short-dated..

Regarding what other investment options the Council might choose, Mr Hughes advised that Sector would consider investments according to criteria agreed in the Council's investment strategy and opportunities that occurred in the market. Hence investments would be tailored accordingly with respect to the Council's criteria.

Concerning the loss, in cash terms, resulting from the decrease of investment performance during the last year, Members were advised that the loss would be about £20-£30,000 per basis point.

Members requested comparative data of rates and returns for other local authorities and it was agreed that this would be reported as part of future treasury management reports.

Action: O Shonola, Chief Financial Strategy Officer

RESOLVED:

That the report be noted

5. UNRESTRICTED KPMG REPORTS FOR CONSIDERATION

5.1 External Audit Plan (KPMG)

KPMG partner, Andrew Sayers presented the report circulated at agenda item 5.1. He advised the Committee that the key audit areas of the plan were:

- savings plans,
- property plant and equipment,
- actuarial asset value of retirement benefits, and
- accounts receivable and accounts payable.

As the Council's auditors, KPMG would examine the processes being followed in each of these four areas and noted the previous matters raised regarding the audit of the accounts receivable/payable processes.

Mr Sayers also advised the Committee of KPMG's independence and objectivity responsibilities as required under the code; these were summarised at page 9 of the report.

Referring to the salient parts of the report, Mr Sayers advised that KPMG would complete an audit of the pension fund alongside the main financial accounts audit. He advised that the main area of audit risk regarding the pension fund was the valuation of investments.

He confirmed the fees proposed for 2012/13 set out at page 21 of the report. This set out the basis of the audit fee. He advised that any queries raised would be considered as additional fees and that KPMG was able to receive queries from the Committee and take these up with the Executive.

In response to Members' questions the following information was discussed:

Concerning the scope of the savings plan Key risk that had been identified at page 3 of the report, Mr Sayers advised that the auditors would look to ensure that processes were in place so that the Council could take forward its investments. This would be undertaken in the form of top-line monitoring.

Concerning how the scale of fees was derived, Mr Sayers advised that these were set by the Audit Commission and a fee reduction had been achieved through the procurement the process carried out by the Audit Commission.

Concerning how many additional investigations the Council could expect the Auditors to recommend, Mr Sayers advised that KPMG would seek additional audits only where necessary. Additionally a safety mechanism against excessive additional audits was imposed by the Audit Commission. KPMG would ensure that money was not spent outside the permitted sphere by interrogating how Council money was well spent and investigation to ascertain why funds had been spent on particular audits. If spending was discovered that was against the Council's general policies, the Council would be asked to justify its spending. Mr Sayers additionally advised that any elector was able to refer to KPMG and he would consider each referral to assess if they needed to be investigated.

Noting the fee reduction achieved because of the fee scales set by the Audit Commission and economies of scale gained through outsourcing local government audits, Councillor Eaton enquired whether the Audit Commission had operated efficiently, Mr Sayers advised that he was unable to comment on Audit Commission matters. However he advised that KPMG had offered a price that it felt that delivered the required audit levels at a suitable price. He noted additionally that some work being undertaken by KPMG was different to that that the Audit Commission had formerly carried out.

Concerning whether KPMG undertook medium-term financial analysis of local authority investments and funding gaps in comparative terms, Mr Sayers advised that KPMG did not undertake a benchmarking across local government; however should any concerns develop in this regard, the matter would be raised with the Council.

RESOLVED:

That the report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 Quarterly Internal Audit Assurance Report

Minesh Jani, Head of Risk Management and Audit presented the report circulated at agenda item 6.1 which summarised the work of internal audit for the period December 2012 to February 2013 and incorporated a summary of

audits at appendix 1. He noted that two limited assurances had been returned for creditors systems audit and for Harry Roberts nursery school probity audit.

In response to Members' questions following information was provided:

While assurances had been returned, for creditors systems audit and Harry Roberts nursery school probity audit, neither had revealed evidence of fraud and improvements in functionality had been found.

In responding to the audit, the headteacher had acknowledged that more needed to be done in terms of probity. Mr Jani noted that recent audits of other schools had revealed similar issues and that commonly audit issues concerned governance and schemes of delegations; therefore he suggested that this area could be improved through staff training and by improving schools' understanding of processes.

Councillor Snowdon noted that the smaller schools appeared to deliver limited assurances on similar matters and agreed that there would be benefits in addressing the most frequent qualifications via a programme of staff training. Mr Holme noted that the Council was not authorised to impose sanctions on schools and recommended that a collaborative approach be used to resolve issues. Mr Clarkson advised that Deloitte carried out many school audits nationally and these returned much evidence of school fraud. It was his view that this occurred because control mechanisms were not working properly or well understood therefore training would help gain understanding and why compliance was necessary.

Concerning the outstanding recommendations resulting from the audit of occupational health stores, the Chair enquired whether the priority-one recommendation and two priority-two recommendations outstanding at December 2012 had been subsequently completed and was advised that this would be investigated and reported back.

Action: Minesh Jani, Head of Risk Management and Audit

Noting the weaknesses reported in the lettings and nominations systems audit, completed in January 2013, Councillor Uz-Zaman requested that an update to this audit be reported to Committee 12 months hence.

Action: Minesh Jani, Head of Risk Management and Audit

RESOLVED:

That the report be noted.

6.2 Internal Audit Plan 2013/14

Minesh Jani, Head of Risk Management and Audit presented the report circulated at agenda item 6.2 which advised Members of proposals for the

annual internal audit plan 2013/14. He advised that the methodology used was the same as that employed in 2012/13, setting out the areas of risk that the Council believed it faced and enabling these to be addressed via a proper plan over the period. The planned audits would be shared between the Council's audit team Deloitte. Mr Jani recommended that to avoid incurring additional external auditor fees, some of the external audits should also be undertaken by Council auditors.

In response to Members' questions the following information was provided:

Councillor Eaton requested that a retrospective element be introduced into the review of CRB checks

Action: Minesh Jani, Head of Risk Management and Audit

Concerning why a recent conviction was not picked up through the audit, Councillor Eaton was advised that CRB details related to the conviction of the person disclosed in the audit would be provided to Members outside of the meeting

Councillor Eaton noted that ASB officers were not updating the log of investigation's daily and suggested that an audit ASB officers be undertaken to investigate why the updates are not been logged onto the database.

Action: Minesh Jani, Head of Risk Management and Audit

RESOLVED:

That the report be noted.

6.3 Progress on National Fraud Initiative 2010 and New Initiative 2012

Tony Qayum, Corporate Antifraud Manager presented the report circulated at item 6.3 which provided an update on the current progress of the National Fraud Initiative 2010 and gave an overview of antifraud work undertaken taken in the past six months. He highlighted the following matters:

- methodology and scope of the exercise detailed in paragraphs 4.2 - 4.4
- outcomes reported in paragraph 5 had provided more useful data than had previously been available
- the antifraud team proposed to look at lessons learned from the data matching exercise in 2010 and how this information could be better used in its next audit of this kind

In response to Members' questions the following information was provided:

The NFI exercise had revealed that 33 people living across London had been involved in overpayments of housing benefits made through Tower Hamlets. Mr Qayum noted that, were any Council employee found to be involved, it would be considered gross misconduct and the matter investigated.

In discussing whether the Council quantified the costs of recovery action against losses if action were not taken, the Committee was advised that there was no effective way of knowing the costs of recoveries as these varied from incident to incident and so it was not possible to determine whether prosecution was more efficient than other sanctions that could be applied. It was noted that the Department for work and pensions tended more towards prosecution.

RESOLVED:

That the report to be noted

6.4 Social Housing Update

Mr Tony Qayum, Corporate Anti-fraud Manager and Paul Thorogood, Interim Service Head for Finance and HR Development presented the report circulated at item 6.4 which provided an update on the work of the social housing team and its successes, to-date, in the recovery of unlawfully let public sector dwellings. Mr Qayum reported that the initiative had been very successful and, due to changes in funding, he suggested that this work could be pursued further in the next year to ensure there was good housing stock management and to highlight areas of weakness. Mr Holme noted also that the antifraud work contained a polity policy incentive element. Councillor Uz-Zaman noted the results reported and advised that he supported the initiative.

In response to Member's questions, the following information was provided: Funding for the initiative was £15,000. Eligibility decisions for this funding lay with DCLG and a decision was to be announced shortly. Housing fraud officers had been retained while the Council waited to hear whether this had been achieved.

In addition to Tower Hamlets Homes, registered social landlords (RSL) had also been approached to utilise methods employed through the initiative and the Council was able to offer advice on how RSL's might improve their antifraud systems.

Data matching procedures were used to ensure that housing benefit applications were genuine. Additionally the Council was working jointly with other neighbouring local authorities to create an east London hub for fraud investigation as well as normal methods such as Experion checks, regular data-sharing (for data matching purposes). Court action and termination of right to buy were also used at operational level to prevent tenancy fraud.

RESOLVED:

That the report be noted

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items

The meeting ended at 8.43 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

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Agenda Item 5

Committee	Date	Classification	Report No.
Audit Committee	25 June 2013	Unrestricted	AC 001/134
Report of: Assistant Chief Executive Originating Officer(s) : Antonella Burgio, Democratic Services		Title : Audit Committee Terms of Reference, Membership, Quorum and Dates of meetings Ward(s) affected: N/A	

1. Summary

- 1.1 This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2013/14 for the information of members of the Committee.

2. Recommendation

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

3. Background

- 3.1 At the Annual General Meeting of the full Council held on 22nd May 2013, the Authority approved the proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto.
- 3.2 It is traditional that following the Annual General Meeting of the Council at the start of the Municipal Year, at which various committees are established, that those committees note their terms of reference, Membership and Quorum for the forthcoming Municipal Year. These are set out in Appendix 1 and 2 to the report respectively.
- 3.3 The Committee's meetings for the remainder of the year, as agreed at the meeting of the Council on 17th April 2013, are as set out in Appendix 3 to this report.
- 3.4 Meetings are scheduled to take place at 7.00 pm in accordance with the programme of meetings for principal meetings.

4. Comments of the Chief Financial Officer

Matters brought before the Committee under its terms of reference during the year will include comments on the financial implications of

decisions provided by the Chief Finance Officer. There are no specific comments arising from the recommendations in this report.

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

The information provided for the Committee to note is in line with the Council's Constitution and the resolutions made by Full Council on 17th April 2013 and 22nd May 2013 respectively.

6. One Tower Hamlets Considerations

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

7. Sustainable Action for a Greener Environment

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

8. Risk Management Implications

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

9. Crime and Disorder Reduction Implications

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

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

Brief description of "background paper"

If not supplied
Name and telephone
number of holder

NONE

N/A

AUDIT COMMITTEE TERMS OF REFERENCE

3.3.11 Audit Committee

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

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APPENDIX 2

APPOINTMENTS TO AUDIT COMMITTEE 2013-14

<i>Labour Group Nominations (and deputies)</i>	<i>Conservative Group Nominations (and deputies)</i>	<i>Liberal Democrats Nominations (and deputies)</i>	<i>Independents Nominations (and deputies)</i>
Cllr (Chair)	Cllr Craig Aston	Cllr Stephanie Eaton	Cllr Shafiqul Haque
Cllr Carlo Gibbs Cllr Judith Gardner Cllr M A Mukit MBE			
Deputies: - Cllr Denise Jones Cllr Zenith Rahman 1 vacancy	Deputies:- Cllr Tim Archer Cllr David Snowdon		

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AUDIT COMMITTEE

SCHEDULE OF MEETING DATES 2013-14

- Tuesday 25th June 2013
- Tuesday 17th September 2013
- Tuesday 17th December 2013
- Tuesday 18th March 2014

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Agenda Item 6.2

REPORT TO: Audit Committee	DATE 25 June 2013	CLASSIFICATION Unrestricted	REPORT NO. AC 003/134
REPORT OF: Corporate Director, Resources		Internal Audit Annual Report 2012/13	
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A	

1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2012/13. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

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

3. Introduction

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

3.2 This report is set out as follows:

- **Opinion and basis of opinion**
 - § **Summary of audit work undertaken in 2012/13**
 - § **Appendix 1 – Audit Resources**
 - § **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee.
 - § **Appendix 3 – Summaries of reports on specific commissioned work from Corporate Directors**
 - § **Appendix 4 – List of planned audits undertaken in 2012/13**
 - § **Appendix 5 – Summary Head of Audit Opinion**
 - § **Appendix 6 – Detailed Head of Audit Opinion**
 - § **Appendix 7 – Benchmarking club/headline**

4. Statement of Responsibility

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

5. Opinion

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2012/13. The basis for this opinion is set out below.

6. Basis of Opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2012/13. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.

- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2012/13. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendices 4 and 6.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix 1 below. Internal Audit is provided in partnership with Deloitte as part of Croydon Framework contract. An in-house team of four auditors works with resources provided under the Croydon framework arrangement.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team 2 days per person on average, compared to 32.4.days in 2011/12. Sickness was higher in 2011/12 as a member of the audit team was on long term sickness absence.
- 7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2012/13, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 3.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2012/13 is attached to main body of the report at appendix 4 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.
- 8.2 Summaries of the audit reports are reported quarterly to Corporate Management Team (CMT) and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2012/13.
- 8.3 A summary of the audit assurance resulting from audit reports in 2012/13 is provided in the table below.

Audits 12/13		Full	Substantial	Limited	Nil	N/A
		Significance	Extensive	2	45	8
Moderate	0		33	11	0	3
Low	0		1	0	0	0
Total	2		79	19	0	8

- 8.4 The table shows that of 108 systems audits, 75% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 18% of systems audited were rated as limited or nil assurance, and the remainder have their assurance to be confirmed or not applicable.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.

8.6 From the Internal Audit work during 2012/13 financial year, we identified risks in the Council's systems for safeguarding vulnerable adults, collection and banking of planning and building control fees and charges, management of water testing and water installations within THH and management of evidence stores by trading standards.

8.7 From our Internal Audit work during 2012/13, we can provide an overall assurance that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

9 Audit Performance

9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2012/13 is set out in the table below.

Performance Measure	2011/12	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	98%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	84%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	84%

9.2 As at the 31st March 2013, 98% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.

9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2012/13 as a whole, 84% of priority 1 recommendations had been implemented against a target of 100%, and 84% of priority 2 recommendations had been implemented against a target of 95%.

Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.

- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2012/13 will be submitted and key points will be reported to a future CMT and Audit Committee. The results of benchmarking exercise for 2011/12 are attached at Appendix 7.

10 Comments of the Chief Financial Officer

- 10.1 This report describes the annual internal audit report opinion for 2012-13 in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 10.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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

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

12 One Tower Hamlets

- 12.1 The maintenance of an effective system of internal control assists the Council to meet its responsibilities in paragraph 4.1 above. This in turn contributes to the discharge of the Council's functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

13 Risk Management Implications

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

14 Sustainable Action for a Greener Environment (SAGE)

- 14.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

None

N/A

Internal Audit – Resources 2012/13

	Revised Plan	%	Outturn	%
In-house staff days	1000	62%	1000	64%
Deloitte / external	606	38%	570	36%
	1606		1570	
Gross days				
<i>less</i> Leave	124	56%	124	58%
<i>less</i> Sickness absence	15	7%	10	5%
<i>less</i> Non Operational Time	82	37%	80	37%
Unproductive time	221		214	
Net productive days	1,385		1,356	

Internal Audit Budget 2012/13

	Budget £000	Actual £000	Variance £000
Salaries	470	470	0
Contract costs	207	230	23
Running costs	24	5	-19
Central Recharges	105	105	0
Gross cost recharged	799	795	+4

Internal Audit Reports 2012/13 – Summary of Audit Reports

Assurance ratings

Level

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

Significance ratings

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

APPENDIX 2

Summaries of 2012/13 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Children, Social Care and Wellbeing	Safeguarding Vulnerable Adults – Systems Audit
	Extensive	Resources	Software Licensing – Systems Audit
	Moderate	Development and Renewal	Planning and Building Control Fees and Charges
	Moderate	Tower Hamlets Homes	Water Systems and Installations
	Moderate	Communities, Localities and Culture	Trading Standards – Control of Evidence Stores
	Moderate	Children, Social Care and Wellbeing	Cambridge Heath Sixth Form – Probity Audit
	Moderate	Children, Social Care and Wellbeing	Olga Primary School – Probity Audit
	Moderate	Children, Social Care and Wellbeing	Phoenix Special School
	Moderate	Children, Social Care and Wellbeing	Stephen Hawking Special School – Primary School
	Low	Corporate	Use of Oyster Cards – Systems Audit
SUBSTANTIAL	Extensive	Corporate	Project Management of Transformation Projects
	Extensive	Resources	Management of VAT – Systems Audit
	Extensive	Resources	Debtors – Systems Audit
	Extensive	Resources	Housing Rents – Systems Audit
	Extensive	Resources	NNDR – Systems Audit
	Extensive	Resources	Pensions – Systems Audit
	Extensive	Resources	Treasury Management – Systems Audit

Assurance level	Significance	Directorate	Audit title
	Extensive	Resources	Remote Access (Smarter Working)
	Extensive	Resources	Future Sourcing – Contract Monitoring by Client Team
	Extensive	Tower Hamlets Homes	Tower Hamlets Homes – Financial Systems
	Extensive	Children, Social Care and Wellbeing	School Admissions – Systems Audit
	Moderate	Children, Social Care and Wellbeing	Raines Foundation Upper School – Probity Audit
	Moderate	Children, Social Care and Wellbeing	St Paul’s with St Luke’s Church of England Primary School
	Moderate	Children, Social Care and Wellbeing	Stepney Green Maths, Computing and Science College
	Moderate	Children, Social Care and Wellbeing	Out of Hours Social Care Service – Follow Up
	Moderate	Development and Renewal	Overcrowding Strategy – Follow Up Audit
	Moderate	Communities, Localities and Culture	Vehicle Removal Contract Monitoring – Follow Up
	Moderate	Communities, Localities and Culture	Control of Overtime – Follow Up
	Moderate	Communities, Localities and Culture	Bow Idea Store – Regularity Audit
	Moderate	Communities, Localities and Culture	Single List 195
FULL			
	Extensive	Resources	Data Centre Physical and Environmental Controls
	Extensive	Resources	Pension Fund Account Administration and Control

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Safeguarding Vulnerable Adults	April 2013	<p>The main objective of the audit was to provide assurance over the controls in place for managing the safeguarding process for vulnerable adults. The Safeguarding Vulnerable Adults service is responsible for putting into place processes to safeguard vulnerable adults as identified by the Council, Police, NHS, Tower Hamlets Homes and other organisations.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Sample testing of Adult Health and Well Being Service staff confirmed that not all members of staff had a valid CRB check which is less than three years old; • Sample testing of Adult Health and Well Being Service staff confirmed that not all members of staff had participated in any safeguarding vulnerable adults training courses within the last three years; • The Safeguarding Adults Process policy/procedure makes references to out-of-date practices, such as the use of paper case files, and the next review date is not stated; • Sample testing of referrals received since April 2012 confirmed that not all referrals had adequate records completed; and • Management does not review a random 10% sample of completed referral cases each month, as stated within the Safeguarding Adults Process policy/procedure. <p>All findings and recommendations were agreed with the Service Head – Adult Service Care (Interim) and the Strategic Lead for Safeguarding Adults / Mental Capacity Act / Deprivation of Liberty Safeguards (Interim), and reported to the Interim Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

Management Comments

When the audit took place, management had already identified that there needed to be a revision of the adult safeguarding procedures and processes. The audit outcome supported some of the findings from the management review and helped to formulate some wider context for the proposed changes. The previous processes needed to change, partly because new national and Pan London performance information required different data. The processes also didn't easily support practitioners to record some data and clearly evidence their actions and decisions.

