

AUDIT COMMITTEE

Tuesday, 18 March 2014 at 7.00 p.m.

Room MP702, Town Hall, Mulberry Place, 5 Clove Crescent, London,
E14 2BG

This meeting is open to the public to attend.

Members:

Chair: Councillor Mizan Chaudhury

Vice-Chair: Councillor Carlo Gibbs

Councillor Judith Gardiner, Councillor M. A. Mukit MBE, Councillor Craig Aston,
Councillor Stephanie Eaton and Councillor Shafiqul Haque

Deputies:

Councillor Denise Jones, Councillor Zenith Rahman, Councillor David Snowdon and
Councillor Tim Archer

The quorum for this body is 3 Members

Contact for further enquiries:

Antonella Burgio, Democratic Services

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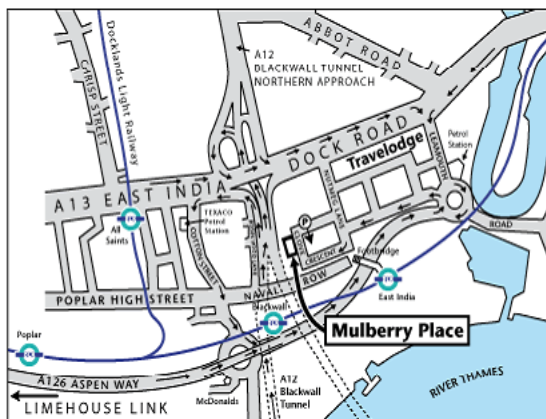
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APOLOGIES FOR ABSENCE

**PAGE
NUMBER**

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

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.

2. MINUTES OF THE PREVIOUS MEETING

5 - 14

To confirm the minutes of the Audit Committee held on 17th December 2013.

3. KPMG ITEMS FOR CONSIDERATION

3.1 External Audit Plan 2013/14

15 - 38

To receive the External Audit Plan for the period 2013/14 and note how the external auditor will deliver its financial statements audit work for the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund and to inform the Committee of the approach to value for money work for 2013/14.

3.2 Certification of Grants and Returns 2012/13

39 - 46

To receive a report summarising the results of work on the certification of the Council's 2012/13 grant claims and returns.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

47 - 78

To note the quarterly assurance report.

4.2 Annual Audit Plan for 2014/15

79 - 124

To receive and endorse the annual audit plan 2014/15.

4.3 Anti-Fraud and Corruption Strategy and Proactive Anti - Fraud Plan

125 - 174

To note the anti-fraud and corruption strategy and the anti-fraud plan.

4.4 Treasury Management Activity Update Report to 31 January 2014

175 - 186

To note the quarterly treasury management update.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee (Provisional Date):

Monday, 30 June 2014 to be held in the Room MP702, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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Agenda Item 1

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:-

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 7.03 P.M. ON TUESDAY, 17 DECEMBER 2013

ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Carlo Gibbs (Vice-Chair)
Councillor Stephanie Eaton
Councillor Zenith Rahman (Substitute for
Councillor M. A. Mukit MBE)
Councillor Peter Golds (Substitute for (Leader of the Conservative Group)
Councillor Craig Aston)

Other Councillors Present:

Officers Present:

Minesh Jani	– (Head of Audit and Risk Management , Resources)
Tony Qayum	– (Anti Fraud Manager, Internal Audit, Resources)
Zamil Ahmed	– (Senior Procurement Manager, Category and Contract Management)
Simon Baxter	– (Head of Clean and Green, Public Realm, Communities Localities & Culture)
Chris Holme	– (Acting Corporate Director - Resources)
Paul Thorogood	– (Interim Service Head Finance and HR Development, Resources)
David Galpin	– (Service Head, Legal Services, Directorate Law Probity and Governance)
Sarah Williams	– (Team Leader Social Care, Legal Services, Chief Executive's)
Antonella Burgio	– (Democratic Services)

Others In Attendance

Alan Bryce	– (District Auditor, Audit Commission)
Molly Wallis	– Interim Head of Neighbourhoods, THH
Daniel Hellary	– Deloitte Touch

COUNCILLOR CARLO GIBBS IN THE CHAIR

APOLOGIES

Apologies for absence were received from Councillors, Mizan Chaudhury, M.D. Mukit, Haque and Aston.

Councillors Zenith Rahman and Peter Golds substituted for Councillors Mukit and Aston respectively.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 26 September 2013 were approved as a correct record of proceedings.

3. PROTECTING THE PUBLIC PURSE FRAUD BRIEFING 2013

Mr Bryce, Head of Counter Fraud at the Audit Commission presented in his annual fraud briefing. He advised that the focus of his briefing this year would be the antifraud activities of local authorities and that further national data was available via the Audit Commission.