- CRB Checks- when the audit was received, management investigated the 5/20 staff from the sample, that appeared not to have a current CRB. By the time this investigation occurred, it was found that the 5 staff did have a current CRB. It appeared there may have been a "lag" in the recording. However, discussions took place with HR to re-confirm the process of CRB reminder and renewal. The current process is staff are alerted by email and a letter to their home 4 months before their CRB expires. Their line manager is also informed. If there is no contact from staff after 4 weeks, their line manager is notified, in order to chase up. If their CRB expires, then line manager, service head and HR are informed and appropriate measures considered.
- Training – Discussions have taken place with Training & Development to produce annual lists of staff and the training they have undertaken. A revised safeguarding training programme has been approved for 2013-14 and this is targeted at various types of posts. Attendance of targeted staff will be monitored throughout the year and reports presented to management, with an annual report to the SAB.
- Procedures- New processes and forms were introduced in April 2013 and procedures have been updated to reflect these changes. The revised procedures are currently subject to consultation and final edit prior to roll out.
- Process & Audit- new processes and forms were introduced in April 2013. These provide a more streamlined and consistent step by step approach to safeguarding referrals, investigations, mental capacity, case conferences and evidencing outcomes. This will provide better quality data to support performance against national indicators, as well as Pan London and local expectations. The process includes a series of prompts and supporting information to assist staff and their lead manager to evidence their decision making at each stage. This allows for easier audit of practice and performance by line managers. This is then supported by regular sample audits by the safeguarding team.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Software Licensing	May 2013	<p>The main objectives of the audit were to provide assurance to management as to whether the systems of control for Licensing arrangements are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Most of the software and applications which have been purchased are kept as folders (including order papers and invoices) within folders in the network. The Council does not have a formal inventory in place. • The Council does not hold its licenses centrally and it does not have an inventory either. • There is a generic Information Security training taking place within the Council but does not cover awareness training on the use of unauthorised or unlicensed software and the consequences of doing so. • There are computer devices which run on Virtual Desktop Infrastructure (VDI) format which is a very controllable and locked down environment. However, there was a standard user account that was able to download, install and run software from the internet (Google Chrome) on a Council non VDI version device. <p>All findings and recommendations were agreed with the Business Solutions Architect, reported to the Service Head- ICT and Customer Access and the Section 151 Officer, Resources Directorate.</p>	Extensive	Limited

Management Comments

The majority of critical software used by the council is managed centrally through contracts with major suppliers including: Microsoft, Oracle, HP, Northgate, Capita, Clvica and Corelogic, these are in the process of being novated to our Strategic partner Agilisys. Shrinkwrap software such as Adobe, Macromedia, Dragon etc. has traditionally been procured by the individual directorates for their own use, however, this is also being reviewed and brought under more rigorous control using the Work Package Request process.

The Smarter Working programme in order to further improve corporate licencing for the more widely used software products in September 2012 implemented a centralised licencing model for the Adobe products including Adobe Professional and Creative Suites. In addition as a part of handover of Smarter Working to BAU support planned to be completed by Dec 2013, Agilisys are intending to collate and compare directorate owned licences against any non-corporate licenced software that is deployed via the VDI solution. Any licence shortfalls identified would need to be procured.

These two factors reduce the potential Risks associated with the current lack of a central Software Licence asset register/inventory, which might lead to the Council's inadvertent use of un-licenced software or the purchase of unnecessary new licences.

In line with the response Agilisys have included Asset/Licence Management at the end of May 2013, an update of the Continual Service Improvement Programme, the Client team will look for it to be prioritised appropriately, looking for implementation by April 2014.

With regards to the risk of individuals loading non-standard software on the legacy Windows XP environment, this is against the Information Security policy, section 7.1.2, as communicated to all members of staff during induction. Also Sophos Endpoint Control which is implemented on all Legacy XP devices monitors the execution of various categories of applications and can if required block execution if required.

In addition to this the roll-out of Smarter Working VDI and the corresponding migration of laptops and desktops from Windows XP to Windows 7 by March 2014 will look to implement further technological controls to enforce the policy along with decommissioning the current XP platform with its identified weaker illegal software download enforcement capabilities.

The Information Governance team along with the Information Governance Group representatives are currently in the process of updating the wider Information Governance education programme which includes the Information Security awareness etc. and looks to ensure that current employee awareness is maintained as well as that of Council new starters.

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance
Planning and Building Control Fees and Charges Page 40	March 2013	<p>The objective of this audit was to provide assurance over the soundness of controls for collection and banking of Planning and Building Controls fees and charges.</p> <p>Our review showed that Planning and Building Control services are delivered under the relevant authority and service objectives had been clearly documented in the Team plan. Fees were collected under an approved authority, in advance and in accordance with pre-determined scale of charges. However, as the team has been newly established, there needed to be a clear framework for managing, controlling and integrating collections and banking for the whole of the service. Cheque income was not stored and transferred between staff securely, nor was it banked as soon as required. Cheque and cash handling needed to be improved. Income transactions were recorded on the local IT system ACOLAID which recorded the financial and service details for each transaction with reference numbers. However, there was no reconciliation between income recorded on ACOLAID and income recorded on General Ledger.</p> <p>All findings and recommendations were agreed with Service Head, Planning and Building Control and final report was issued to the Corporate Director – Development and Renewal.</p>	Moderate	Limited

Management Comments

Process maps highlighting new and improved procedures and responsibilities for cheque handling and accounting have now been developed. This has been saved in a dedicated shared drive for easy access by all teams. Risk analysis was carried out as part of the project team work. This informed the development of the process maps. Separate collection and banking activity reviews have been carried out in Planning, Building Control and Land Charges teams. Gap analysis has been carried out and improvements/changes required have been used to inform process maps for new and improved procedures. Training of staff on the new and improved processes is currently on-going within the various teams. The ACOLAID system has been adapted for use in generating receipts and acknowledgement letters for all applications. A dedicated email inbox has been set up for use in communicating returned cheques and cancelled payments between the service, D & R finance and income teams. This will be monitored by D&R finance.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes (THH) – Water Systems and Installations	April 2013	<p>The main objectives of the audit were to provide assurance over the systems and controls in place for the inspection, testing and rectification, where necessary, of water systems and installations, in order to comply with statutory obligations and health and safety requirements. THH, as part of functions delegated by LBTH, is responsible for checking and maintaining water storage systems within the maintained stock of dwellings. A contract is in place for checking and maintaining of water systems.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Contractor reports results regularly of completed inspections, but for four of the 10 inspections in our sample, the date of the inspection occurring had not been reported. Furthermore, our testing identified that of six instances where the contractor had reported that further action was required, there were five instances where further works had not been commissioned and we were unable to determine the reason for this since it had not been documented.. • Sample testing of 10 inspections with reported issues regarding access (e.g. demolished buildings or no access to property) identified that in all 10 cases evidence that further action had been taken was not available. In addition, of the 10 cases tested where works had been undertaken, four did not have any evidence of post work review to confirm the works had been undertaken. • A review of GEM meeting papers shows operational meetings were not documented in April and May 2012. Discussions identified the meetings did not take place in July and August. In addition, it was identified that planned strategic meetings had not yet taken place. <p>All findings and recommendations were agreed with the Planned Maintenance Manager at Tower Hamlets Homes, and reported to the Interim Director of Neighbourhoods and the Chief Executive at Tower Hamlets Homes.</p>	Moderate	Limited

Management Comments

Contractor Inspections and follow-up actions

Tower Hamlets Homes has made an investment in Keystone Asset Management systems, which includes modules for management of Servicing & Inspection programmes. The decision to invest was taken in December 2012, and the system is currently undergoing implementation.

Keystone Servicing & Inspection (KSI) provides THH with improved management of assets requiring servicing, the servicing regime for those assets, as well as any associated works required for those assets.

KSI will provide a more rigorous and auditable systems to:

- Monitor & progress outstanding works: where works have been identified as required in an inspection, these assets will be flagged with amended status until works are carried out – providing improved visibility and monitoring of required works and asset status;
- Inspection outcomes: the outcomes of inspections are recorded and flagged where issues such as no access and refusal occur, as well as any amended status of assets as noted in the comments;
- Validation of works: Keystone has integrated validation and valuation of works prior to payment, ensuring that these steps have to be completed – there is also an auditable record of each user which completes stages.

GEM Contract Management Meetings

As part of managing the framework contract for Planned Maintenance, THH has in place established performance governance framework in place and contractual KPIs to drive the contractors' performance and key issues. Contact management meetings are held with the different framework contactors on a monthly basis. The contactor performance and matters regarding the servicing of assets are also discussed during the meeting. The audit has identified that the contract performance meetings did not take place in April, May, July and August 12. THH accept that the meetings during these months were not held and formal minutes are not available for these months. There are minutes detailing operational meetings for June, September and October. THH can also confirm that Strategic Core Group meetings have also been help on a quarterly basis.

With respect to the contactor performance meetings which did not take place, THH will review this through THH performance management framework with the responsible line manager.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Trading Standards – Management and Control of Evidence Stores</p> <p>Systems Audit</p> <p>Page 44</p>	<p>April 2013</p>	<p>This audit sought to provide assurance that controls for managing Trading Standards evidence stores were sound and secure.</p> <p>Our review showed that there was an Annual Work plan in place for Trading Standards which set out service priorities. Within this Work Plan, there was an objective around Secure Storage of Equipment and Evidence Store, and accurate and up to date inventory control and monitoring in order to ensure effective control over seized items. Trading Standards also had a current Risk register that identified Evidence Storage and Data Security as being high (red) risk.</p> <p>Our testing showed that written procedures for an effective management of the evidence stores was not in place. Arrangements to deliver an effective Evidence Control System, as documented in its own Risk Register, needed to be put in place. There were three separate Stores where evidence was kept. However, a review needed to be carried out to assess the cost-effectiveness of these three separate stores. Our testing showed that control over inventory, tracking, disposal, transfers, security and safekeeping of the stores kept in Anchorage House and Commercial Road was not as sound as it should be, putting the safe keeping of seized goods at risk.</p> <p>All findings and recommendations were agreed with the Service Head, Community Safety and final report was issued to the Corporate Director, Communities, Locality and Culture.</p>	<p>Moderate</p>	<p>Limited</p>

Management Comments

In order to improve the controls Trading Standards wanted to use the CRIMSON software system. However, because of lack of ICT support and the cost of its installation, we are planning to use Hertfordshire County Council's Trading Standards Service solution to evidence control as best practice. Trading Standards have decided to use the APP database in conjunction with a slimmed down version of the Hertfordshire spread sheet. The spread sheet will be accessed from the APP prosecutions database and there will be a master copy of document. Using APP allows reports to be produced about evidence control enabling audits of the evidence system. A written procedure is being prepared and a draft document should be available by the end of June. It will include a flow chart describing the process. There are three stores: one at the Toby Club, the major store at Commercial Road and flexible resource using containers off site for bulk seizures.

A separate room has been identified in the basement of the Toby Club that can be used instead of the tambour units brought over from Anchorage House. This should resolve one of the audit's concerns about the flimsy nature of the tambour unit's locks. It is a regular occurrence for Trading Standards to seize thousands of illicit articles. One seizure amounted to 50000 items. There is a need for a flexible storage response and that is provided by off-site containers. They are hired as and when needed. The number of containers used to store evidence has been reduced to three – one of which is used by the Council's Smoke Free Team for storing Shisha product. Trading Standards re-located to Toby Club during April and this has caused some disruption. There are facilities management issues at the Toby Club which have added to the disruption. However, with the introduction of new IT system and procedures, the control over evidence stores should improve in the future.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cambridge Heath Sixth Form	April 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Federation Board and a Resource Committee which have overall responsibility for financial planning and control. The school has been effective in controlling and maintaining the school's disbursement account and follows good practice for the accounting of income and expenditure.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Purchase orders were not being raised in all cases. • Testing established the meeting minutes for the Federation Board and Resource Committee do not clearly state ratification of policies and key documents on all occasions, including the School Development Plan, Pay Policy and the Financial Arrangements. • Testing of the declarations of business interest found that two governors had not completed their declaration of business interest form. • Invoices had not been certified by an independent authorised signatory in all cases. • Petty cash claims are not completed and certified with valid receipts in all cases and were not always appropriately authorised before payment. • There is insufficient control over the provision of free school meals increasing the risk that free meals may be provided to pupils who are not entitled. <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
Olga Primary School	Feb 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance Committee, which have overall responsibility for financial planning and control. The school has been able to control its expenditure and recorded a surplus in the last financial year. The school follows good practice for the accounting of income and expenditure and generally has effective controls over payroll management. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • At the time of the audit, the declaration of interest form for one member of the Governing Body could not be located on file. • Testing found that the bank reconciliation for one month was not signed by the Head Teacher as evidence of review. • Official order forms are not completed and authorised before orders are placed with suppliers in all cases. • Petty cash transactions are not conducted within the prescribed limit in the Financial Regulations. • Policies and procedures are not reviewed and approved on an annual basis. • Income received in respect of school dinners is not checked and verified by an independent officer. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phoenix Special School	Feb 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a has a Full Governing Body and a Finance & General Purpose Committee which have overall responsibility for financial planning and control. The school has been able to control its expenditure and recorded a surplus in the last financial year. The school follows good practice for the accounting of income and expenditure and generally has effective controls over payroll management. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Governing Body and Sub-Committee meetings are not always fully documented and signed off. • Petty cash claims are not completed and certified in all cases. • The terms of reference for sub-committees are not reviewed and approved on an annual basis. • Testing of the declarations of business interest identified that forms were not held for four of the Governors. • Testing identified a sample of transactions that exceeded the school's £1,000 threshold where quotes had not been obtained. • Invoices were not always certified by an independent authorised signatory. • Testing established that inventory records are not up to date. <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
Stephen Hawking School	March 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Resources Committee which have overall responsibility for financial planning and control. The school has been effective in controlling and maintaining the school's disbursement account. The school carried forward £513,316 from the 2011/12 financial year. The school's most recent Ofsted inspection undertaken in April 2010 rated the school as "Outstanding."</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Banking and payroll reconciliations had not been undertaken on a monthly basis. Furthermore, the Monthly Reconciliation Statements were not signed off by the Head Teacher in all cases to confirm that the information was accurate. • Staff members are not subject to periodical CRB reviews. • adequate inventory records are not maintained. Not all of the school's assets are visibly marked. • evidence of alternative quotations had not been obtained and retained on file in all cases. • Items were identified where it was evident that there is not an adequate segregation of duties in the school's payment processes. <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 the above schools)

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.

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

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

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

The Schools Finance Manager has contacted all the schools with the aim of supporting them in implementing the agreed recommendations.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Use of Oyster Cards	May 2013	<p>The main objective of the audit was to provide assurance to management in respect of controls in place for managing and monitoring the use of Oyster cards across the Council.</p> <p>Oyster cards are used throughout the Council where services require staff to travel as part of their business duties. These are topped up on regular basis through purchase cards. The total expenditure on Oyster Card top-ups across the Council for the first nine months of the 2012/13 financial year was £9,712. Our review highlighted the following issues:-</p> <ul style="list-style-type: none"> • There were no policies and procedures in place regarding the supply and use of Oyster cards. • Where pool cards were used, only verbal authorisation was given in some cases. • Record keeping was inadequate in some areas of the Council. • Oyster Cards were not held securely in all cases. • There was no specific ledger code associated with Oyster Card expenditure and therefore monitoring of spend in this area is not straightforward. <p>All findings and recommendations were agreed with the Service Head – Financial Services, Risk & Accountability and reported to the Interim Corporate Director of Resources.</p>	Low	Limited

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Transformation Projects</p>	<p>May 2013</p>	<p>The Council's Medium Term Financial Plan 2011/12 to 2013/14 identified savings targets of £28.9m for 2011/12, £24.4m for 2012/13 and £24.2m for 2013/14. A number of transformation projects have been agreed. This audit examined the systems in place for managing and monitoring the delivery of a sample of projects for the financial year 2012/13.</p> <p>The approval, delivery and monitoring of projects and savings proposals is managed by Directorates. The governance of the programme is managed by the CMT. A Savings Tracker is maintained corporately by the Benefits Realisation Analyst and this is updated by Directorates and submitted to CMT and MABSARP monthly. A briefing paper dated 21/11/2012 to MABSARP reported that all Directorates were on target to deliver savings approved for 2012/13 with contingencies in place where there was risk of non-delivery. Each efficiency proposal within the audit sample for 2012/13 was supported by full Savings Proposal Pro-forma which included full Equalities Impact Assessment (Where required) which were put forward for consideration and approval by Members and the papers had been made publicly available for inspection via the Council's website. Overall, there was good control in place. The following points were raised:-</p> <ul style="list-style-type: none"> • All actions agreed and decisions taken at DMTs needed to be minuted in order to ensure that decisions made are transparent, can be tracked and monitored. • Alternative plans or revised plans needed to be put in place earlier on for projects assessed as high risk of non-delivery of planned savings. These plans needed to be tested to ensure delivery of the same level of savings. CMT should be advised at the earliest opportunity of risks associated to savings agreed by Members. <p>All findings and recommendations were agreed with Directorate leads and final report was issued to Corporate Directors.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	March 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Debtors system are sound, secure and adequate. As at 6th January 2012, there was a total of £14.7m of outstanding debt owed to the Council, of which £727k had been outstanding for 12 months or longer.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Reconciliations between the GL and debtors system are not always occurring on a timely basis; • From review of the ledger code reconciliations, it was noted that there were a number of items that were listed as unreconciled for a period in excess of four months; and • Accounts, rather than individual invoices having their status set to inhibited, leading to future invoice recovery being placed on hold. <p>All findings and recommendations were agreed with the Head of Revenue Services, and reported to the Service Head – Financial Services, Risk & Accountability.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents	April 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Housing Rents system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Testing identified that the Rent Arrears procedural notes have not been updated since February 2011. The procedure notes are currently being updated to incorporate new working practices. It was identified that the delay was caused by the delegated officer for reviewing and updating the policy having an extended period of sick leave. Furthermore, it was noted that this recommendation was raised as a result of internal audits in both the 2010/11 and 2011/12 financial years. • Testing of 20 rent accounts on SX3 before and after the 2nd April 2012 identified that in one instance the rent increase had not been applied. • Testing of a sample of 20 new tenancies identified that in 11 instances there was a delay in the time taken to set up the new tenancy; delays included void works and two tenancy agreements being received 22 and 31 days, respectively after the start date of the tenancy period. In one of the above 11 instances the reason(s) for the delay had not been documented on the SX3 system. <p>All findings and recommendations were agreed with the Director of Finance at Tower Hamlets Homes, and reported to the Chief Executive of Tower Hamlets Homes.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	March 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the NNDR system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The Council has approximately 14,500 business properties and it is estimated that a total of £340m will be collected in the financial year 2012/13 in respect of NNDR.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • We were unable to obtain assurance that the Council has effective controls in place to prevent fraud occurring as a result of retrospective void status being applied to properties. • The Council has developed internal procedures covering the key processes relevant to NNDR which are reviewed annually. It was found that following last year's recommendation, the date of the last review and version number have now been included, but the documents do not state the date of the next review. <p>All findings and recommendations were agreed with the Head of Revenue Services, and reported to the Service Head – Financial Services, Risk & Accountability.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	April 2013	<p>The main objective of the audit was to provide assurance to management that the systems of control around the Pensions system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From a sample of 20 retirement payments made between April 2012 and February 2013, it was identified that in three instances the AP1 form (payment pro forma) was not signed to certify the payment; and • Our testing found the reconciliations for lump sums and pension increase (PI) on lump sums had not been undertaken for the month of February 2013. Furthermore, the January 2013 lump sum reconciliation was not dated or counter checked by a second officer. • For transfer values in, the quarter 2 reconciliations were not dated or counter-checked by a second officer. Review also found the reconciliations were not dated and counter-checked in either February or March 2013 for the reconciliations dating back to September 2012. <p>All findings and recommendations were agreed with the Pensions Manager, and reported to the Service Head – Financial Services, Risk & Accountability.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Remote Access	March 2013	<p>Remote access provides functionality to enable both staff and third party suppliers to access Council's systems and data from areas geographically remote from Council property. This enables a more effective use of Council resources through initiatives such as working from home, whilst providing staff with greater flexibility in their working environment. A revamp of the Council's remote working policy to encourage offsite work has been implemented alongside a new remote security solution; utilising PIN tokens linked to users active directory accounts.</p> <p>The main objectives of the audit were to provide assurance to management that there are adequate internal controls in effective and efficient operation, the processes are meeting the requirements of internal policy and procedural standards, and the processes are meeting external codes of practice, professional and statutory regulations.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • System event summaries were not reviewed. • Firewall access rights were granted indefinitely but no access reviews were being undertaken. • Access rights were granted indefinitely to the network. <p>All findings and recommendations were agreed with the Business Solutions Architect, and reported to the Head of Service – ICT and Customer Access.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Future Sourcing – Contract Monitoring Systems audit	May 2013	<p>This audit sought to provide assurance over the soundness and adequacy of contract monitoring systems to ensure that the strategic objectives and commitments set out in the Strategic Partnering Agreement were being achieved.</p> <p>We found good governance structure in place between the Council and Agilisys Ltd. The contract was governed through a Strategic Partnership Agreement, and the ICT Service is managed via the ICT Operational Services Agreement (OSA). The Strategic Partner provided a termination bond in the sum £1m in respect of procuring and appointing a replacement services provider, should this risk materialise. A pension bond was also in place provided by the Council for the continuation of eligible employees in the Local Government Pension Scheme who were subject to TUPE. There were clear performance standards and KPI's established, which allowed performance to be measured and monitored to improve performance over time. Performance against agreed KPIs was reported monthly to the SOB and quarterly to SPB. An examination of the performance for the sample period confirmed that all service KPI's were within the agreed targets reflecting the targets in place pre-contract. However, we found the following issues which needed to be addressed by management:-</p> <ul style="list-style-type: none"> • The current performance monitoring procedures undertaken by the Client team had not been formally documented in the form of written procedures. • The Contracts and Performance Coordinator undertook quality assessment validation checks on only the Priority 1 (P1) & Priority 2 (P2) incidences reported in the previous month. However, the information provided by Agilisys was not independently tested for data quality. • Our testing showed that apprentice costs were being invoiced by Agilisys on a monthly basis and were being paid. However, due to the lack of detailed information provided by the contractor to support their invoice, we were unable to fully reconcile the costs being charged. In addition, the Corporate Client Team was not able to demonstrate the level of verification checks carried out in order to substantiate either the level of wages or the existence of apprentices to support the monthly invoice. 	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> Delays have been encountered to the novation process of third party ICT supply contracts to Agilisys. Although, the Council is currently paying for the third party supply contract costs and invoicing Agilisys accordingly, there is a risk that any delays encountered to the agreed timescales for novation could have an impact on the savings projected by Agilisys. <p>All findings and recommendations were agreed with the Service Head, ICT and Customer Access and final report was sent to the Interim Corporate Director, Resources.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Financial Systems	March 2013	<p>The main objectives of the audit were to provide assurance to management as to whether the systems of control around the financial systems are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From our testing of a sample of 20 R2P transactions and 20 AP Vouchers it was established that on seven occasions (five from the R2P testing and two from AP voucher testing) payments were not made in a timely manner. • Testing of a sample of 20 R2P transactions identified that on four occasions an order form was raised after the invoice had been received. At the last audit, it was recommended that orders should be raised on R2P for all payments to suppliers where cost can be identified before the receipt of invoice. This recommendation was disagreed by management who stated that this was not possible in all cases. As a result, we have not reiterated the recommendation in this report since management has accepted the risk of not implementing this. • Car loan procedure notes should be updated to detail all authorising officers. <p>All findings and recommendations were agreed with the Director of Finance at Tower Hamlets Homes, and reported to the Chief Executive at Tower Hamlets Homes.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
School Admissions	April 2013	<p>The main objective of the audit was to provide assurance to management as to whether the systems of control around the Schools Admissions processes were sound, secure and adequate.</p> <p>The Schools Admissions service is responsible for the allocation of school places in accordance with statutory requirements, including the Admissions Code which came into force in February 2012.</p> <p>A total of 2,999 applications were made as at December 2012 for in-year admissions for London Borough of Tower Hamlets primary and secondary schools. As per the London Councils Pan-London Co-ordinated Admissions Scheme 2012, LBTH was ranked for successful primary school entry for 1st preference at 86.01% against the London average of 78.72% and for 1st preference secondary school admission success rate at 76.54%, against the London average is 65.77%.</p> <p>A total of 225 appeals were made against secondary school place decisions as at September 2012. 18 cases were withdrawn and the Appeal Panel had upheld 26 cases. For primary schools for the same period, 226 appeals were made, of which 40 were withdrawn, and two cases were upheld.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Testing found one Common Application Form missing; • A case was found where information from the application form was not entered into the admissions management system, Impulse; and • Review of the Impulse system which is used to administer admissions for school places found the pre-set system parameters for applying the oversubscription criteria are currently open to a number of officers. <p>All findings and recommendations were agreed with the Head of Pupil Admissions and Exclusions, and reported to the Corporate Director - Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Raine's Foundation Upper School	Feb 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance Committee which have overall responsibility for financial planning and control. The school follows good practice for the accounting of income and expenditure and generally has effective controls over the collection and recording of income received. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The terms of reference for the Curriculum and Policy Committee do not reflect current practice at the school. • Official order forms had not been completed and authorised before orders are placed with suppliers in all cases. • Through testing of 10 new starters at the school it was found that one new starter form had not been signed off by the completing officer and one had not been signed off by a checking officer. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Paul's with St Luke's Church of England Primary School	March 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance Committee which have overall responsibility for financial planning and control. The school follows good practice for the accounting of income and expenditure and generally has effective controls over the collection and recording of income received. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Although the School Improvement Committee has a terms of reference, it does not provide details on the composition of the Committee, frequency of meetings and the quorum requirements. It was also identified that the terms of reference documents for both the School Improvement Committee and Resources Committee have not been formally approved by the Governing Body. • Through review of the business interest forms kept at the school and through discussions with the Senior Administrative Officer it was found that business interest forms are not held for three new governors, furthermore the register is not extended to members of staff with financial roles at the school. • Official order forms were not completed and authorised before orders are placed with suppliers in all cases. • Evidence of pre recruitment checks undertaken was not retained on file. <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
Stepney Green Maths, Computing and Science College	March 2013	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance, Premises and Personnel Committee which have overall responsibility for financial planning and control. The school follows good practice for the accounting of income and expenditure and generally has effective controls over the collection and recording of income received, and procurement. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There was no evidence that that the terms of reference for a number of sub-committees had been formally approved by the Full Governing Body for the current year. • Examination of the Pay Policy and Charging Policy ascertained that both documents had not been reviewed on an annual basis. Review of the Governing Body minutes could not establish when the Whistleblowing Policy and Sickness Management Procedure were last review and approved. • Through testing a sample of 10 items of inventory, it was established that one of the items could not be located on the school premises. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Out of Hours Social Care Services – Follow Up Audit</p>	<p>March 2013</p>	<p>This follow-up audit assessed the progress made in implementing recommendations emerging from the original audit finalised in March 2012. The provision of this service was undertaken by the Emergency Duty Social Work Service which forms part of the Disabilities & Health Division within the then Adults Health & Wellbeing Directorate. Our review found that of the seven recommendations made in the original report, two recommendations had been fully implemented and three were in the progress of implementation, while two have yet to be actioned.</p> <p>The 2012/13 Team Plan was prepared and the procedural guidelines were still in draft form waiting for finalisation of service structure resulting from a review of the service which was underway. This meant that the monitoring procedures had not been finalised. The issue of staff access to IT systems had been resolved with the implementation of the virtual desktop. However, our testing showed that the staffing budget still needed to be fully funded. The staffing costs for the first three months of 2012/13 showed that 60% of the original budget allocation had already been spent. We were informed that the budgetary situation will be reviewed as part of the amalgamation of the services within the former two Directorates.</p> <p>All findings and recommendations were agreed with the Interim Service Head, Disability and final report was issued to the Acting Corporate Director – Children, Social Care and Wellbeing.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Overcrowding Strategy</p> <p>Follow Up Audit</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 68</p>	<p>April 2013</p>	<p>This follow up audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit in June 2012.</p> <p>From our review, we could provide assurance that out of two priority 2 recommendations, one recommendation that related to meetings of the Great Place to Live Community Plan Delivery Group to be held in accordance with its terms of reference and the Housing Strategy Action Plan update to be presented to the Great Place to Live Community Plan Delivery Group on at least an annual basis, was implemented.</p> <p>However, the second recommendation relating to six monthly Overcrowding Reduction Strategy progress reports to be produced and presented to the Tower Hamlets Common Housing Register Forum in a timely manner, was not fully implemented. Our review showed that the 2011/12 progress report against the Overcrowding Strategy action plan was reported to the Forum on 11th December 2012 – i.e. 9 month after end of 2011/12 financial year.</p> <p>All findings and recommendations were agreed with the Service Head – Strategy, Regeneration and Sustainability and Final report was issued to the Corporate Director – Development and Renewal.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Vehicle Removal Contract Monitoring – Follow Up Audit Page 69	April 2012	<p>This report details the findings and recommendations of a Follow Up audit on Contract Management and Monitoring of the Vehicle Removal Contract.</p> <p>Our review showed that out of four priority 1 recommendations, one was not implemented. All four priority 2 recommendations had been implemented. We made additional findings and recommendations to improve control environment in this area.</p> <p>A revised set of Key Performance Indicators, as well as a monitoring procedure which explains how the monitoring will be carried out, had been put in place. However, our testing of the KPIs monitored during October and November 2012 showed that only a few KPIs were being monitored. Variation orders were being raised, but the financial implications of these orders were not documented and the actual cost of these variations were not cross-checked with invoices to ensure that only agreed variations were being invoiced and paid for. The payment checking and reconciliation process needed to be improved. Moreover, any permanent changes in the policy governing the removal of vehicles needed to be reported to the Mayor and Cabinet for approval.</p> <p>All findings and recommendations were agreed by the Service Head – Public Realm and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Overtime within CLC Follow Up Page 70	March 2013	<p>The objective of this audit was to assess the progress made in implementing recommendations made at the conclusion of the original audit. Our review showed that out of five priority 2 recommendations made at the conclusion of the original audit, four had been progressed. There was one priority 1 recommendation, which had been implemented.</p> <p>Our testing showed that all staff were reminded about the need for authorisation before overtime was actually worked. The trend in overtime expenditure showed that there had been significant reduction over the last two years. Budgets for overtime and additional work had been set up and some degree of monitoring was in place. This showed that the control environment had improved. The issue of over/under payment due to administrative errors on monthly overtime spread sheet submitted to payroll had been addressed. However, we found that there were some issues of non-compliance, which needed to be addressed by management. For example, we identified few cases where overtime was not evidenced as approved by line managers; cost of overtime was not clearly shown on the Efficiency Board Approval Form and overtime was worked in a very few cases without budgets which made monitoring difficult.</p> <p>All findings and recommendations were agreed by the Service Head, Public Realm and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bow Idea Store- Regularity Audit	April 2013	<p>This audit examined the systems and procedures in place for the collection and banking of income, ordering and paying for goods and services, budgetary control, inventory management, and staffing controls.</p> <p>Our review showed that systems for cash collection and banking, ordering and paying for goods and services and budgetary control were adequate.</p> <p>However, we highlighted that improvements were required in procedures for inventory control, checking and signing of delivery notes before invoices were receipted on R2P system, secure filing of delivery notes and regular stock checks of books and other items held by the Idea Store to ensure that loss of stock due to thefts, non-returns etc. is monitored and minimised.</p> <p>All recommendations made were agreed to be equally applicable to other Idea Stores and management provided assurance that control improvement will be rolled out to all other Idea Stores.</p> <p>All findings and recommendations were agreed with the Service Head, Arts and Culture and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Single List 195	March 2013	<p>The main objectives of the audit were to provide assurance that systems and controls are in place for the assessment and reporting of Performance Indicator 195 and demonstrate any potential influence that the process may have to public perception, and to alert management to any deficiencies in the control procedures.</p> <p>The main issue raised was that the transect surveys were undertaken by the surveyors of the Muslim Women’s Collective whose roles and duties had been defined within the SLA that had been signed by both parties in May 2012. However, from discussion and review, we established that the SLA did not define the responsibilities and liabilities in relation to the health and safety of surveyors during their field work.</p> <p>All findings and recommendations were agreed with the Service Head for Public Realm, the Service Manager - Communities, Localities and Culture, and the Acting Local Streetcare and Contracts Manager, and reported to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Moderate	Substantial

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Data Centre Physical and Environmental Controls</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 73</p>	<p>April 2013</p>	<p>The main objectives of the audit were to provide assurance to management that there are adequate internal controls in respect of the physical and environmental security of the Data Centre.</p> <p>Physical Access in the Data Centre facility is restricted and controlled. The facility has a 24/7 team on site who investigate any breach of security. Access by visitors is under supervision. The facility has adequate control in terms of CCTV cameras. The computer equipment is installed in a separate room with controlled access to it. Air conditioning and humidity best practises are being followed. There are adequate controls regarding fire detection in the facility. A fire suppression system is in place. Alternative power supplies are connected to the facility. An inventory/asset registry is in place for reconciliation purposes. Water damage risk is significantly minimised.</p> <p>No recommendations were raised as a result of our review.</p> <p>All findings were agreed with the Business Solutions Architect, and reported to the Service Head, Customer Access and IT.</p>	<p>Extensive</p>	<p>Full</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pension Fund Account Administration and Control	April 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Pensions system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The Financial Strategy service is responsible for the administration of the pension fund account . The pension fund is currently managed by six fund managers, namely GMO, Baillie Gifford, Legal and General (L&G), Investec, Schroders, and Ruffer. Based on the Hymans Robertson Review of Investment Managers' Performance for the Fourth Quarter of 2012, the actual portfolio proportion of asset classes were - Global equity 60.5% ; Bonds 16.9%; Property 10.9%; Alternatives 10% ; Cash 0.8% ; and Trustee Bank Account 1.1%.</p> <p>Our review showed that performance was modestly ahead of benchmark over quarter four of 2012 and the absolute return at total fund level was also positive, reflecting rises in most markets. With the exception of GMO, all of the Fund's active managers outperformed their benchmarks.</p> <p>No recommendations were made as a result of our review.</p> <p>All findings were agreed with the Chief Financial Strategy Officer, and reported to the Service Head – Financial Services, Risk & Accountability.</p>	Extensive	Full

Title	Date of Report	Comments / Findings
<p>Bangladeshi Parents and Carers Association (BCPA)</p> <p>Follow Up</p>	<p>April 2013</p>	<p>The objective of this follow up audit was to provide assurance over the progress made by the organisation in implementing the recommendations made within the final Audit report that was issued in May 2012. The Organisation had a budgeted income of £623,480 for 2012/13 financial year and the expenditure forecast was £580,073 with an expected surplus of £43,407.</p> <p>From our testing we confirmed that of the twenty priority 1 recommendations made, eight were fully implemented. Overall there was evidence to show that progress had been made in implementing the remaining 11 recommendations.</p> <p>Our review showed the BCPA Officers made good progress in ensuring that the governance arrangements were improved. We noted that subsequent to audit and other investigations, the previous Chair of the Management Committee resigned and that the new Management Committee has been strengthened with a Co-opted member who is a Director of St Margaret's House Settlement. Expenditure and income control has improved with good budgetary control in place. We made a number of further recommendations that should assist BCPA to achieve greater control and accountability within their organisation.</p> <p>The Chair and the Treasurer of the organisation agreed all the findings and recommendations made in the report.</p>

Title	Date of Report	Comments / Findings
<p>Review of Governance arrangements of the Boishakhi Mela Community Trust Ltd.</p> <p style="text-align: center;">Page 76</p>	<p>February 2013</p>	<p>The Council made a decision in September 2011 to return the Mela to the community and set up an independent panel to consider suitable organisations to organise and run the event in the future. As part of this process, the Council also set out financial and legal conditions that must be met by any organisation before a decision is made to enter into an agreement with them. The independent panel recommended that the Council consider entering into an agreement with the Boishakhi Trust. Following this, the Mayor asked for an independent audit of the financial governance of the Trust before any allocation of grant monies.</p> <p>The initial audit was carried out in March 2012 to help the Trust develop a system of sound financial governance. This audit raised a number of key recommendations for the Trust to implement. Following the Mela event, further audits were conducted to ensure that the recommendations had been implemented and to assess the financial claim submitted by the Trust in respect of its income and expenditure. The auditors found that all the high priority recommendations had been implemented and twenty five of thirty one priority 2 recommendations had also been implemented. For the outstanding six recommendations management has continued to liaise with the Trust to ensure that these are actioned before the Mela 2013. A further audit is being planned which will take place after the Mela 2013 has been held.</p> <p>The Panel examined the claim submitted by the Trust (£199,400) in full and in conjunction with the independent auditors, disallowed a proportion of the claim. The final claim of £161,000 was allowed by the Panel.</p>

Title	Date of Report	Comments / Findings
R2P – Pre-receipting Checks	July 2012	<p>This audit was undertaken at the request of the Audit Commission. A financial report identified a total of 11,952 hard commitments were created as at 31st March 2012 where goods/services had been receipted on the R2P system but payments had not been made as invoices had not been received. We selected a mix of 28 orders from this list for various services within CLC, CSF, Resources, D&R and AHWB and carried out the necessary audit testing to verify that in cases where orders had been marked “receipted” on the R2P system, there was evidence to show that the good/services had been received by the requisitioners.</p> <p>Our testing showed the following, highlighting some risk of pre-receipting occurring:-</p> <ul style="list-style-type: none"> • In 18 cases, we verified that good/services had been received at the point of time when the order was “receipted” on R2P system. • In 6 cases, we could not verify that goods/services had been received at the point when the orders were “receipted” on R2P, as evidence of goods received note or completion certificates were not available. • In 4 cases, there was evidence to show that goods had been pre-receipted. 3 of these orders related to the School Meals service at Toby Lane, where a dispensation was agreed due to nature of the service. In 1 case, it was clear that although the order for laptops had been receipted on 30/03/12, the goods were actually received on 14/04/12.