The context of his presentation was "Tower Hamlets' fraud detection performance and its comparison with other local authorities". In his presentation he asked the Committee to consider the returns gained against the resources employed in addressing its priority fraud areas and whether

National Picture - It was estimated that fraud activities caused an annual loss of over £2 billion.

Mr Bryce argued that that fraud was not a victimless crime since its consequence was the availability of fewer resources, in terms of access to financial support and housing, to those in genuine need. Noting that councillors were charged with governance of public funds, he asked the Committee to consider how the Council compared to other authorities in terms of fraud detection (strategy and priorities) and its local priorities. He also challenged the Committee to consider how resources were targeted and whether, in the local context, the best returns were to be gained from addressing high-value fraud or high-volume fraud.

Mr Bryce advised that, nationally, of the fraud cases detected in 2012 - 13 (excluding social housing fraud), the largest proportion concerned housing benefit fraud. He noted that housing benefit fraud was the area where most detection work was directed and asked member to consider whether the focus on other areas would be more efficient to pursue. The Committee noted that the scope of Tower Hamlets' comparative performance against that of other London boroughs was reported within the appendices to the report.

In terms of the total detected cases in 2012 - 13 (1440 cases) and the monies recovered valued at £989,565, Mr Brice challenged the Council to consider which areas of fraud it would be most efficient to address.

The areas of fraud which the Audit Committee monitored and reported were: housing benefit fraud, council tax benefit fraud, council tax discount fraud social housing fraud, right to buy fraud and disabled parking (blue badge) fraud.

Mr Bryce advised that forthcoming changes would be brought about by the establishment of the Single Fraud Investigations Service that would be organised by the DWP and which would take over the authority's caseload in relation to housing benefit fraud. This transition would occur in the forthcoming 18 months and therefore data-matching in relation to this type of fraud would be affected.

Noting that this large area of work would then fall to the DWP, Mr Bryce advised that councils would need to consider where their investigative resources then would best be focused. He challenged the Committee to consider some common areas of fraud such as single person discount fraud and student (Council Tax) discount fraud, whether retrospective sanctions would be appropriate and what principles it wished to pursue in following these.

The Committee was informed that it would receive information concerning how much money had been successfully recovered in regard to student council tax discount and single person council tax discount.

Action by: Minesh Jani, Head of Audit and Risk Management

Mr Bryce advised that successful recovery of frauds gave councils a funding advantage because of the revenue support grant. The following were noted:

- Registered social landlords antifraud work did not fall within the remit of the audit commission
- Because of the high levels of social housing stock within the borough the effects of fraud activity on registered social landlords would be greater. Mr Bryce advised that levels depending on how many were investigated. Additionally the Audit Commission recommended that councils work with registered social landlords to address housing benefit fraud.

It was noted that the Council negotiated with social landlords to recover properties and was receiving cooperation from these organisations to enable properties to be more appropriately utilised by eliminating social housing fraud.

The Anti-Fraud Manager advised that the Council was engaging in high levels of data-matching and therefore, in future years expected to achieve better results. Additionally it was noted that there was some co-funding with Tower Hamlets Homes for the investigation of social housing fraud in the Borough.

In considering which types of fraud were the most appropriate to pursue the members considered the following:

- the Council's housing benefits team was funded by DWP and was focused on housing benefit fraud
- The remaining resources of the antifraud team were employed to undertake a more general investigations.

Presently work was being carried out to assess which frauds the Council should best pursue. It was noted that there were obvious benefits to pursuing frauds, which resulted in income to the Council; however it was necessary not to neglect other areas of fraud as the reputation of the Council might be affected. It was noted that The Proceeds of Crime legislation was to be shortly enacted and this would enable the Council to pursue recovery of money acquired through fraudulent activity and also that pursuit of financial recovery and financial gain needs to be balanced against the levels of harm caused by different types of fraudulent activity

It was noted that right-to-buy fraud was a potentially high frequency and high-value area of fraud activity. The fraud concerned the discount offered to tenants under the right-to-buy scheme and also affected other areas of social benefits.

It was noted that there had been good performance regarding detection of blue badge fraud. Of the frauds detected, it was noted that the largest proportion concerned fraudulent applications for blue badges in other areas. Detection was found to be concentrated around sites of health care delivery in particular the London Hospital, Whitechapel.

Other types of fraud detection performance were in the areas of procurement, insurance, social care, economic, third sector, and internal fraud - including school frauds.

Mr Bryce recommended that the Council focus its anti-fraud work on

- blue badge fraud
- Schools frauds. He also encouraged collaborative engagement with free schools and academies in the borough to address this area of criminal activity
- Social care fraud. This, because of the implementation of the personalisation agenda was an area that was expected to witness increasing levels of fraud activity.
- Internal fraud. This recommendation was based on the fact that while the value per case might be low, there would be high value fraud activities interspersed with these.