Title	Date of Report	Comments / Findings
Teachers Grant Claim	Sept. 2012	<p>This annual audit was designed to seek assurances that processes were in place to ensure both employer's and employee's pension contributions for teaching staff were correctly calculated, deducted and paid over to LBTH for onward payment to Teachers Pensions Agency(TPA). We selected five schools which have contracts with external payroll providers to seek assurances that these payroll providers systems were robust.</p> <p>From our audit testing, we provided reasonable assurance that both employer's and employees' pension contributions had been correctly calculated, deducted and passed on to the TPA.</p>

Title	Date of Report	Comments / Findings
THH - Lifts Renewal Programme	January 2013	<p>This review was requested by THH management in order to provide independent assurance that there were adequate systems in place for the Lifts Replacement Programme.</p> <p>Our review has identified two areas that Senior Management needed to address to enable greater transparency and to support any challenge on the compilation of the lift renewal programme. Firstly, there was a clear need for a written policy on the assessment criteria for determining the formation of the annual and five year Lift Replacement Capital Programme.</p> <p>Secondly, our testing and analysis highlighted disparity in the prioritisation of lift replacements programme compiled by Officers. Based upon the information provided to us, the disparity resulted from some lifts which were older and requiring higher level of repairs and servicing, not being prioritised within the programme. There may however, be mitigating circumstances as to the reasons that some lifts had been given a higher priority within the programme than others. However, this was not documented anywhere to support the decisions made by Officers based upon their professional judgement. This, coupled with the fact that some information such as the age of lifts, historical cost and amount of breakdowns could not be evidenced for all of the lifts within the replacement programme, leaves the service open to adverse scrutiny and challenge.</p> <p>All recommendations were agreed by THH management.</p>

Title	Date of Report	Comments / Findings
THH – Specialist Repairs Budget Monitoring Page 79	October 2012	<p>This review was requested by THH management. The objective was to identify and report upon the factors which could have caused an overspend on Specialist Repairs budget for 2011/12 and the lessons that can be learnt. Our review showed that overall (allowing for adjustments) expenditure for Repairs & Maintenance was within budget for 2011/12 (expenditure of £14.633m against a budget of £14.704m). However, the expenditure on Specialist Repairs budget was overspent by £604,145 (expenditure of £4.2m, a total budget of £3.6m). The majority of the overspend was in relation to works issued to one contractor for communal heating, hot water and responsive repairs. Audit testing showed that expenditure was being incurred during the fourth quarter of the financial year when there was insufficient budget provision, although variation orders were being raised and approved at this stage. Financial performance reports were not produced for a key reporting period in March and April 2012 and meetings of the DMT were not held during this period. Although concerns of possible overspend were highlighted by finance staff in mid-February, these were not reported upwards. The budget holder required training on accruals accounting and the robustness of forecasting required to be tested regularly by Finance staff to ensure that all commitments were included in the budget forecasts. There was lack of clearly documented procedures together with roles and responsibilities and processes for capitalising of expenditure. All findings and recommendations were agreed with the Director of Finance.</p>

Title	Date of Report	Comments / Findings
Ansel House – Lift Renewal Final Account	April 2013	<p>The objective was to carry out a final account audit. The scheme was approved on 19/08/2009 in the sum of £570,000 (including fees) by means of a Scheme and Estimate Report and the contract was awarded on 10th December 2009 in the sum of £625,816.00 on a fixed price basis. We approved the final account so that the retention could be released and final invoices can be raised to Leaseholders. However, we reported the following:-</p> <ul style="list-style-type: none"> • The final account file needed to contain evidence of the Scheme and Estimate reports for accepted tender and for the additional sums required to install temporary lifts. Although, there was reference that Cabinet approved the scheme value of £762,000, there was no evidence in the file to support this. • There were eight variation orders totaling £208,833.00 issued under this contract along with three extensions of time certificates revising the completion date to 30th September 2011. In order to promote transparency and value for money, the rates quoted by the main contractor to carry out any additional works (variation orders) needed to be supported with evidence of quotations from their sub-contractors. • The final account file submitted to Internal Audit needed to include the evidence of build up to support each interim payment so that sample checks could be undertaken by us against the Bill of Quantities. The quality of arithmetic checks around interim payments needed to be made more robust. • Appropriate vulnerability assessments and surveys needed to be carried out at contract planning/pre-tender stage so that any additional needs/works/services were factored into the tendering process. A 'lessons learned' report was recommended to be undertaken to enable officers to learn from experiences gained that will assist with the development of future contracts and therefore reduce the financial burden on the authority by being able to recoup some of the expenditure through leaseholder recharges.

Title	Date of Report	Comments / Findings
Tower Hamlets Somali Organisations Network (THSON) Probity Audit	September 2012 and March 2013	<p>We carried out a probity audit on Tower Hamlets Somali Organisations Network (THSON). The objects of THSON are to promote the interests of Somali Community in the London Borough of Tower Hamlets. According to the organisation's published Statements of Financial Activities for year ended 31st December 2010, which was signed and approved on 31st March 2011, it received a total funding including Mainstream Grant funding, Corporate Match Funding and Working Neighbourhoods Funding (WNF) of some £368,084.</p> <p>Overall, we concluded that the governance framework and financial control within the organisation was very weak, leaving the system open to significant error or abuse. We found numerous instances where THSON's own Financial Procedures and conditions of MSG were not being complied with. Regular monthly bank reconciliations were not undertaken. Procurement for goods and services were not in accordance with their own procedures and we found evidence of forged quotations and a falsified invoice which was paid by the organisation without adequate checks and controls.</p> <p>We recommended a series of improvement in governance and financial control and drew drawing up an Action Plan for the organisation in conjunction with D&R Third Sector Funding section. We also recommended a more robust monitoring regime within the Service to ensure that management oversight and quality control of monitoring visits are put in place to scrutinise the quality of monitoring visits by individual officers of the Council.</p>

Internal Audit Coverage – 2012/13

Audit Description	Significance	Assurance
Corporate Systems		
Oyster Cards	Moderate	Limited
Data Quality	Extensive	Substantial
Translation Services	Moderate	TBC
Purchase Cards	Extensive	TBC
Contract Management	Extensive	TBC
Management of Complaints	Extensive	Substantial
Scheme of Delegation	Extensive	TBC
Waivers of Financial Regulations	Extensive	Substantial
H&S Governance FU	Extensive	Substantial
R2P Pre-receipting checks	Extensive	N/A
Core Management FU	Extensive	Substantial
Management Of Transformation Projects	Extensive	Substantial
Leavers FU	Extensive	Substantial
Chief Executives		
Registrars FU	Moderate	Substantial
Information Security FU	Extensive	Substantial
Children, Social Care and Wellbeing		
Special Education Needs - assessment and commissioning	Extensive	TBC
School Meals Income Collection and Banking- Sir John Cass	Moderate	Limited
YOT FU	Moderate	Substantial
School Meals Income Collection and Banking - Raines	Moderate	Substantial
Swanlea - School Meals Income Collection and Banking	Moderate	Substantial
George Green - School Meals Income Collection and Banking	Moderate	Substantial
Stepney Green - School Meals Income Collection and Banking	Moderate	Substantial
Grant Claim – Teachers Pensions Return	Moderate	N/A

Audit Description	Significance	Assurance
Children's Centres	Extensive	N/A - regularity
Looked After Children	Extensive	TBC
School Admissions	Extensive	Substantial
Careers Service	Extensive	Substantial
Core Assessments	Extensive	TBC
Commissioning of Children's Social Care	Extensive	TBC
Statutory Review Process	Extensive	TBC
OT Stores FU	Moderate	Substantial
Look Ahead FU	Moderate	Substantial
Apesenth FU	Low	Substantial
Safeguarding Vulnerable Adults	Extensive	Limited
Supporting People	Extensive	Substantial
Bangladeshi Parents and Carers Association (BPCA)	Moderate	Substantial
Schools		
Bow School of Maths and Computing	Moderate	Substantial
Cambridge Heath Sixth Form	Extensive	Limited
Cubitt Town Infants School	Moderate	Substantial
Cyril Jackson Primary School	Moderate	Substantial
Harry Gosling Primary School	Moderate	Substantial
Harry Roberts Nursery School	Moderate	Limited
Marion Richardson Primary School	Moderate	Limited
Marner Primary School	Moderate	Substantial
Morpeth Secondary School	Extensive	TBC
Old Church Nursery School	Moderate	Substantial
Olga Primary School	Moderate	Limited

Audit Description	Significance	Assurance
Our Lady Catholic Primary School	Moderate	Substantial
Phoenix Special School	Extensive	Limited
Rachel Keeling Nursery School	Moderate	Substantial
Raine's Foundation Upper School	Extensive	Substantial
St Anne's Catholic Primary School	Moderate	Limited
St Edmunds Catholic Primary School	Moderate	Substantial
St Matthias Primary School	Moderate	Limited
St Paul's Way Trust School	Extensive	Limited
St Paul's Whitechapel Primary School	Moderate	Substantial
St Paul's with St Luke's Church of England Primary School	Moderate	Substantial
Seven Mills Primary School	Moderate	Substantial
Stebon Primary School	Moderate	Substantial
Stepney Green Maths, Science and Computing College	Extensive	Substantial
Stepney Greencoat Primary School	Moderate	TBC
Stephen Hawking School	Extensive	Limited
Swanlea Secondary School	Extensive	Substantial
Thomas Buxton Primary School	Moderate	Limited
Virginia Primary School	Moderate	Substantial
Communities, Localities and Culture		
Commercial Waste	Extensive	TBC
Single List 195	Moderate	Substantial
Equality Impact Assessment	Moderate	TBC
Management and Control of Markets	Extensive	TBC

Audit Description	Significance	Assurance
Management and Control of Anti-Social Behaviour	Extensive	TBC
Idea Stores- Probity Audit	Moderate	Substantial
Hospitality & Gifts FU	Extensive	Substantial
Out of Hours Social Care Services - FU	Extensive	Substantial
Highways FU	Extensive	Substantial
Trading Standards Stores	Moderate	Limited
CLC Overtime FU	Moderate	Substantial
Procurement above EU - CLC	Extensive	Substantial
Vehicle Removal Contract FU	Moderate	Substantial
Pollution Control FU	Moderate	Substantial
Lifelong Learning FU	Moderate	Substantial
Governance of Boishakhi Mela Community Trust Ltd.	Moderate	N/A
Tower Hamlets Homes		
Bancroft Tenant Management Co-Operative Follow Up	Moderate	Substantial
Financial Systems	Extensive	Substantial
Water Systems and Installations	Extensive	Limited
Document Management and Workflow	Extensive	TBC
Right to Buy	Extensive	TBC
Estate Parking Permits	Moderate	Limited
Governance of THH	Extensive	Substantial
Contractors Final Accounts Audits	Extensive	Limited
Specialist Repairs – Budgetary Control	Extensive	N/A
Lift Programme Review	Extensive	N/A

Audit Description	Significance	Assurance
Final Account Audit on Ansell House Lifts	Extensive	N/A
Development and Renewal		
Property Buy Back Programme FU	Extensive	Substantial
Asset Management & Disposal FU	Extensive	Substantial
Management and Control of S106 Planning Obligations	Extensive	Substantial
Collection and Banking of Planning Fees	Moderate	Limited
Tower Hamlets Somali Organisations Network (THSON) Probity Audit	Moderate	N/A
Aids and Adaptations	Extensive	TBC
Lettings and Nominations	Extensive	Substantial
Management and Control of Land Charges	Extensive	Substantial
Payments for Accommodation for Homeless	Extensive	TBC
Resources		
Treasury Management	Extensive	Substantial
HR/Payroll	Extensive	Substantial
General Ledger	Extensive	Substantial
Creditors/R2P	Extensive	Substantial
Debtors	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Council Tax	Extensive	Substantial
Capital Programme & Accounting	Extensive	TBC
Cashiers	Extensive	Substantial
Pensions	Extensive	Substantial
Pension Fund Account Administration and Control	Extensive	Full
Housing & Council Tax Benefit	Extensive	Substantial
Housing Rents	Extensive	Substantial
Grant Claims	Extensive	TBC
Mayors Education Allowance	Moderate	Substantial

Audit Description	Significance	Assurance
Cancelled Cheques	Moderate	Substantial
Management of VAT	Extensive	Substantial
Competitive Tendering	Extensive	TBC
Medium Term Financial Plan – FU	Extensive	Substantial
Future Sourcing Contract Monitoring	Extensive	Substantial
Computer Audit		
Framework-i Adult Social Care Application	Extensive	Substantial
Data Centre Physical and Environmental Security	Extensive	Full
ICT Governance	Extensive	Limited
Remote Access (Smarter Working)	Extensive	Substantial
Resourcelink Payroll Application	Extensive	TBC
Software Licensing	Extensive	Limited
Server Virtualisation	Extensive	TBC
Telecommunications	Extensive	Substantial

Head of Audit Opinion – Summary

APPENDIX 5

Background

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

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

The Code of Practice also states at Paragraph 10.4 that:

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

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

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

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2012/13

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2013.

Scope of Responsibility

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

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

The Purpose of the System of Internal Control

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

The Internal Control Environment

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

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development

and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2012/13, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2012/13 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

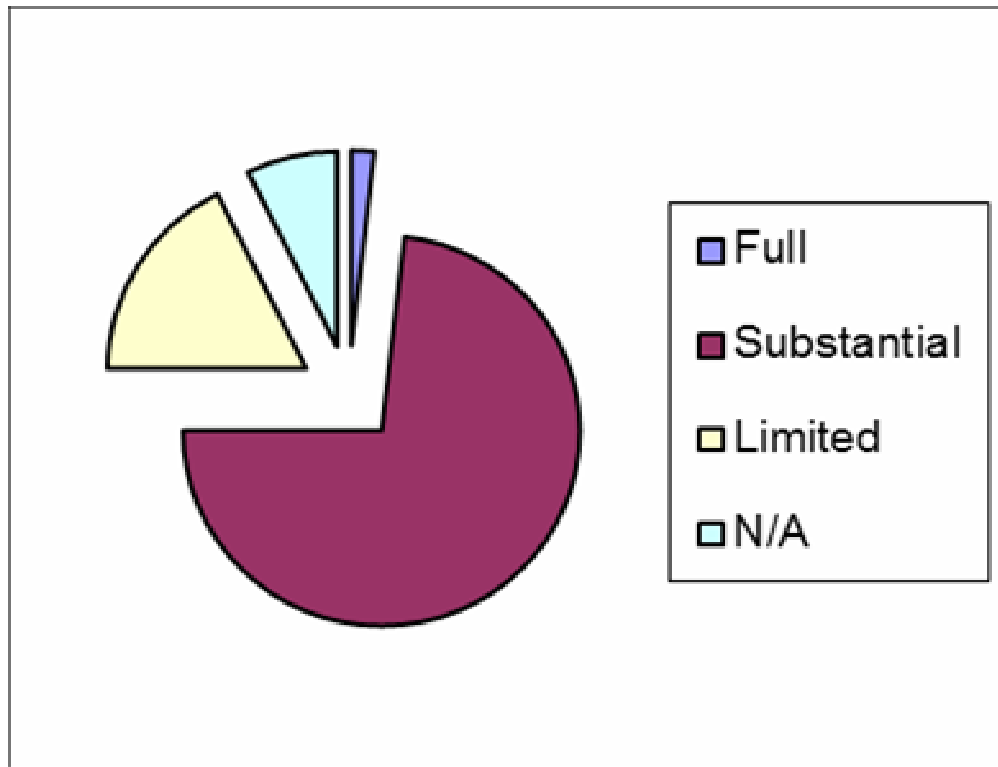
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 4](#).

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

98% of Internal Audit work for the year to 31 March 2013 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT in 2012/13 are depicted in Graph 1 below. This shows that 75% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 18% of systems audited achieved limited or nil assurance. This is a good performance by the council.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a fair performance by the Council, particularly given that 84% of priority 1 and 84% of priority 2 recommendations followed up had been implemented when the audit revisited the area. Escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

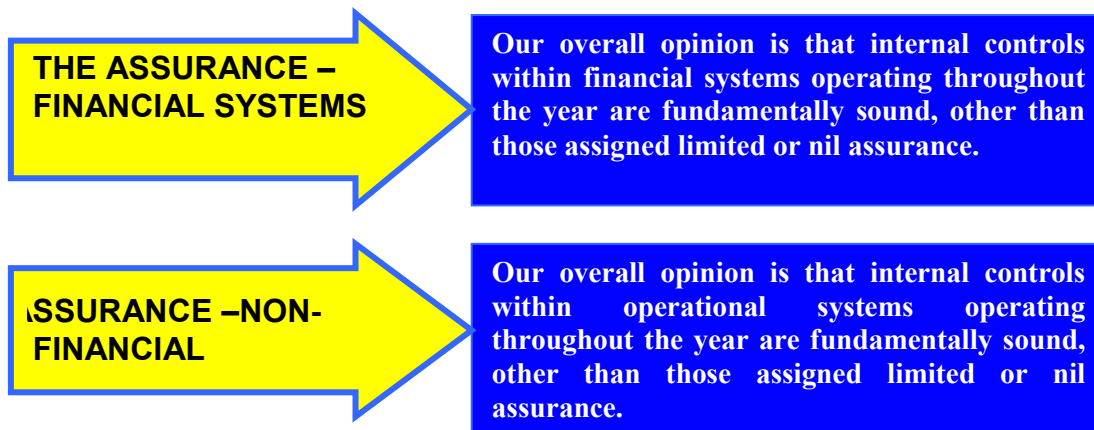
Graph 1



2012/13 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2012/13, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2013 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 40-41**. The assurance can be further broken down between financial and non-financial systems, as follows:



Risk Management

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. The Audit Committee received an annual Risk Management report in January 2013.

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

Minesh Jani – Head of Audit and Risk Management

June 2013

DETAILED REPORT

Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2012/13 year against the original Internal Audit plan; and
- 1 a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2012/13. Key issues included:

Safeguarding Vulnerable Adults - The main objective of the audit was to provide assurance over the systems and controls in place for managing the service. The Safeguarding Adults policy/procedure document was out of date and needed to be reviewed and version controlled. Our testing showed that not all members of staff had a valid CRB check which is less than three years old and that not all members of staff had participated in any safeguarding vulnerable adults training courses within the last three years. In addition, not all referrals were supported by adequate records and that management did not review a random 10% sample of completed referral cases each month, as stated within the Safeguarding Adults Process policy/procedure.

Planning and Building Control Fees and Charges – Our testing of management and control over the collection and banking of income showed that a clear framework for managing, controlling and integrating collections and banking for the whole of the service needed to be established. Cheque and cash income needed to be transferred between staff in a controlled manner and

needed to be banked in a timely manner. Income transactions were recorded on the local IT system ACOLAID which recorded the financial and service details for each transaction with reference numbers. However, there was no reconciliation between income recorded on ACOLAID and income recorded on General Ledger, which increased the risk of any error, omission, irregularity or fraud not being identified and prevented on time.

Water Systems and Installations – This audit tested controls in place within Tower Hamlets Homes (THH) for the inspection, testing and rectification of water systems and installations, in order to comply with statutory obligations and health and safety requirements. Completed inspections were reported by the appointed contractor, but the date of the inspection had not been reported in some cases which made performance monitoring difficult. Furthermore, in some cases where the contractor had reported that further action was required, these had not been commissioned and it was not possible to determine the reason for this, since it had not been documented. In cases where access was not gained (e.g. demolished buildings or no access to property), it was not clear what further action was taken. The system for post-completion review was inadequate as there were cases where evidence of this review was not in place. Contract monitoring meetings with the contractor needed to be more effective and clearly documented.

Trading Standards Evidence Stores - Our testing showed that written procedures for an effective management of the evidence stores was not in place. Arrangements to deliver an effective Evidence Control System, as documented in its own Risk Register, needed to be put in place. There were three separate Stores where evidence was kept. However, a review needed to be carried out to assess the cost-effectiveness of these three separate stores with an objective of rationalisation. Control over inventory, tracking of tagged items, disposal of evidence, transfer of evidence to other agencies, security and safekeeping of the stores kept in Anchorage House and Commercial Road was not as sound as it should be, putting the safe keeping of seized goods at risk.

Contractors' Final Accounts - This audit sought to provide assurance that Tower Hamlets Homes has adequate systems in place for auditing contractors' final accounts. THH manages a significant part of the Council's Housing Capital Programme. Our audit found that a Final Account Procedure was introduced in March 2012 by Property Services, which required all schemes above £25,000 subject to final account audit. However, our testing showed that in five out of seven final accounts examined by Audit, the Contract Administrator's line Manager was also a member of the Audit Panel which approved the final account. We were of the opinion that the level, extent and quality of testing on final accounts undertaken by the Audit Panel may not be of the same standard and independence as that of an independent contract Auditor. We therefore, recommended that a review (cost-benefit) be undertaken of the current practice and consideration should be given to having a system of auditing final accounts

by independent auditors. We found that a number of variation orders were issued which related to additional works which could not be referenced to the contracted Schedule of Rates (SOR). Evidence of written quotations from the contractor for these non-SOR works was not found on the final account file to demonstrate value for money.

Creditors - The main objective of the audit was to provide assurance to management as to whether the systems of control within the Requisition to Pay (R2P) system were sound, secure and adequate. Our review showed that procedure notes were not up to date. Two instances were identified where the approval process for invoices was circumvented through the purchase order being automatically mapped with its respective invoice. We were unable to evidence that adequate checks were carried out prior to the amendment of suppliers' bank details on the system. Controls needed to be strengthened to prevent duplicate payments being made. Catering Services had been given special dispensation to automatically receipt goods on the R2P system, as it was felt impractical to acknowledge receipt for all low value, high volume items. However, no compensating measures had been put in place to substantiate that all goods ordered had been received.

Schools Audits – During 2012/13 we carried out probity audits on 29 schools - 7 secondary, 19 primary and 3 nursery schools. A total of 10 of these schools received Limited assurance. The main issues raised were around the robustness of school governance, financial management, procurement controls, payment control, staffing control and inventory control. The common control weaknesses emerging from school audits and the actions required to improve controls have been summarised in an annual report. This has been issued to all schools so that there is awareness of good practice. Appropriate support is being provided by the Local Authority's Schools Finance team.

Contract Management and Monitoring, – Our audits on the Council's arrangements for monitoring various contracts found that effective contract management and monitoring was required. Clear corporate guidance on contract management of revenue contracts needed to be put in place to ensure that critical areas are effectively monitored throughout the life cycle of each contract so that benefits are derived from improved monitoring. Monitoring meetings needed to be more effective and benefits e.g efficiencies and savings emerging from each procurement needed to be clearly identified.

Management and Control of Oyster Cards - our review showed that there were no policies and procedures in place for the use, control and monitoring of Oyster cards. This exposed the Council to risk of error, omission, irregularity and fraud. Our testing identified that cards were not formally assigned to individual staff members. Where pool cards were used, only verbal authorisation was given in

some cases. Generally, record keeping was poor which made monitoring the use of cards difficult. Security of cards needed to be improved. There was weak accounting for the expenditure as no specific ledger code was created to record Council-wide expenditure on Oyster Cards, which made budgetary control difficult.

Qualifications to the Opinion

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

Other Assurance Bodies

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

- a) Audit Commission
- b) Care Quality Commission
- c) Ofsted

Risk Management Process

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

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

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

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

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

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

Comparison of Internal Audit Work

The Operational Plan for 2012/13 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

The Internal Audit plan was agreed at the start of the year and revised in December 2012. A summary of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

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

Internal audit is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 7.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit

can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

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

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

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

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

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

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

Minor recommendations were raised which are being addressed.

Benchmarking Club Results

1. Benchmarking Club Results

- 1.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.
- 1.3. As part of the 2011/12 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 16 London Boroughs.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £376 compared with the comparator group average of £364 per day. In comparison with the other 16 London Boroughs, LBTH was a medium cost service.

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Agenda Item 6.3

REPORT TO: Audit Committee	DATE 25 June 2013	CLASSIFICATION Unrestricted	REPORT NO. AC 004/134
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Minesh Jani <i>Head of Risk Management and Audit</i>	Annual Governance Statement 2012/13 Ward(s) Affected: N/A		

1. Summary

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

2. Recommendation

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2012/13 at Appendix 3.

3. Background

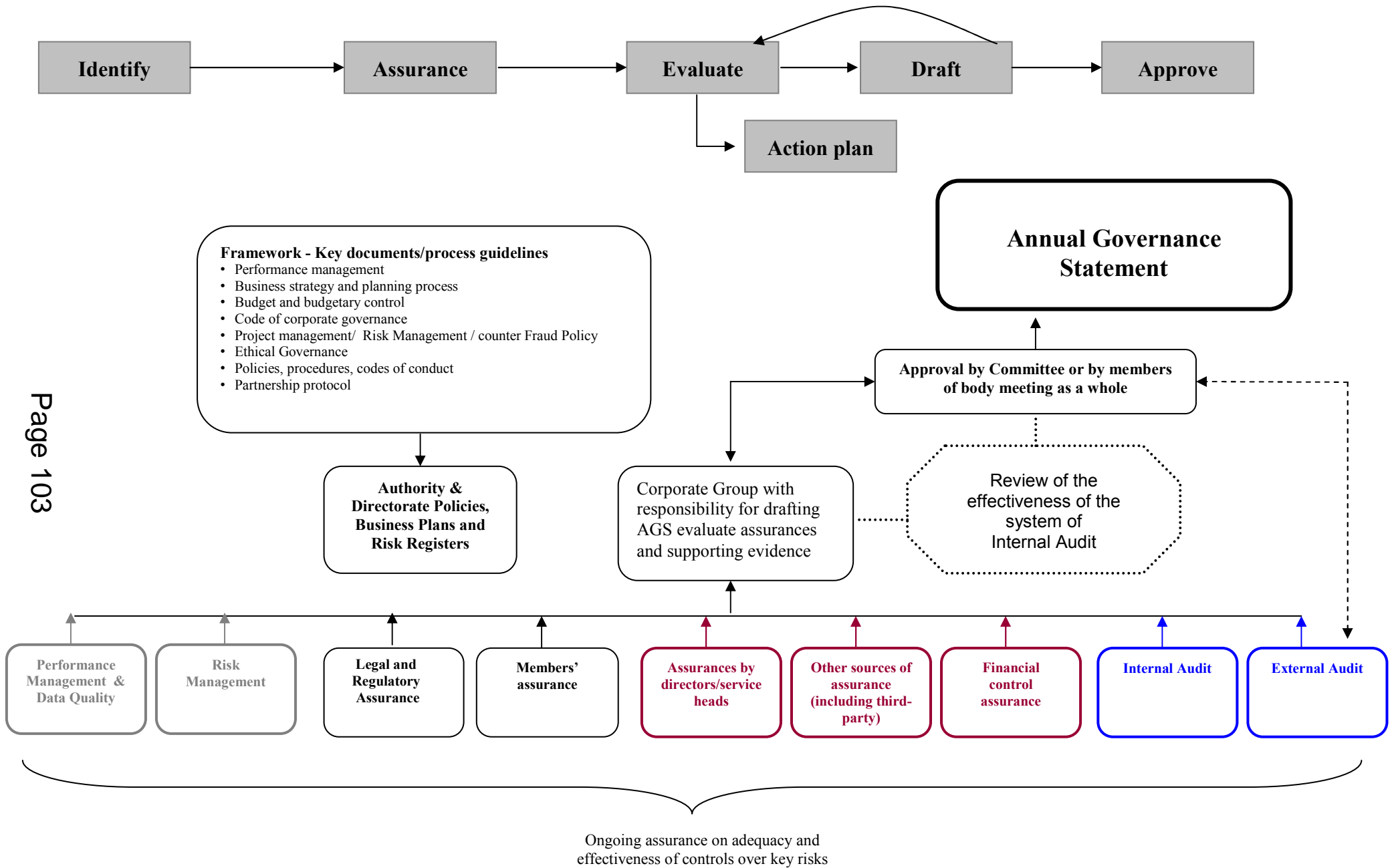
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2010 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

- 3.2 The statement will be signed by the Head of Paid Service and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Head of Paid Service and the Mayor.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30th June 2013).

4. Reviewing the Internal Control Environment

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
- § Identify & review the internal control environment;
 - § Obtain assurances on the effectiveness of those controls;
 - § Evaluate those assurances and identify gaps in controls;
 - § Plan actions to rectify those gaps; and
 - § Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2011/12 statement.

Assurance Framework and the production of the Annual Governance Framework



5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
 - ◆ The processes for identifying the risks to the achievement of those objectives; and
 - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2012/13.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which is published on the Tower Hamlets website, and is dated November 2010. There have been some amendments since November 2010 and the changes will be uploaded to the published version shortly. The Council's governance arrangements have been subject to a review in 2012/13 and officers have assessed the Council's arrangements in line with the publication of the CIPFA/SOLACE Code on Corporate Governance (in June 2007). A report will be presented to the Standards Committee in July 2013 with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested. In 2012/13, the Business Continuity Planning team carried out a number of exercises to help prepare the authority for the Olympics, which began beginning in July 2012. The Corporate Procurement Strategy was approved by Cabinet in November 2009 and more recently, Cabinet has approved the Council's Procurement Imperatives setting out the Council's strategy around procurement.

5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

6. Sources of Assurance

6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

7. Annual Governance Statement

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

7.2 The issues raised in 2011/12 are set out in the table below with an update showing their status.

Issues in 2011/12 statement	Status
<p>The annual external audit raised a number of queries relating to creditors and the year-end cut-off procedures.</p>	<p>Issues raised from the audit process have been reviewed and action taken to improve current arrangements as part of the implementation of the new finance system.</p> <p>All Directorates were asked to review all debtor and creditor balances to ensure they can be justified and that year-end balances at 31st March 2013 are current and accurate for closedown and for migration to Agresso.</p> <p>At closedown - Directorates were asked to justify the value of all debtors & creditors at 31st March 2013 to avoid doubts on accuracy of balances.</p> <p>Systems Development – the new Accounts Payable System will include a prompt to assist users when receipting goods/services so that the risk of pre-receipting is minimised. The system will produce regular exception reports to highlight instances of pre-receipting.</p>

7.3 The penultimate section of the 2012/13 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows, in no particular order.

- Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level;
- Risk identification within Communities Localities and Culture;
- Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants;
- Pupil placement planning: expanding school provision to meet rising demand for places;
- Transition of Public Health to the Council;
- Embed the Council's use of the Virtual Desktop Infrastructure as part of the broader Smarter Working programme;
- Implementation of the Finance Systems;
- Update the local code of Corporate Governance;
- Update amendments agreed at the full Council meeting to the published constitution; and
- Enhance contract management and contract letting process.

8. Comments of the Chief Financial Officer

- 8.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements
- 8.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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

- 9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2012 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective

exercise of the council's functions and which includes arrangements for the management of risk.

- 9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.
- 9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.
- 9.4. In approving the annual governance statement, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the council's various programmes and objectives that are targeted at these matters.

10. One Tower Hamlets

- 10.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

11. Risk Management Implications

- 11.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed monthly by the Corporate Management Team.

12. Sustainable Action for a Greener Environment (SAGE)

- 12.1 There are no specific SAGE implications.

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

Brief description of "background papers"

Contact :

None

N/a

Assurance Control Checklist (summary)

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

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

Summary of reports received in or pertaining to 2012/13

Reports	Reporting period	Report date
Annual Audit plan – Audit Commission	2011/12 accounts	March 2013
Opinion on Financial Statements	2011/12	September 2012
Final Accounts Memorandum	2011/12	December 2012
Grant Claim Report	2011/12	September 2013
Annual Governance Report	2011/12	September 2012
Other		
Annual Children's Services Assessment	2011/12	November 2011
Early Years Provision – Childminder reports.	2011/12	July & November 2011 March 2012
Adoption Service	2011/12	February 2011
Annual Children's Services Assessment	2011/12	November 2011
Care Quality Commission – Assessment of Performance Report (Adult Social Services Assessment)	2010/11	December 2010

Annual Governance Statement 2012/13

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

1. Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Head of Paid Service and is scheduled to be reported in June 2013.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee received an update in July 2011 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

2. The Purpose of the Governance Framework

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

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

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime will operate from 1 July 2012.

3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

3.1 Vision and Priorities

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

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

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2012/13, 19 priorities were identified, (http://www.towerhamlets.gov.uk/lgsl/20001-20100/strategic_plan_2013-14.aspx). Within these broad themes, there are five strong priorities for the Council in the next 2-3 years which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

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

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

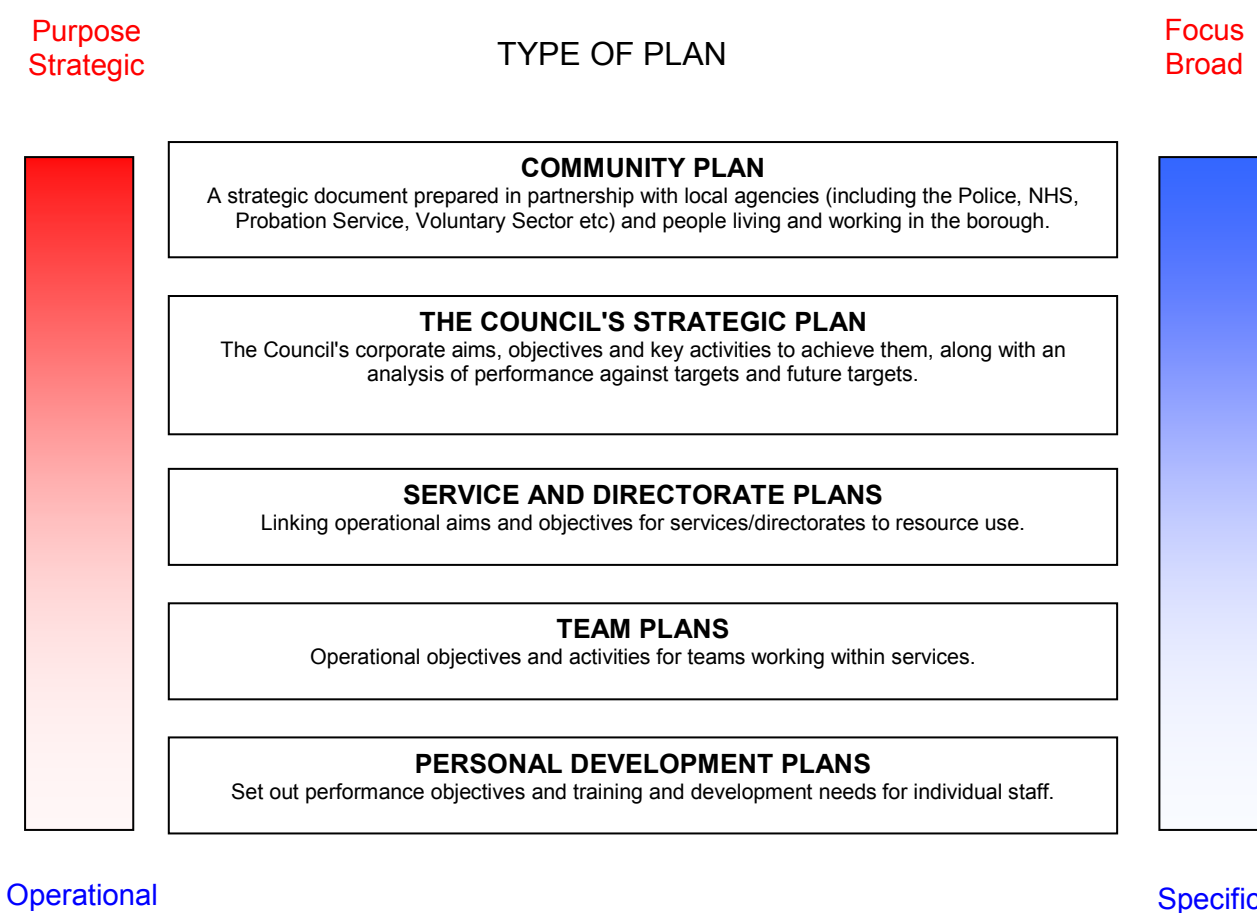
There has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of a three year Tower Hamlets Community Plan 2011. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs), the issue-based groups and localised governance structures.

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

3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan’s and is structured around the themes, priorities and objectives of the Community Plan.

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



The Council’s vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDRs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employees’ work. This helps ensure that the vision, priorities and objectives are communicated to all levels of the organisation. Further communication takes place through the Council’s staff newsletter “Tower Hamlets Now”.