In response to questions from the Committee, the following information was provided:

The Audit Commission measured fraud activity. During 2012 – 13 data on activity had been requested with an aim to increase the quantity of benchmark data available and to use this for future data matching exercises.

The Audit Commission supported investigation of rateable assets fraud and activity to promote detection of business rate frauds across the spectrum.

It was noted that fraud of charitable status registrations was an area that might be pursued as there were some suspicion that not all organisations claiming full charitable benefits were operating under wholly charitable principles.

RESOLVED:

1. That the content of the report and presentation be noted
2. That the matters raised by the Audit Commission be noted
3. The recommendations of fraudulent areas of activity which the Council is recommended to pursue be noted

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Internal Audit Assurance Report

The Head of Audit and Risk Management presented the report circulated agenda item 4.1. He offered his audit opinion based on work performed in the year-to-date and gave a substantial level of assurance on the systems and controls in place within the authority. He noted that performance against the indicators formulated at the beginning of the year to monitor the delivery of the internal audit service was lower than target in relation to 'priority one recommendations implemented by auditees at 6-monthly follow up audit stage. He suggested that this had been because of staff absence and competing priorities. Therefore the Head of Service would ask Deloitte to delay its audit. He also advised that most delays had not been accepted, although some had been agreed because of other inspections or project implementations.

He noted the assurance rating of audits finalised in the period and discussed each of the three limited assurances that were returned during the quarter.

Management and Control of Probationary Tenancy - Follow Up Audit

The Interim Head of Neighbourhoods Tower Hamlets Holmes attend for the discussion of this item.

The Committee heard that four main areas of weakness were identified:

- No evidence to verify reported sales income
- Key performance indicators were not measured against targets
- No evidence of monthly complaints reports supplied by Veolia as required by Waste Management contract clause 43.3

- No evidence that the 2012-13 management fee of £717,500 was formally agreed by both parties

The following were also noted:

- A high priority recommendation arising from the first follow-up audit had been fully implemented and there had been some implementation of the remaining four recommendations
- The follow-up audit identified that the controls were not effective because of non-compliance with procedures together with lack of good quality random checks
- Records management was weak
- A number of previous audits had returned a limited assurance therefore the follow-up was escalated and a visit carried out in November 2013. This date coincided with the estimated date when all recommendations were to have been implemented.
- The limited assurance did not relate to social housing frauds but was concerned with administrative processes
- The Service had addressed procedures relating to how documents were evidenced and administrative procedures had been reviewed
- IT had developed a new records management system which captures all controls recommended arising from the audit and there would be supporting documentary evidence
- Some random checks would be carried out personally by the Interim Head of Neighbourhoods Tower Hamlets Holmes
- Records would be fully inspected and training given to ensure that filing was undertaken appropriately.

The Interim Head of Neighbourhoods Tower Hamlets Holmes was confident that all issues would be resolved on schedule. She confirmed that procedures were now in place to ensure that the targets would be met and agreed to monitor these to ensure that future assurance levels were increased.

Management of the Commercial Waste Contract

The Head of Clean and Green attended for the discussion of this item.

The Committee heard that the main weaknesses identified from the audit were:

- There was no evidence to confirm that the Council verified sales income reports provided by Veolia
- Key performance indicators were not measured against targets
- There was no evidence available to confirm Veolia provided the Council with monthly complaints reports as required by clause 43.3 of the waste management contract
- There was no evidence available to confirm that the 2012 management fee of £717,500 was formally agreed by both parties
- The Authority had been unable to confirm what contract fees were paid because the variation in the fee had not been properly evidenced

The following information from the Head of Clean and Green was also noted:

- All uplifts were agreed within the contract terms and there were bimonthly strategy meetings which were now minuted.
- Veolia had earlier agreed that sales could be increased if more resources were given. This had occurred but levels had since been reduced to a lower level.
- Clause 43.3 of the contract was not specific to commercial waste and therefore a new KPI for commercial waste had been introduced
- Collection of commercial waste was collected into one vehicle (co-collection) and therefore the audit had identified a poor control. However since the audit, commercial waste was collected separately and would be better monitored.
- Removal of different waste categories was measured and an enforcement team was tasked to pursue Veolia where there was non-compliance
- Suitable fee levels were set by Veolia in line with RPI.
- Uplift was not performance related and lacked only the formal letter stating uplift
- Concerning control of KPI performance, the Committee was advised that the present waste contract was a number of years old and did not reflect the 2013 position however it would be reviewed in 2017. Members noted that the contract length an unacceptably long term and it was agreed that a written response would be provided on the rationale for this contract period.