3.3 Performance Management

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

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan.

3.4 Council Constitution

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- codes of conduct for councillors and employees; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public.

Since 2011, the annual review of the constitution has floundered as members were unable to agree terms of reference for the constitution working party. However, the Council has requested a governance review of the constitution which is underway and will report back in the autumn. The General Purposes Committee will consider and comment on any proposed changes to the constitution before notification at the Full Council. The Council will consider and approve any changes proposed by the Mayor to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

3.5 Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and

processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

3.6 Rules, Regulations, Policies, and Procedures

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

3.7 Overview and Scrutiny

During 2012/13 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider performance monitoring information and have a key role in reviewing and challenging the mayor in Cabinet's budget framework prior to consideration at Full Council.

3.8 Audit Committee

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2012/13.

3.9 Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2012/13, the overall the control environment is adjudged to be satisfactory.

Following the release of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements will be reviewed and a report presented to the Audit Committee in due course.

3.10 External Audit

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

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

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

3.11 Whistle Blowing Policy and the Complaints Procedure

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Committee.

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

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

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

3.12 Risk Management

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

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

In June 2012, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan which was also shared with the Audit Committee.

3.13 Financial Management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2012/13 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group).

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code. A more recent publication concerning the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

3.14 The Efficient and Effective Use of Resources

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2012/13, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

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

3.15 Learning and Organisational Development

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

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

3.16 Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the council.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

3.17 Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. The previously established eight local area partnerships whose role was to allow residents to influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

The Council has an established Arm's Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2012/13 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Monthly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2012/13 has identified some areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and in all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level.	Evaluation processes specific to the new structures are planned and will be delivered over the next 12 months to determine the operational effectiveness of the new infrastructure and identify areas for improvement.	Corporate Director - Communities, Localities and Culture

Governance Issue	Action taken and next steps	CMT Lead
Risk identification within Communities Localities and Culture	Systematic review of the directorate level risks to determine corporate and directorate level risks. This review is a standing on the directorate management team agenda.	Corporate Director - Communities, Localities and Culture
Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants.	Officers within the third sector team are currently scoping the work programme that will put in place the control environment required. It is planned to have this in place by the second quarter of this financial year.	Corporate Director - Development and Renewal
Pupil placement planning: expanding school provision to meet rising demand for places.	<p>Identification of short term primary place needs (2013/14 school year) and the development of the technical feasibility of temporary school expansion.</p> <p>Strengthening our pupil projections by engaging the Greater London Authority with projections modelling to ensure our planning is based on robust data.</p> <p>Continuation of implementation of medium term expansion plans to 2015/16.</p> <p>Early involvement of Head Teachers when Planning.</p> <p>The revision of the 2013 School Estates Strategy and whilst working with the Development and Renewal directorate; utilising and determining the viability of Council assets to assist with the strategic provision of additional primary places to 2021 school year.</p>	Corporate Director - Education Social Care and Wellbeing
Transition of Public Health to the Council.	<p>From 1 April 2013, the responsibility for delivering Public Health to the Council.</p> <p>The governance arrangements around delivery of Public Health are being reviewed and where necessary, regularised in line with Council policies and procedures.</p>	Corporate Director - Education Social Care and Wellbeing
Embed the Council's use of the Virtual Desktop Infrastructure as part of the	The Virtual Desktop Infrastructure (VDI) was rolled out as part of the Council's Smarter Working programme	Corporate Director -

Governance Issue	Action taken and next steps	CMT Lead
broader Smarter Working programme.	and is widely used by staff. Further action is planned to enhance the resilience of VDI over the year to maximise the opportunity to provide a highly flexible and secure desktop delivery model across the Council.	Resources
Implementation of the Finance Systems.	The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements will be monitored to ensure that they deliver the expected benefits. This will include a refresh of the Council's financial procedures and instructions.	Corporate Director - Resources
Update the local code of Corporate Governance.	This report is being updated annually and goes first to the Standards Advisory Committee then to the Audit Committee	Assistant Chief Executive - Legal Services
Update amendments agreed at the full Council meeting to the published constitution.	An interim refresh of the constitution has been prepared that covers updating some changes agreed by Council since 2011 and statutory changes. The governance review will update the constitution for consideration by Council by the end of the year.	Assistant Chief Executive - Legal Services and Governance Working Party
Enhance contract management and contract letting process.	The Procurement Strategy was reviewed by Cabinet and updated in the Spring. Further changes to procedures are the remit of the Competition Board who monitor procurements and review the top 20 contracts by spend annually.	Chair of Competition Board - Executive Legal Services

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

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Head of Paid Service

Date:

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Mayor

Date:

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Agenda Item 6.4

REPORT TO: Audit Committee	DATE 25 June 2013	CLASSIFICATION Unrestricted	REPORT NO. AC 005/134
REPORT OF: Corporate Director, Resources		Anti- Fraud and Corruption Strategy and Proactive Anti -Fraud Plan 2013-14	
ORIGINATING OFFICER: Tony Qayum, Corporate Anti-Fraud Manager			
		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1 This report provides the Audit Committee with an updated Anti-Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti -Fraud Plan for 2013-14.
- 1.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. This minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 1.3 The need for effective anti fraud work within local authorities has also been reflected by the Audit Commission, through the Use of Resources Assessment and Protecting the Public Purse publications as well as the CIPFA Better Governance Forum. The requirements highlight the expectations around the framework local authorities have in place in respect of the prevention and detection of fraud. As such, it is imperative that the Council has adequate processes, skills and resources to support anti fraud and corruption activities.
- 1.4 The work in terms of Anti -Fraud will increase in 2013/14 following a minor adjustment to the structure of the team whereby we have enhanced capacity to investigate and undertake pro-active initiatives around the corporate element of the Corporate Anti-Fraud resource.

2. RECOMMENDATIONS

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

3. ANTI FRAUD AND CORRUPTION STRATEGY

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

3.2 The strategy is based upon the following key areas of coverage as outlined by the following key tests that were set by the CIPFA Publication- Protecting the Public Purse Red Book 2 which was issued in 2009 and new legislation including the Bribery Act 2010 which came into force in July 2011.

3.3 The key tests were:-

3.3.1 Adopting the right strategy

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

3.3.2 Measuring Fraud and Corruption Losses

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

3.3.3 Creating and Maintaining a strong structure

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

3.3.4 Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action.

3.3.5 Defining Success

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

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

4. ANNUAL CORPORATE ANTI FRAUD PLAN 2013/14

- 4.1 This is the sixth year where we have provided a separate and specific plan for anti fraud work as previously it had been included within the Internal Audit Plan. This is to reflect the increasing priority of the service within the Resources Directorate and corporately.
- 4.2 The overall aims and objectives of this plan reflect the Council's Anti Fraud and Corruption Strategy. The key aims are to:
- Highlight and promote the Council's commitment to stop fraud and corruption;
 - Document the roles and responsibilities of Members and officers in respect of fraud and corruption;
 - Detail the current Council activity in respect of the five key elements of the Strategy, namely, prevention, detection, investigation, sanctions, and deterrence; and
 - Demonstrate the Council has sound arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.
- 4.3 The key drivers used to compile the corporate anti- fraud plan for 2013/14 has built on experience and takes account of the: -
- Fraud Risk Register (maintained by the Corporate Anti-Fraud team and responsive to both the organisations changing circumstances, the results of Internal Audit work and the Risk Environment);
 - Development of a single Corporate Anti- Fraud resource under one managerial structure.
 - Management requests and priorities;
 - Local Knowledge;
 - Joint working arrangements - external (DWP, PCT, Police and other Local Authorities);
 - Resourcing the Government's initiative to examine instances of un lawful sub letting of Social Landlord properties
 - Joint Working arrangements – internal (payroll, pensions, parking services, benefits services, housing services; and
 - Issues identified from planned audit work;
 - Good Practice checklists from the Audit Commissions-Protecting the Public Purse 2012.
 - New government initiatives including the DWP Single Fraud Investigation Service and national Blue Badge scheme for disabled people
 - Emerging risk areas as identified from national research from the Audit Commission and National Fraud Authority

4.4 Our plan is attached as Appendix 2. The focus of the plan is to cover :-

- Planned activities for Tower Hamlets Homes that will include pro active and reactive work and along with ongoing reviews of access to accommodation, including nominations, transfers, successions and management determinations; as part of the on-going work of the Social Housing Fraud resource.
- Continued management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements under the Audit Commission's Code of Data Matching Practice and that the NFI exercise is appropriately resourced and finalised within prescribed deadlines;
- Ensure that the work of those engaged in Anti Fraud work supports the Council's Strategic Plan;
- Work jointly internally and externally by maintaining existing arrangements and developing better co-ordination;
- Continue to lead on the Anti Fraud Forum which brings together all services within the Council and with the Police, UKBA and PCT responsible for enforcement and financial governance thus maximising opportunities to share intelligence and joint working.
- Continue to provide anti fraud training and awareness to members and officers;
- Continue to hold monthly meetings with the Assistant Chief Executive (Legal Services) on Governance issues;
- Ensure that appropriate training and development on ethical governance matters is rolled out to staff and members as appropriate;
- Publicise all our successes; and
- Ensure that all agreed timescales prescribed for the completion of investigation work are met and that all cases are adequately reported to senior management as part of our ongoing reporting procedures.
- Develop mechanisms for categorising and quantify fraud for more accurate reporting to enable better informed risk assessments

4.5 Social Housing Fraud Team – Key activities

- to recover unlawfully let properties
- Jointly investigate Housing Benefit Fraud where the accommodation is un lawfully let
- Investigate and support THH on suspicious Assignments, successions and Mutual exchanges
- Investigate and support THH on suspicious Right to Buy's where there may be unlawful letting issues
- Work with RP's on un lawful lettings and assist in recovery of property for release to the Common Housing Register
- To attend Gas Servicing visits where access has not been made in order to ensure compliance with statutory duties and tenant conditions remain met.
- Participate in Pro active exercises with support from other enforcement agencies including the Police, UKBA etc.
- Participate in Pro-active data matching exercises at a local level and via the East London boroughs Hub.

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

- Investigation, recovery and prosecution of blue badge abuse
- Investigation, recovering and sanctions as appropriate on Parking permits (residents and business) and parking scratch cards abuse
- Investigate and support parking services on persistent offenders
- Investigate and consider action as appropriate on abuse of parking meter income
- Participate and support joint working exercises with the Police, Safer Neighbourhood teams and Anti Social Behaviour initiatives as required.

- 4.7 The Housing Benefit Fraud team transferred to Risk Management in July 2011 following a reorganisation of the arrangements for the management and investigation of allegations of Fraud, Corruption and Impropriety with the expectation that a Corporate Team would accrue a broader and collectively better response than maintaining individual teams all under different management arrangements and without a single focus.
- 4.8 The plan makes provision for the existing resource plus a buy in of circa 50 additional days from the Internal Audit plan to be utilised as emerging issues arise.
- 4.9 The following table shows the Corporate Anti- Fraud Team Resources for 2013/14 and the resource required to complete the anti -fraud work in 2013/14.

Reactive resources	Days
Corporate Anti-Fraud Manager	80
Corporate Anti-Fraud Team Leader and support	250
Allocation from Internal Audit Plan	50
	380
Housing Benefit Fraud Investigation	1170
3 x Social Housing Fraud Officers	585
2 x Parking Fraud Officers (one term time)	295

5. Comments of the Chief Financial Officer

- 5.1 This report provides the Audit Committee with an updated Anti-Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti -Fraud Plan for 2013-14.
- 5.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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 changes in the governance of the Council. The proposals set out in this document will result in how the organisation deals with tenancy fraud. There are no specific risk implications at this stage.

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

Tony Qayum, 0207 364 4773

Appendix 2

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

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Proactive Training and Development</u>							
Anti fraud liaison groups development	5	This will involve close working with a number of our external partners including the Police, DWP and PCT.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Anti fraud training and development for members and services	20	Provide continuous update and training to Members and Officers including lunchtime workshops for Directorate Staff	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>25</u>						
<u>Overall Governance</u>							
Audit Committee	10	Preparation and presentation of reports to the Audit Committee	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Standards Committee	5	Preparation and presentation of reports to the Standards Committee	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
FOI	5	Reactive responses to Freedom of Information requests for information.	H	N/A		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Money laundering Officer responsibilities	5	Identify and deliver training and act as the money laundering officer, providing advise, single point of contact on any issues and co-ordination with other agencies	H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Categorising and quantifying fraud	5	Continue the development of categorising and quantifying fraud to influence system controls and improvement	H	Over £1B	0.1% 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	30						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>NFI 2012</u>							
NFI management Key Contact Function	25	This work will involve managing the Audit Commission Web base site, provision of training and support and monitor progress. Managing NFI pilots as they arise	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
NFI Co-ordinator and Corporate Investigations	70	Manage the NFI output with corporate risk support/train other investigators as appropriate, respond the enquiries from other LA's or agencies	H	over £500M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>95</u>						
<u>Joint working with other agencies</u>							
Joint working and referrals DWP	5	Provide support to DWP referrals on staff related matters	H	Circa £140M	0.5% - 3%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Joint working and referrals from the Police	5	Respond to Met Police referrals from both the local and specialist police functions	H	Unknown dependant on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>10</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Anti Fraud Forums</u>							
Anti Fraud forums	5	Internal and external (other LA's, Police, DWP, PCT) anti fraud groups working on information sharing and joint working and fraud co-ordination	H	Unknown dependant on values of referrals		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>5</u>						
<u>Proactive</u>							
Internal data matching exercises with council services and trial of Fraud Hub with Social Housing providers Development of new areas of Investigation including new C. Tax Scheme, SPD and Student discount reduction awards.	70		H	Circa £300M	.03%-5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
Data matching - corporate assurance Duplicate payments investigation.	30		H	Unknown dependant on matching results		Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Development of FMMS fraud modules case managements systems	10	Building /developing the FMMS cases management systems for Social Housing Fraud, Parking Fraud and Corporate reactive modules	H	N/A	N/A	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
	<u>110</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Contingencies</u>							
Anti Fraud Reactive contingency	<u>50</u>		H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Management of Whistle blows	<u>25</u>		H			Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Reactive (audit and anti fraud) total</u>	<u>380</u>						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>Social Housing Fraud Team (3 full time resources)</u>	<u>585</u>	Working with THH and other RSL's on recovering of Unlawfully let properties, in appropriate successions, assignments, mutual exchanges RTBs. Joint working with LBTH to identify and learn from weaknesses. Co-ordinate associate fraud work with benefits, Council Tax, Parking Fraud, Electoral Role etc...	H	£140M plus	1% - 5%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Parking Fraud Team (one full time one P/T)</u>	<u>295</u>	Investigating blue badges, parking and permits associated abuses in line with SLA with CLC	H		0.5% to 10%	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Housing Benefit Fraud Team</u>	<u>1170</u>	Investigation of allegations of HB abuse, Joint working with DWP, Data matching and NFI Output investigation.	H		H	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

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LONDON BOROUGH OF TOWER HAMLETS

ANTI FRAUD AND CORRUPTION STRATEGY

This document should be read in conjunction with the Council's Anti-money laundering, Anti-Bribery and Enforcement Policy

1 INTRODUCTION

- 1.1 The London Borough of Tower Hamlets has a revenue and capital budget of almost £1 billion and employs around 10,000 staff, inclusive of those employed within our schools. It works with an extensive number of partners including the third sector and private sector. The scale, complexity and profile of the Council puts it at potential risk to fraud and corruption, both from within & without.
- 1.2 We are committed to making sure that the opportunity for fraud and corruption is reduced to the lowest possible risk. Where there is the possibility of fraud, corruption and other problems, we will deal with it in a firm and controlled manner.
- 1.3 It is essential that the Council is able to prevent and detect fraud, thus ensuring that services are provided honestly and efficiently and Public funds are administered properly. The Anti Fraud and Corruption Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption. It should be noted that the scope of this document is concerned only with matters associated with potential cases of fraud and corruption and does not consider other matters of malpractice which are properly covered by other policies within the councils procedures.

DEFINITIONS OF FRAUD AND CORRUPTION

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

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

2 BACKGROUND

2.1 The Committee on Standards in Public Life, Chaired by Lord Nolan strengthened the need to have clear procedures for staff to raise concerns if they feel that malpractice has occurred.

2.2 The Council expects all of its staff, partners and Members to comply with the seven principals of public life in all of its activities. These are

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

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

Leadership

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

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

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

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

2.5 This document should be read in conjunction with the Council's Anti-Money Laundering Policy and response to the Bribery Act 2010.

3 THE LEGISLATIVE FRAMEWORK

3.1 Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Councils systems of internal control, practices and systems. This requirement was further reinforced by the Accounts and Audit Regulations 2003.

3.2 There is now a requirement for the annual accounts to include an annual governance statement 1 to be certified by the Head of Paid Services and the Mayor.

3.3 From time to time there will be a need to examine allegations and incidents that may have regard to fraud, corruption or financial malpractice.

3.4 In these circumstances the Council will ensure that any inquiry is legal, meets professional standards and that whistleblowers raising a genuine concern are afforded protection in accordance with the law.

3.5 Relevant Legislation

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

- The Fraud Act 2006
- The Theft Acts 1968 and 1978 (as amended)
- Social Security Administration (Fraud) Act 1997
- The Public Interest Disclosure Act 1998
- The Bribery Act 2010
- The Audit Commission Act 1998
- Data Protection Act 1998
- Human Rights Act 1998
- Regulation of Investigatory Powers Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2007
- The Identity Cards Act 2006

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

4 THE ANTI- FRAUD ENVIRONMENT

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

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

The most important of these are as follows:

- Standing Orders
- Financial Regulations
- Code of Conduct for Employees
- Code of Conduct for Members
- Scheme of Delegation
- Risk Management Strategy and Local Code of Corporate Governance
- Anti money laundering policy

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

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

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

4.6 Where money laundering is suspected, staff and members must follow the Suspicious Activity Reporting procedures set out in the Councils anti-money laundering policy.

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

4.8 We expect our Directors and Heads of Service to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive/Director of Resources in consultation with the Corporate Fraud Manager may refer matters to the police if there is suspicion of any criminal activity having taken place.

4.9 The conduct of an investigation is a serious, expensive and disruptive business. Therefore where it is found that allegations are unfounded and vexatious or malicious, this will be taken very seriously and dealt with under the Council's disciplinary code.

5 PREVENTING FRAUD AND CORRUPTION

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

5.2 Anti fraud culture

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

5.2.2 Where IT systems are being utilised all parties are required to comply with the requirements of the Data Protection Act 1998, Acceptable Use Policy and the Computer Misuse Act 1990.

5.3 Internal Controls

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

5.4 **Effective Action**

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

5.4.2 As set out in paragraph 4.6 above, where money laundering is suspected, the procedures set out in the Council's Anti-Money Laundering Policy will apply. This may entail making a report in appropriate cases to the Council's Anti-money Laundering Reporting Officer (Tony Qayum).