Competitive Tendering Systems Audit

The Senior Procurement Manager, Category and Contract Management was present for the discussion of this item.

The Committee was advised that the purpose of the audit was to ensure that there was compliance with European Union regulations. A limited assurance had been returned as the audit trail was not sufficiently robust through the procurement cycle. The following matters were also noted:

- The audit concerned procurements in 2011-12 during which time there was much managerial change.
- The Senior Procurement Manager Category and Contract Management was now in post and processes had been reviewed and improvement made around governance compliance, systems and training.
- Whilst the audit was being undertaken, a new procurement process had been implemented which incorporated tighter controls.
- Much work had been undertaken since the audit and 99% of the recommendations had been implemented.

RESOLVED

That the report be noted

4.2 Revised Internal Audit Plan for 2013/14

The Head of Audit and Risk Management advised that the internal audit plan had been refreshed during which time some audits had been removed and others added as appropriate.

Members' request that, for security reasons, information around the security of children's homes should be remaining exempt was noted.

RESOLVED

That the report be noted

4.3 Treasury Management Activity for Period Ending 31 October 2013

The Acting Corporate Director, Resources and Interim Service Head Finance and HR Development presented the report highlighting the following:

- Treasury activity for the period 1 April to 31 October 2013
- The market update in the context of the economic recovery in the UK
- The current cash balance which was due to capital expenditure during the financial year
- There had been additional deposits into reserves in the financial year
- The composition of the current investment portfolio and graph of investments maturity
- The majority of investments were presently short-term investments
- Although no Lloyds rating had been available at the time of agenda publication, this was the same as that of Barclays.

RESOLVED

That the report be noted

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

East End Life (EEL)

Councillor Golds tabled an issue concerning the Council's EEL publication, noting that the Government Local Audit and Accountability bill which would abolish council-run newspapers was nearing consent. He advised that the new legislation was likely to come into force shortly and the Council had yet to determine how it would address this matter; additionally the District Auditor had referred to out of date advice on the matter. He asked that the Committee require the District Auditor to give an account in relation to this issue. The following discussion was noted

- Council was aware of the impending legislation and taking legal advice relating to the content of EEL publication.
- Once the Bill was enacted, the Secretary of State would make a direction.

- Once the statute was passed, it was expected that a statutory code of practice would be issued which would create a risk to the Council and also have staff implications around the short-term closure of EEL.

RESOLVED

That the discussion be noted

The meeting ended at 8.38 p.m.

Councillor Carlo Gibbs
Vice-Chair, Audit Committee

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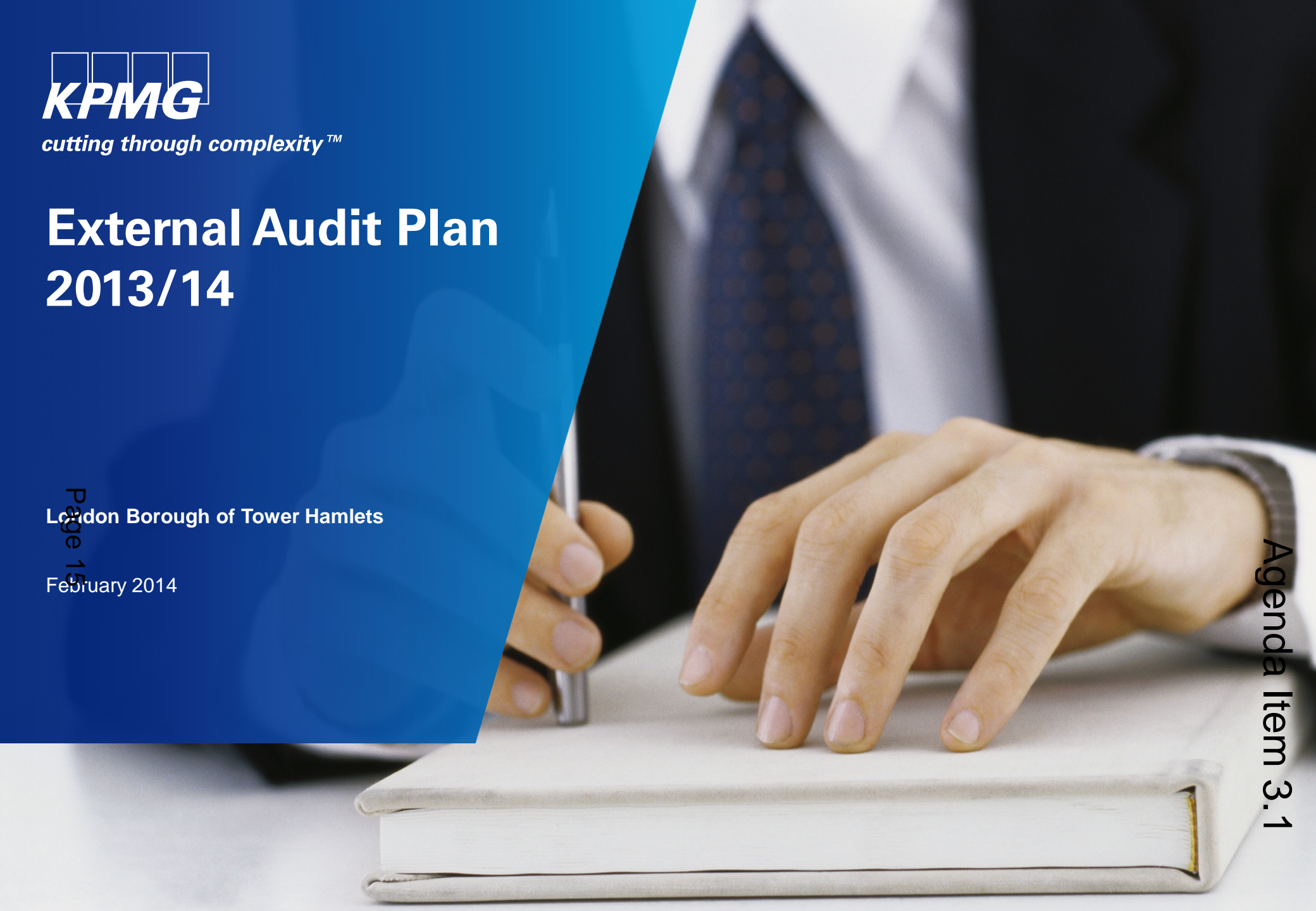
External Audit Plan 2013/14