5.5 **Publicity**

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

6 DETECTING, INVESTIGATING AND RECOVERY

6.1 This section should be read with our Fraud Response Plan (see Appendix 2) and also our Enforcement Policy (Appendix 4).

6.2 The Council has robust processes designed to reduce the risk of fraud and corruption these include regular management review of systems and procedures to ensure compliance with financial control, a risk based Internal Audit review cycle, Risk Management review process and governance guides including Hospitality procedures and declarations of interests.

6.3 Where appropriate and in accordance with the fraud response plan the Internal Audit Service will undertake formal investigations into fraud and corruption. The process utilised in undertaking an investigation is covered by established professional practice as prescribe by CIPFA and in compliance with the Councils Fraud Response Plan and legislative guidance.

6.4 All cases referred either by the Whistle blowing telephone line or via an internal referral are risk assessed by the Corporate Anti-Fraud Manager and approval sought from the Head of Risk Management. Each case is then recorded for tracking on a database maintained by Risk management. It is important that transparency is maintained in all decision making and consequently there is a process verification and review of the basic elements of the enquiry throughout the investigation process.

(Whistleblowing process – see Appendix 3)

6.5 It is important to note that the investigator receiving the complaint will not be the sole investigator of the enquiry, therefore ensuring the utmost independence is maintained during the currency of an investigation.

6.6 **Data Matching**

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

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

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

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

6.7 Housing and /or Council Tax Benefit Fraud

6.7.1 This Service is managed by the Corporate Anti-Fraud Team within the Resources Directorate.

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

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

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

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

7 TRAINING AND AWARENESS

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

7.2 Future training will include;-

- Organised workshops will continue to be delivered during for 2013/14
- Induction training to new Investigating Officers under the Council's Disciplinary Code.
- Departmental management team training
- Regular on-line alerts and training
- Multi media anti-fraud/anti-money laundering training

8 CONCLUSION

8.1 Tower Hamlets Council is committed to tackling fraud, corruption and money laundering whenever it happens. Our ongoing response relies heavily on the principles included in this document and our Anti-money laundering policy.

8.2 We will continue to review our processes and procedures to ensure these strategy documents remains effective and up to date following endorsement of the current approach by the Audit Committee and Standards Advisory Committee.

APPENDIX 1

The Fraud Act 2006

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

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

The offence can be committed in three different ways thus-

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

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

The offence of fraudulent trading (Section 993 of the Companies Act 2006) will apply to sole traders (Section 9).

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

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

The Identity Card Act 2006

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

- an ID card
- a designated document
- an immigration document
- a UK passport
- a passport issued by or on behalf of the authorities of a country or

territory outside the UK or by or on behalf of an international organisation

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

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

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

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

The Proceeds of Crime Act 2002

The Proceeds of Crime Act 2002 and Money Laundering Regulations 2007 place some important obligations upon professional advisers from a wide range of sectors, including Tax advisers, Accountants, Auditors, Insolvency Practitioners and Legal advisers. Such professionals who carry on relevant business are required to fulfil a range of obligations to prevent money laundering. In particular they are required to report their knowledge or suspicion of money laundering to the Serious Organised Crime Agency (SOCA). This covers the proceeds of all crime including all acts of tax evasion and fraud.

At Tower Hamlets we have followed the guidance of CIPFA and the Corporate Fraud Manager, Tony Qayum fulfils the role of Money Laundering reporting officer. There is a process and procedure for reporting concerns to SOCA and the Metropolitan Police via prescribed documentation. The areas most likely to be exposed to Money Laundering are physical cash, asset transactions and planning gain receipts.

If you have a concern regarding this you have a duty to report your concern to the Corporate Fraud Manager who will investigate the matter.

Regulation of Investigatory Powers Act 2000

To demonstrate the Councils commitment to open/ transparent government it has adopted the Home Office guidelines and documentation for Directed Surveillance and Covert Human Intelligence Sources-

Informants/ whistleblowers. This act was introduced in response to the Human Rights Act 1998 and the London Borough of Tower Hamlets is committed to maintaining its principles.

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

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

Article 8 of the European Convention of Human Rights provides:

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

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

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

The Public Interest Disclosure Act 1998

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

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

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

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

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

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

The relevant failure may be:-

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

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

APPENDIX 2

Fraud Response Plan

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

Risk Management

The Risk Management Service is usually the most appropriate unit to investigate suspected fraud. It is essential, therefore, that every case of suspected fraud is reported to the Corporate Anti-Fraud Manager.

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

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

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

Reporting suspected Fraud and Corruption

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

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

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

line with the guidance given in this document.

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

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

- Your Line Manager - (where appropriate)
- Your Head of Service- (where appropriate)
- Your Corporate Director- (where appropriate)
- The Corporate Anti-Fraud Manager - Tony Qayum Ext. 4773
- Corporate Fraud Team – Senior Fraud Officer – Sue Oakley Ext. 7423
- Head Risk Management and Audit - Minesh Jani Ext 0738
- Monitoring Officer - Isabella Freeman Ext 4800
- Director of Resources – Chris Holme Ext 4700
- Via the Confidential Staff Whistleblowing Hotline on Freephone 0800 528 0294 (See Whistleblowing process – Appendix 3)
- Public Concern at Work- 020 7404 6576

Action by employees

Where fraud or corruption is suspected:

- Write down your concerns immediately
- Make a note of all relevant details e.g. telephone conversations, dates times, names, actions
- Any notes or evidence in their possession, which supports what is being reported, must be kept intact and placed in a secure location
- Report the matter immediately to either your line manager or your Service Head. If this is not possible/or appropriate due to your concerns potentially about your own service or line manager, it can be reported to the Risk Management Service (Tony Qayum on Ext. 4773 email tony.qayum@towerhamlets.gov.uk or Sue Oakley Ext. on 7423 and email sue.oakley@towerhamlets.gov.uk). Alternatively, the Councils confidential Staff Whistleblowing telephone line can be used for this (0800 528 0294). Give that officer

any notes you have made or any evidence that you have gathered.

- Do not tell anybody else about your suspicions
- Be prepared to assist Internal Audit or any authorised body in any investigation
- Do not attempt to carry out an investigation yourself as this may jeopardise any future enquiry and compromise your evidence
- Where money laundering is suspected, follow the guidance set out in the Council's Anti-money laundering policy

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

Suspicions of money laundering must not be discussed with any person save for the Council's Money Laundering Reporting Officer as set out in the Council's Anti-money laundering policy.

It is paramount that officers do not act in a manner that may give rise to an action for slander or libel, or which may amount to an offence of "tipping-off" under the Proceeds of Crime Act 2002.

Action by Managers

Where fraud or corruption is suspected:

- Listen to the concerns raised by staff and treat every reported case seriously, sensitively and confidentially. Never give members of staff the impression that their well-meaning concerns are being treated with anything other than the utmost seriousness
- All staff concerns should be given a fair hearing, along with reassurance that their report of such issues will not affect them adversely
- Attempt to gain as much information as possible from the member of staff reporting the concern. This should include any notes or evidence in their possession, which supports

what is being reported. Such evidence must be kept intact and placed in a secure location

- Assess whether the suspicions may have some foundation before taking the matter further
- All suspected concerns involving suspected fraud and corruption must be reported in compliance with Financial Regulations to the Director of Resources or to the Corporate Fraud Manager and give that officer any notes or evidence that has been gathered
- Be prepared to assist Internal Audit or any authorised body in any investigation
- Do not attempt to carry out any investigation.
- Where money laundering is suspected, follow the guidance in the Council's anti-money laundering policy.

APPENDIX 3

Whistleblowing Process

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

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

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

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

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

- You can remain anonymous and be treated with strict confidence if you request

A SUPPLEMENT NOT A SUBSTITUTE – THE USUAL CHANNELS FOR COMPLAINT

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

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

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

- The Councils Complaints Procedure
- The Grievance Procedure
- Line Management
- The Housing Benefit Fraud Hotline (0207 364 7443)
- The Council General Inquiry number (020 7364 5000)
- The External Auditor
- Public Concern at Work 020 7404 6576

Safeguards

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

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

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

However, this may not always be possible, as any investigation process may in itself reveal the source of information and a statement by the Whistleblower may be a necessary part of evidence, particularly

if it is thought the matter may lead to a criminal prosecution.

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

The Council will do its best to protect an individual’s identity when s/he raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence. The Council will try to ensure that the negative impact of either a false or unfounded allegation on any “accused” person is minimised. This entails acting with the strictest independence and professional confidentiality.

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

- whether it is the Council’s business
- the credibility of the concern
- the seriousness of the issues raised
- the likelihood of obtaining the necessary information
- the experience of previous related reports

Anonymous concerns will be investigated at the discretion of the Council

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

<ul style="list-style-type: none"> • I think a fraud or unlawful act may have been committed • What should I do? • Who should I contact? 	<ul style="list-style-type: none"> • Is it serious and well founded? • If Yes • You can raise your concerns in confidence on the Whistleblowing Hot Line (or write to Tony Qayum – Corporate Anti-Fraud Manager - 7th Floor Mulberry Place)
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<ul style="list-style-type: none"> • What will happen if I ring the Hotline 	<ul style="list-style-type: none"> • You will be asked for details of your concern
<ul style="list-style-type: none"> • Will I have to give my name? 	<ul style="list-style-type: none"> • NO
<ul style="list-style-type: none"> • So what will happen next? 	<ul style="list-style-type: none"> • Your concern will be given a reference number. You can call in 10 days to check progress
<ul style="list-style-type: none"> • Who does anything about it? 	<ul style="list-style-type: none"> • A Registration Officer will take details of your call, and a professional investigator will review and classify it. • A register of <u>all calls</u> will be kept, and the Registration Officer will report this to the Chief Executive <p>A final decision will be made and if appropriate an independent confidential investigation will be carried out</p>
<ul style="list-style-type: none"> • Won't it just be covered up? 	<ul style="list-style-type: none"> • NO - there is independence between the Registration Officer and the Investigation Officer. The Investigation Officer is answerable to the Chief Executive, and the Chief Executive must ensure that justified action is reported back to the Registration Officer.
<p><i>PLEASE CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested.</i></p>	

APPENDIX 4

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

1) **Background**

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

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

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

2) **Legislative framework**

The Authority has the power to prosecute offenders under Section 111A and 112 of the Social Security Administration Act 1992 which is generally the legislation most appropriate to benefit fraud offenders. However other legislation such as the Fraud Act 2006 may be used where appropriate.

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

- Administrative Penalty – where a penalty fine of 50% (as of May 2012) of the fraudulently overpaid benefit can be applied. The offender has the right to refuse to accept the penalty but the Authority should then proceed with prosecution action on the case. Therefore the case must be of suitable quality for prosecution action from the outset.

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

- Formal Caution – an oral warning that is administered when a claimant has admitted to an

offence. These are generally used in less serious cases where lower amounts of money are involved.

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

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

3) **Prosecution**

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

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

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

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

A) ***Sufficiency of evidence***

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

-

B) ***Public interest test***

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

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

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

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

Other factors taken into consideration are:

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

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

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

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

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

APPENDIX 5

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

Un lawful Subletting of Social Housing Property

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

We have a duty to house certain vulnerable members of society (e.g. children), and are often forced to use bed and breakfast facilities due to a shortage of council housing. In addition, families or individuals on the housing waiting list are denied housing because people are using the council properties for profit or simply queue jumping. Fraudulently obtaining council housing or subletting for personal gain uses up precious resources that should be available to families in need. The Corporate Fraud Team has a dedicated resource to investigate allegations of Sub Letting and the team works with all Social Housing Landlords within the borough including Tower Hamlets Homes.

If you have any information that suggests a tenanted property is being sub let please ***CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested***

Grants

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

Insurance claims

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

themselves.

Parking permits including Blue Badge Scheme

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

Identity theft/fraud

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

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

Protect yourself!

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

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

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

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

Protect yourself act quickly

- Firstly do not ignore the problem it might not be you that has ordered some goods or opened an account but the debt falls to your name and address.
- Once blacklisted for credit it may take many years to fully recover from the problem and you might have difficulties in obtaining a mortgage or other bank credit.
- Contact your local Police, report the crime and ask for a crime reference number to quote to the companies that allege that you have opened an account with them.

Check out the Home Office identity theft website at www.identity-theft.org.uk for more information

Advance fee fraud

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

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Agenda Item 6.5

COMMITTEE: Audit Committee	DATE: 25 June 2013	CLASSIFICATION: Unrestricted	REPORT NO. AC 006/134
REPORT OF: Interim Corporate Director of Resources ORIGINATING OFFICER(S): Paul Thorogood – Interim Service Head Finance and HR Development Oladapo Shonola, Chief Financial Strategy Officer		TITLE: Treasury Management Activity for Period Ending 30 April 2013 Ward(s) affected: N/A	

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year to 30 April 2013 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 with the projected investment returns and the downgrading of the Co-operative Bank (the Council's relationship Bank).

2. DECISIONS REQUIRED

- 2.1 Members are recommended to:
 - Note the contents of the treasury management activity report for period ending 30 April 2013 and the recent downgrade of the Co-operative Bank.

3. REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended) 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 the 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 (as amended) 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 2012/13

- 6.1 The Council's Treasury Management Strategy was approved on 7 March 2013 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2013-14 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 30 April 2013

- 7.1 This section of the report gives an update on the market and 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 30 April 2013.

8. MARKET UPDATE

- 8.1 The economic outlook remains gloomy despite the vast sums of money pumped into the system. The Eurozone remains in deep recession and unemployment continues to rise. The European Central Bank is coming under increasing pressure to offer the ailing economy support, and deflation looks to be a greater risk. There has been a relatively calm period following recent crises in a number of EU Countries, although there remains underlying worry about some peripheral members. For example, Slovenia appears to be the latest member that is likely to require some form of financial 'bailout'.
- 8.2 The US appears to be following the path of recent years, whereby the economy sees strong, uplifting data in Q1 but a subsequent failure to build on that start. The latest employment figures were disappointing suggesting that employers are uneasy about both the economic and political backdrop. China has also hit a slightly soft period which brings into question whether it can deliver its expected growth of 8% this year.
- 8.3 In the UK, GDP growth performed better than expected, thus preventing a slide into a triple dip recession. This has reduced expectations that the Bank of England (BoE) will undertake further quantitative easing in the near future. The economy however, remains vulnerable particularly with our two largest trading partners, the Eurozone and US showing weakness. Recession is not expected to be a threat to the economy but growth forecasts indicate that economic performance will be flat at best.
- 8.4 The low interest rate environment is set to continue into 2014 as the BoE continues to pump money into the economy by reinvesting funds from maturing assets purchased under Quantitative Easing and also by extending the life of the Funding for Lending Scheme (FLS). The UK Government's FLS may not have been taken up as freely as hoped but the low rate of interest at which this scheme lends, coupled with the Bank of England's QE programme has had a dampening effect on wider market rates. This and other issues in the economic update have implications on the Council's Treasury Management policy and Investment Strategy and consequently, returns on cash balances. Given the depressed economy and low interest rate environment, it is expected that achieving current/future income targets from investments will likely be challenging.

9. CREDIT CRITERIA

- 9.1 The following credit criteria for investment counterparties were established by the Council in March 2013 as part of the budget setting exercise and detailed below. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating. Definition of credit ratings is attached at Appendix 1 and the latest counterparty list is attached at Appendix 2.

Table 1 – Specified Investments

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	No Limit	N/A
Local Authorities	Not applicable	£30m*	1 year
Bank/Building Society - (High Credit Quality)	Short-Term F1 Long-Term AA-	£30m	1 year
Bank/Building Societies - (Medium Credit Quality)	Short-Term F1 Long-Term A+	£15m	1 year
Bank/Building Societies - (Lower Credit Quality)	Short-Term F1 Long-Term A	£10m	6 months
Part Nationalised / Wholly Owned Banks	N/A	Lesser of £70m or 40% of portfolio**	1 year
Council's Own Banker***	N/A	£10m	7 days
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	£15m	Liquid

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

** Percentage of portfolio at the time of investing.

*** Limit applied where bank's rating is below minimum required for external investment

Table 2 - Non-Specified Investments:

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Bank /Building Society (High Credit Quality)	Sovereign rating AAA Short-term F1+, Long-term AA-	£25m	3 years
Part Nationalised/ Wholly Owned Banks	N/A	£25m	3 years
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-	£25m	3 years
UK Government Gilts	Long Term AAA	£20m	5 years

10 INVESTMENT STRATEGY

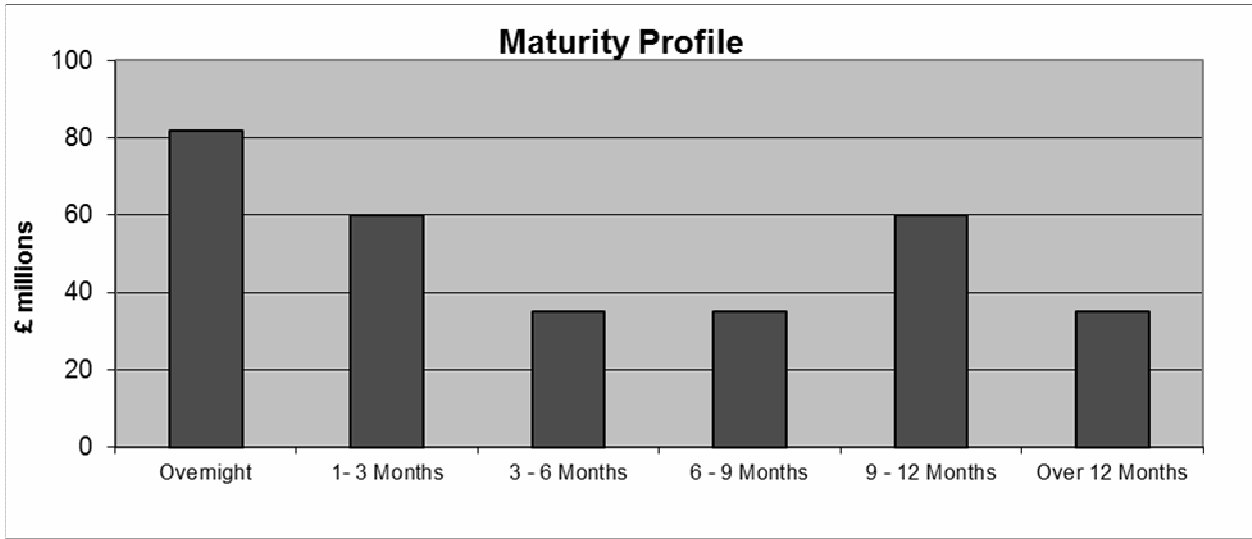
- 10.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory. Sector also provides treasury consultancy/advisory services to the Council.
- 10.2 Sector's current interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until 2015.
- 10.3 Given the recent downgrade of the Co-op Bank, an update is provided in section 13 of this report.
- 10.4 The current investment portfolio within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Investment Portfolio at 30 April 2013

Term	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Santander		Call	10.000	0.55%
Overnight	Deutsche MMF		MMF	15.000	0.32%
Overnight	SWIP		MMF	11.700	0.28%
Overnight	Goldman Sachs		MMF	15.000	0.36%
Overnight	Ignis		MMF	15.000	0.43%
Overnight	Insight		MMF	15.000	0.39%
	SUB TOTAL			81.700	
1 - 3 Months	National Australia Bank	18-Feb-13	20-May-13	20.000	0.40%
	Lancashire County Council	18-Mar-13	20-May-13	25.000	0.40%
	Barclays Bank Plc	11-Apr-13	13-May-13	10.000	0.41%
	Nationwide Building Society	11-Apr-13	13-Jul-13	5.000	0.44%
3 - 6 Months	Lloyds TSB	04-Dec-12	04-Jun-13	5.000	1.00%
	Royal Bank of Scotland	09-Jan-13	09-Jul-13	5.000	0.50%
	Bank of Scotland	11-Apr-13	11-Oct-13	5.000	0.80%
	Nationwide Building Society	16-Apr-13	16-Oct-13	5.000	0.52%
	OCBC	17-Apr-13	17-Oct-13	10.000	0.45%
	Deutsche Bank	29-Apr-13	29-Oct-13	5.000	0.48%
6 - 9 Months	Lloyds TSB	04-Dec-12	04-Sep-13	5.000	1.15%
	Lloyds TSB	07-Jan-13	07-Oct-13	5.000	0.95%
	Royal Bank of Scotland	09-Jan-13	09-Oct-13	10.000	0.67%
	Birmingham County Council	18-Feb-13	18-Nov-13	5.000	0.50%
	Bank of Scotland	11-Apr-13	11-Jan-14	5.000	0.95%
	Bank of Scotland	11-Apr-13	13-Jan-14	5.000	0.95%
9 - 12 Months	Royal Bank of Scotland	12-Jun-12	12-Jun-13	5.000	1.69%
	Bank of Scotland	27-Jul-12	07-Jul-13	10.000	3.00%
	Lloyds TSB	04-Dec-12	04-Dec-13	5.000	1.50%
	Bank of Scotland	29-Oct-12	29-Oct-13	5.000	2.25%
	Royal Bank of Scotland	09-Jan-13	09-Jan-14	10.000	0.85%
	Bank of Scotland	13-Feb-13	13-Feb-14	5.000	1.10%
	Lloyds TSB	04-Mar-13	04-Mar-14	5.000	1.10%
	Bank of Scotland	11-Apr-13	11-Apr-14	5.000	1.10%
	Bank of Scotland	15-Apr-13	15-Apr-14	5.000	1.10%
	Royal Bank of Scotland	16-Apr-13	16-Apr-14	5.000	0.73%
Over 12 Months	Royal Bank of Scotland	27-Jan-12	27-Jan-15	5.000	3.35%
	Royal Bank of Scotland	11-Apr-12	11-Oct-13	5.000	2.00%
	Royal Bank of Scotland	12-Jun-12	12-Dec-13	5.000	2.00%
	Royal Bank of Scotland	11-Jan-13	13-Jan-14	5.000	0.89% *
	Royal Bank of Scotland	27-Feb-13	26-Feb-16	10.000	1.90% *
	Royal Bank of Scotland	16-Apr-13	16-Apr-15	5.000	0.88% *
	SUB TOTAL			225.000	
	TOTAL			306.700	

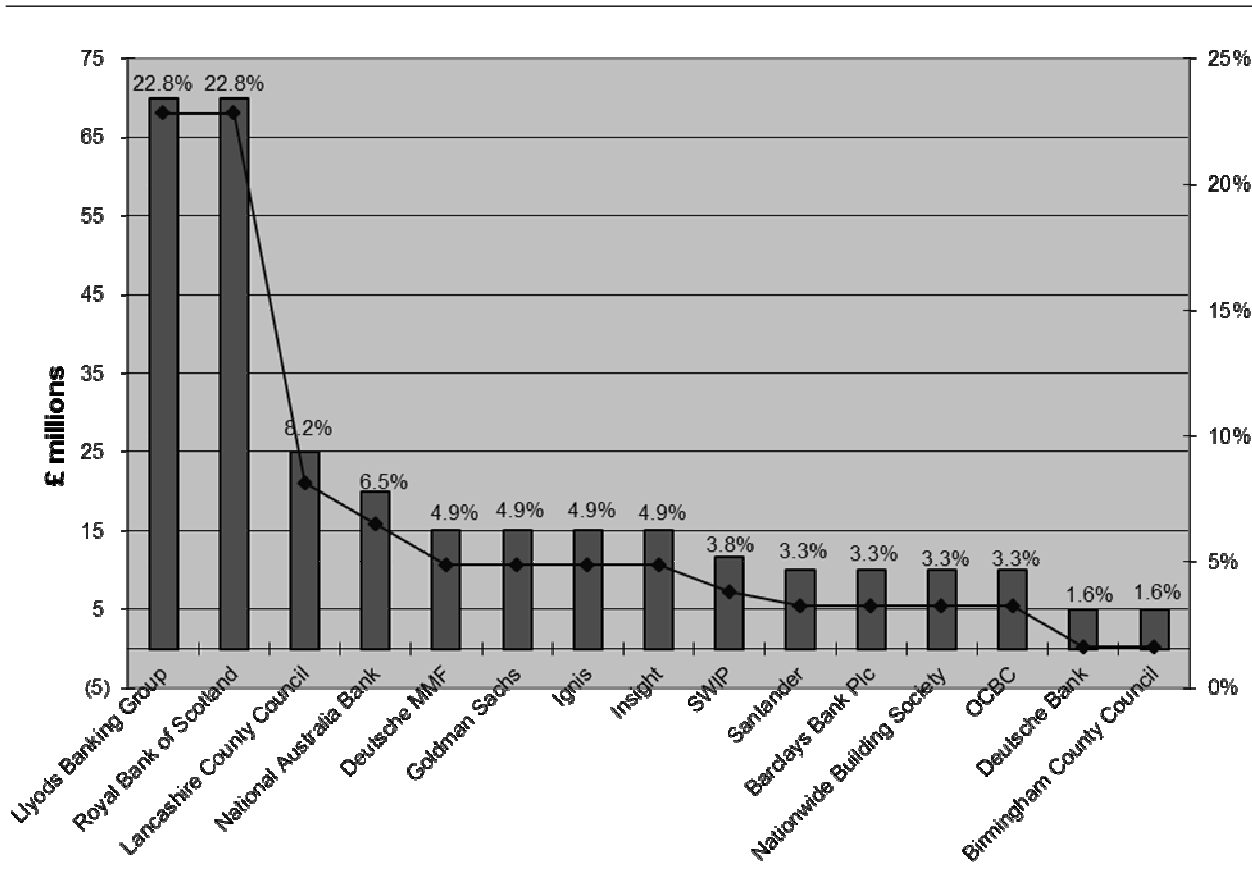
* This is a structured deal, the terms of which could change during the duration of the deal.

Maturity Structure of Investment Portfolio



10.5 The amount in overnight instruments appears high because of money market fund deposits which though technically classed as overnight investments, are in reality used as longer term investment vehicles. Of the £81.7m in overnight instruments, £71.7m is held with money market funds.

10.6 The Council's exposure to any one counterparty/Group is represented by the chart below including the Council's exposure as a percentage of total assets invested as at 30 April 2013.



11 INVESTMENT RETURNS

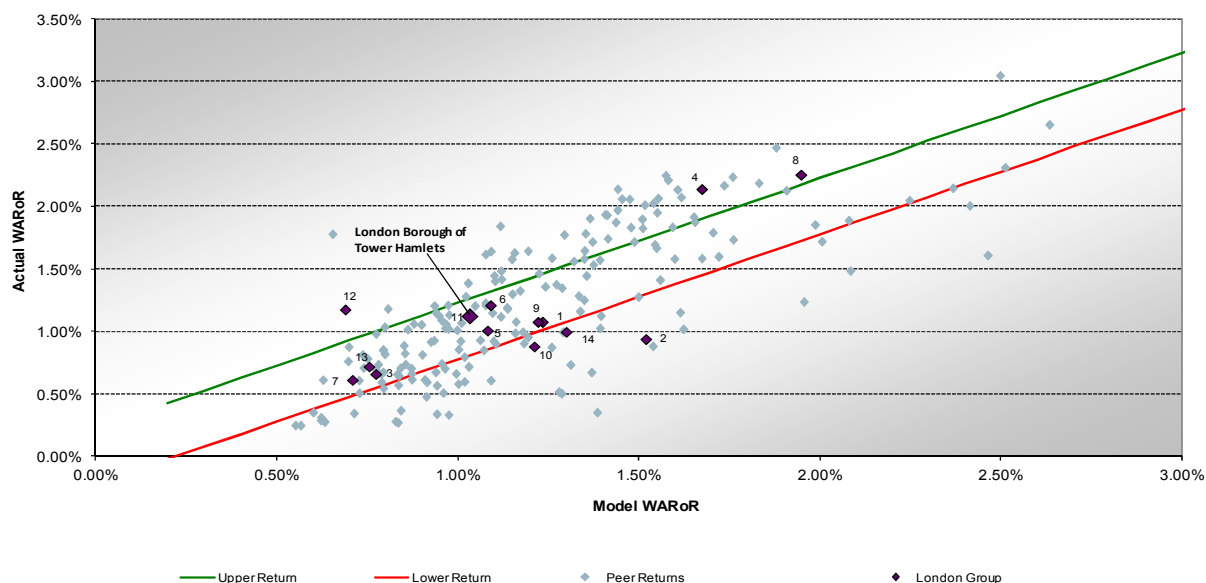
- 11.1 The Strategy approved at the 7 March 2013 Council meeting allowed for more flexibility and the benefits of this Strategy has increased the list of counterparties that the Council can invest with, therefore, providing more flexibility to officers making investment decisions. However, there remain challenges in the wider money markets and the economy which means that the low interest rate environment is set to continue for some time yet.
- 11.2 Return on investment in April 2013 was 0.92%. The portfolio outperformed benchmark (7 day London Interbank Bid Rate (LIBID) plus 0.25%) by 0.28%.

Period	LBTH Performance	Benchmark (7 Day LIBID+0.25%)	(Under)/Over Performance
Full Year 2012-13	1.24%	0.64%	0.60%
April 2013-14	0.92%	0.64%	0.28%

- 11.3 As the table shows, rates have fallen significantly. Given the investment environment and current money market rates, it is likely that the income target of £2.545m will not be achieved. Officers continue to explore options to maximise return whilst maintaining first principles of security and liquidity in any investment decision.

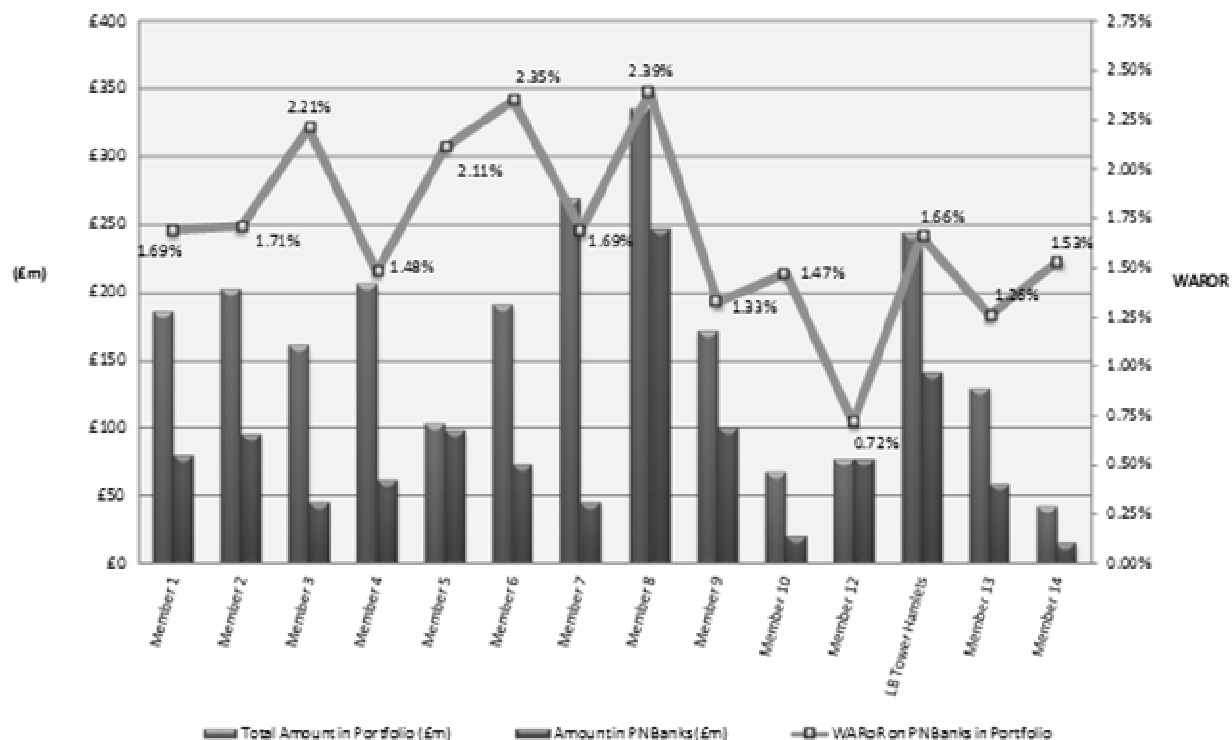
12. INVESTMENT BENCHMARKING CLUB

- 12.1 LBTH participates in a benchmarking club to enable officers compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 March 2013. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 201 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile.



12.2 The weighted average rate of return (WARoR) for Tower Hamlets is 1.12% compared to 1.13% for the group. The return on LBTH investment is commensurate with the Council's risk appetite as set out in the Investment Strategy.

12.3 A further chart is provided that compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council's allocation to and returns from investment with PNBs is in line with other London boroughs.



12.4 The Council's current level of investments with Part –Nationalised banks is due to the support rating they enjoy from being part-owned by the Government. There is a risk to this strategy in the medium/long-term if the banks were to be privatised, thus the Council would need to either disinvest at the earliest opportunity or bring levels down to reflect the privatised banks' revised credit rating. In any case, the amount that the Council would be able to invest will be £30m depending on the privatised bank's residual credit rating.

13. CO-OPERATIVE BANK DOWNGRADE

13.1 The Co-operative Bank was recently downgraded to 'below investment grade' status by Fitch and Moody's rating agencies as a result of its capital inadequacy. The rating agencies explained that although the non-performing loan ratio of the bank's core portfolio remains stable, the quality of its non-core book has significantly weakened due to the deterioration of its commercial real estate exposures. They therefore felt that its vulnerability to losses is heightened by the low level of provisions held against its overall lending portfolio.

- 13.3 Along with majority of local authorities, the Council banks with the Co-operative Bank, and the account 'emptied' on a daily basis so that all surplus funds are invested overnight with alternative counterparties that meet the Council's minimum credit criteria. LBTH's dealing with the Co-operative Bank is thus limited to transactional, rather than investment purposes.
- 13.4 Officers will continue to work with the Council's treasury management consultants and other councils to actively monitor the situation and will report back on further developments.

14. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 14.1. The comments of the Chief Financial Officer have been incorporated into the report.

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

- 15.1 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.
- 15.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by 2013 regulations to deal with equal pay compensation and the pooling of housing receipts) 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.
- 15.3 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.

16. ONE TOWER HAMLETS CONSIDERATIONS

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

17. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

18. RISK MANAGEMENT IMPLICATIONS

- 18.1 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.

19. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

20. EFFICIENCY STATEMENT

- 20.1 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"

April 2013 Investment Portfolio Analysis Report

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

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Mulberry Place, 3rd Floor.*

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 is 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.

Country / Financial Institution	FITCH				MOODY'S			S & P	
	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
UK BANKS									
United Kingdom	AA+	F1+			Aa1	P-1		AAA	A-1+
Santander UK Plc	A	F1	a	1	A2	P-1	C-	A	A-1
Credit Suisse	AA-	F1+		1	A1	P-1		A+	A-1
HSBC Group	AA-	F1+	a+	1	Aa3	P-1	C-	AA-	A-1+
Lloyds Banking Group	A	F1		1	A2	P-1	D+	A	A-1
Royal Bank of Scotland	A	F1	bbb	1	A3	P-1	D+	A	A1
Barclays Bank	A	F1	a	1	A2	P-1	C-	A+	A-1
Co-operative Bank plc	BBB-	F3	bbb-	3	A3	P-2	C-		
Goldman Sachs International Bank	A	F1						A-1	A-1
MBNA Europe	A	F1		1					
Merryl Lynch International								A-1	A-1
Schroders Plc	A+	F1							A-1
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-		A-1+
UBS Ltd	A	F1		1	A2	P-1			A-1
Nationwide Building Society	A+	F1	a+	1	A2	P-1	C-		A-1
OVERSEAS BANKS									
Australia	AAA	F1+			Aaa			AAA	A-1+
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Canada	AAA	-	-	-	Aaa	-	-	AAA	A-1+
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Royal Bank of Canada	AA	F1+	aa-	1	Aa3	P-1	C+	AA-	A-1+
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Finland	AAA	F1+	-	-	Aaa	-	-	AAA	-
Nordea Bank Finland plc	AA-	F1+	-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1		1	Aa3	P-1	C-	AA-	
Germany	AAA	F1+	-	-	Aaa	-	C-	AAA	-
DZ Bank AG	A+	F1+		1	A1	P-1	C-	AA-	
Deutsche Bank AG	A+	F1+	a	1	A2	P-1		A+	
KfW	AAA	F1+		1	Aaa	P-1		AAA	
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Luxembourg	AAA	-	-	-	Aaa	-	-	AAA	-
Banque et Caisse d'Epargne de l'Etat					Aa1	P-1	C	AA+	
Clearstream Banking	AA	F1+	aa-	1				AA	
Netherlands	AAA	-	-	-	Aaa	-	-	AAA	-
ING Bank NV	A+		a	1	A2	P-1	C-	A+	A-1
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	A	AAA	A-1+
Rabobank	AA		aa-	1	Aa2	P-1	B-	AA-	A-1+
Norway	AAA	-	-	-	Aaa	-	-	AAA	-
DnB NOR Bank	A+		a+	1	A1	P-1	C-	A+	A-1
Singapore	AAA	-	-	-	Aaa	-	-	AAA	-
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Sweden	AAA	-	-	-	Aaa	-	-	AAA	-
Skandinaviska Enskilda Banken	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Swedbank AB	A+	F1	a+	1	A2	P-1	C-	A+	A-1
Switzerland	AAA	-	-	-	Aaa	-	-		AAA
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1
OTHERS - UK									
1000 Prudential Plc	A+	F1+			A2	P-1		A+	A-1
Debt Management Office	AAA								
Local Authorities	AAA								
Money Market Funds	AAA								

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