London Borough of Tower Hamlets

February 2014

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Agenda Item 3.1



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Appendices

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for the London Borough of Tower Hamlets and the Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for the London Borough of Tower Hamlets ('the Authority') and the London Borough of Tower Hamlets Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements of the Authority and the Pension Fund and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks for the Authority.
- Section 5 provides further detail on the audit risks for the pension fund.
- Section 6 explains our approach to VFM work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

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<p>Audit approach</p>	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Acting Corporate Director, Resources.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p>Key financial statements audit risks for the Authority</p>	<p>We have completed our initial risk assessment for the Authority's financial statements audit and have identified one issue that we consider to be a significant risk this year. The risk relates to the implementation and operation of the new general ledger from 1 April 2013 and is described in more detail on page 9.</p> <p>We have also noted other areas of audit focus. These are described in more detail on page 10. We will assess the Authority's progress in addressing these areas as part of our interim work and conclude this work at year end.</p>
<p>Key financial statements audit risks for the Pension Fund</p>	<p>Our initial risk assessment for the Pension Fund's financial statements audit has not identified any significant risks this year.</p> <p>We have noted one other area of audit focus in relation to the triennial valuations which is described in more detail on page 11. This also impacts on the Authority's financial statements. We will assess the Authority's progress in addressing this as part of our interim work and conclude this work at year end.</p>
<p>VFM audit approach and risk assessment</p>	<p>We have completed our initial planning for the VFM conclusion and have not identified any significant risks at this stage.</p> <p>We have noted one area of audit focus, relating to savings plans in the medium term, which is described in more detail on page 15. We will assess the Authority's progress in addressing this area as part of our interim work and conclude this work at year end.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>There have been two changes to the audit team from last year. Hannah Collins is now the assistant manager for the Authority and Hashem Alawi is now the assistant manager for the Pension Fund. The partner and manager remain the same on both the Authority and Pension Fund audits.</p> <p>Our main year end audit is currently planned to commence in early July alongside the audit of the Pension Fund. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The overall scale fee for the audit is unchanged at £277,290. However, due to the additional costs incurred in dealing with the significant number of enquiries we have received there will be an additional fee. We estimate that these additional fees are £14,340 for the enquiries we have been dealing with so far. This increase has been approved by the Audit Commission. So the current planned fee comprises £277,290 for the Authority's audit; £14,340 for the enquiries; and £21,000 for Pension Fund.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (February and March).
- **Control Evaluation** (March).
- **Substantive Procedures** (July to August).
- **Completion** (September).

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We have summarised the four key stages of our financial statements audit process for you below.



Key: ● Authority only ■ Pension Fund only ▲ Authority and Pension Fund

During February and March 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in February and March 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements (including the Pension Fund financial statements). These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance and internal audit leads on a monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for the Authority's financial statements for 2013/14 is £25m. For the Pension Fund, the corresponding figure is £27m. This is based on the prior year financial statements and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context.

Accounts audit protocol

As part of our planning work we will issue our *Accounts Audit Protocols*. Separate documents will be issued for the Authority and the Pension Fund. These important documents set out our audit approach and timetable. They also summarise the working papers and other evidence we require during our interim and final accounts visits.

Group audit

We understand that the Authority is proposing not to produce group accounts this year, on the basis that Tower Hamlets Homes is not significant in the context of consolidation with the Authority. We will need to ensure that this judgement is appropriate as part of our interim work.

During March 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed during March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Accounts production process

We raised a number of recommendations in our *ISA 260 Report 2012/13* reports for the Authority and the Pension fund relating to the accounts production process:

- Ensure that there is a more formal review of the draft accounts against the requirements of the Code to ensure all disclosures are correct and complete.
- Ensure there is an annual review of Property Plant and Equipment (PPE) for revaluation for example by identifying relevant indices that can be considered to assesses if there has been a material change in asset values.
- The Authority and Pension Fund should continue working towards ensuring all payments and receipts relating to the pension fund are processed through the Pension Fund's separate bank account, in accordance with Regulations.
- Review the draft Pension Fund accounts for compliance against the latest guidance applicable to the financial year to ensure all necessary disclosures have been made.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

During July to August 2014 we will be on site for our substantive work on the Authority's financial statements. We will conduct our work on the Pension Fund at the same time.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for the Authority and Pension Fund audits to the Audit Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period July to August for the Authority and the Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Chief Accountant as part of our regular meetings through-out the audit, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Pension Fund Annual Report

We also issue our opinion on the consistency of the Pension Fund annual report with the Pension Fund's accounts. We intend to issue this opinion at the same time as our opinion on the accounts.

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Non-audit work

At this stage the non-audit work that has been undertaken includes an IT post implementation systems review provided by our IT team and advice provided by our tax team throughout 2013/14. We have considered the scope of the work in the context of the Auditing Practices Board's (APB) Ethical Standards and Audit Commission requirements and concluded it does not impair our independence.

Confirmation statement

We confirm that as of 27 February 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

We have identified one significant and two other areas of audit focus for our audit of the Authority's financial statements at this stage.

For each area we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risk we have identified through our planning work that is specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Area	Risk	Audit work
New General Ledger system	<p>The Authority has installed a new ledger system (Agresso) which went live on 1 April 2013. There are risks to the completion and compilation of the financial statements associated with such a significant change. We also understand that the Authority has had some issues in ensuring that the migration of data from the previous ledger has been completed satisfactorily. Other risk areas include accurate processing and coding; system access for joiners, leavers and staff changing role; and segregation of duties.</p> <p>Our IT team is undertaking a separate exercise to review access and operation controls.</p>	<ul style="list-style-type: none"> ■ Reviewing the completeness and accuracy of the GL data migration of closing balances from the previous finance system (ie as at 31 March 2013) to Agresso (migration and reconciliation). Our current understanding is that this will be completed via a manual journal exercise. ■ Consider the results of the work completed by our IT team and test the ledger as necessary to enable us to form an opinion on the outputs for the financial statements.

For each area we have outlined the impact on our audit plan.

We have listed below other areas of audit focus.

Area	Risk	Audit work
Property, Plant and Equipment	The Authority has a significant asset base primarily relating to Council dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. We also made a recommendation (see 'Accounts production process' on page 6) in this area in our <i>ISA 260 Report</i> on the 2012/13 financial statements.	<ul style="list-style-type: none"> ▪ Reviewing management's assessment of property valuations and impairment calculations. ▪ Confirming the information provided to the valuer from the Authority. ▪ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2012/13 for consistency. ▪ We will also follow up progress on issues raised by us in our 2012/13 ISA 260 report.
Enquiries from Members	<p>We have received a number of enquiries from Members during 2013 and 2014. We are actively looking into several of these at present relating to television adverts; the Authority's publication - East End Life; and treatment of Authority assets.</p> <p>We will need to be satisfied that the matters raised do not have a material effect on the financial statements or on our value for money conclusion before we can issue an audit report on these areas.</p> <p>Further we will not be able to formally conclude the audit and issue an audit certificate until we have completed the work on any objections that may arise.</p>	<p>We have not yet completed our consideration of these matters and will report to the Authority and the Members making the enquiries as appropriate at the conclusion of our work. The time taken by the Authority to respond to our information requests and queries in relation to these continues to be longer than we would normally expect.</p> <p>The work in relation to these enquiries is not part of the scale fee set by the Audit Commission. Therefore the work needed to consider the matters raised is an additional fee. On page 3 we have noted that the estimated fee for this work is £14,340 and this has been agreed by the Audit Commission.</p>

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2013/14.

We have not identified any significant risks but noted one other area of audit focus which also impacts on the Authority's financial statements.

As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

We have listed below other areas of audit focus, which also impacts the Authority's financial statements.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Area	Key audit risks	Impact on audit
<p>LGPS Triennial Valuation</p>	<p>During the year the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>The Pension Fund only includes limited disclosures around pensions liabilities but for the Authority, pension liabilities represent a significant element of its balance sheet. We have not set out a separate risk for the Authority elsewhere in this document as most of the data is supplied by the Pension Fund.</p>	<p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>For the audit of the Pension Fund, we will complete some limited work to agree the data provided to the actuary back to the systems and reports from which it was derived, and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

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Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of inspectorates and other review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have not identified a significant risk to our VFM conclusion at this stage but note that an area of audit focus will be the Authority's financial standing in the medium term.

As part of our initial risk assessment we will consider whether external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

If necessary we will carry out additional risk-based work.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach	
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>	
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>	
Reporting	<p>We have identified a specific risk for the Authority's VFM conclusion relating to the Authority's financial standing in the medium term. We will update our assessment throughout the year should any further issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>	
Area	Risk	Audit work
Medium term financial standing	<p>The Authority estimates that it will need to deliver £75m in savings during the three years 2015/18 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.</p>	<p>Our VFM work will focus on how the Authority is planning and managing its savings plans, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively.</p>

Your audit team has been drawn from our specialist public sector assurance department. There have been two changes to the audit team for Tower Hamlets from last year. Hannah Collins is the Assistant Manager for the Authority and Hashem Alawi is the assistant manager for the Pension Fund.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Andrew Sayers
Partner

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee; Chief Executive; and Corporate Directors.”



Antony Smith
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Andrew to ensure we add value. I will liaise with the Acting Corporate Director, Resources; and the Chief Accountant and Head of Internal Audit.”



Hannah Collins
Assistant Manager

“I will be responsible for the on-site delivery of our work on the Authority’s financial statements. I will liaise with the Finance Team. I will also supervise the work of our audit assistants.”



Hashem Alawi
Assistant Manager

“I will be responsible for the on-site delivery of our work on the Pension Fund. I will liaise with the Pensions Team. I will also supervise the work of our audit assistants.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and in a timely manner.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Pension Fund Annual Report	<ul style="list-style-type: none"> ■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts. 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

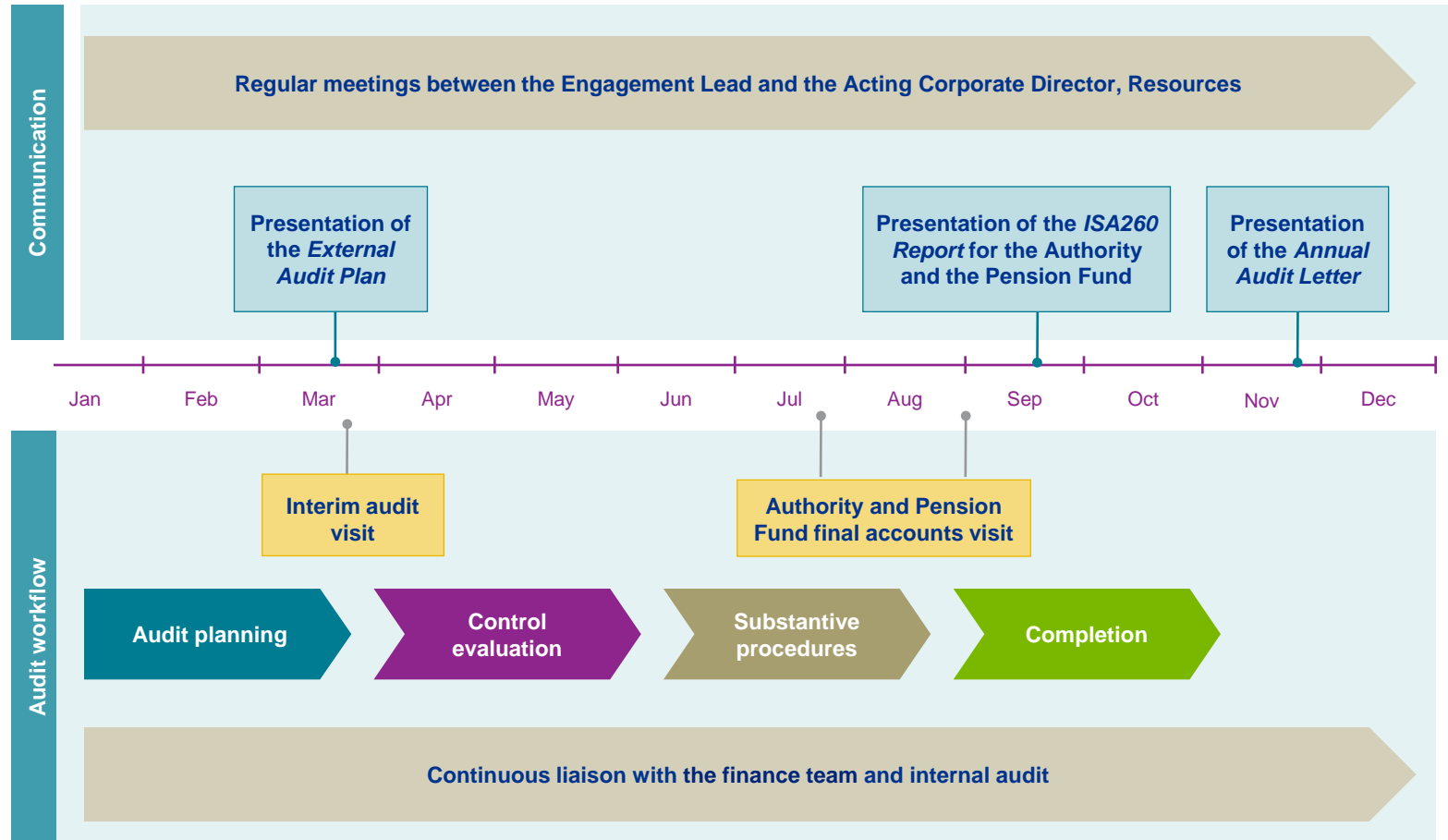
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be out:

- Interim audit visit during March.
- Final accounts audit during July and August for both the Authority and the Pension Fund.



Key: ● Audit Committee meetings.

The main fee for the 2013/14 audit of the Authority is £277,290. The fee for our audit of the Pension Fund is £21,000.

Additional fees are estimated of £14,340 to cover enquiries from Members since our *Audit Fee Letter 2013/14* issued in April 2013. These additional fees may vary depending upon the extent of work required to be undertaken.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. As set out on page 3 we have increased this to deal with the enquiries we have received.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Main audit fee	£277,290	£277,290
Fee for enquiries (2013/14 estimated)	£14,340	£11,805
Pension Fund audit fee	£21,000	£21,000

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - prompt responses will be provided to queries and draft reports;

- requested information will be provided within the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work, in excess of that already planned, will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998. In this regard we note there are a number of outstanding enquiries.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Acting Corporate Director, Resources.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Andrew Sayers as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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Certification of grants and returns 2012/13

London Borough of Tower Hamlets

February 2014

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Agenda Item 3.2



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■ Headlines	2
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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, who is the engagement leader to the Authority (telephone 0207 694 8981, e-mail andrew.sayers@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8300.

<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – 3 grants with a total value of £295m; and – 2 returns with a total value of £343m. 	<p>-</p>
<p>Certification results</p>	<p>We issued unqualified certificates for three grants and returns, but qualifications were necessary for the benefits claim.</p> <ul style="list-style-type: none"> ■ There were three qualification points identified as part of certifying the Housing and Council Tax Benefits claim. Two related to errors in the sample testing completed and there were minor differences in reconciliations between the claim and the system. We also included the results of our work that the Department for Work and Pensions (DWP) required in relation to Council Tax Single Persons Discount qualifications made by the Council's previous auditor when certifying the 2009/10 and 2010/11 claims. 	<p>Pages 3 – 4</p>
<p>Audit adjustments</p>	<p>No adjustments were necessary to the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ There were two amendments totalling £1.9m made last year. 	<p>Pages 3 – 4</p>
<p>The Council's arrangements</p>	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work.</p> <ul style="list-style-type: none"> ■ The two recommendations we made in 2011/12 have been addressed in 2012/13 and we have not made any new recommendations this year. 	<p>Pages 3 – 5</p>
<p>Fees</p>	<p>Our overall fee for the certification of grants and returns was £44,356. The key reasons for the fee being less than the £69,206 charged in 2011/12 are:</p> <ul style="list-style-type: none"> ■ A change in the Audit Commission's fee regime for certifying grants and returns which has set an indicative fee for the Council at a lower rate than in earlier years; ■ We were able to limit our testing to part A for the NNDR return; and ■ We completed less additional testing on the Housing and Council Tax Benefits scheme. 	<p>Page 5</p>

Overall, we certified 5 grants and returns:

- 4 were unqualified with no amendment; and
- 1 required a qualification to our audit certificate.

Detailed comments are provided overleaf.

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Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and Council Tax Benefits Claim	1				
Pooling of housing capital receipts claim					
National Non-Domestic Rates Return					
Teachers' Pensions Return					
Single Programme regeneration scheme – High Street 2012					
		1	0	0	4

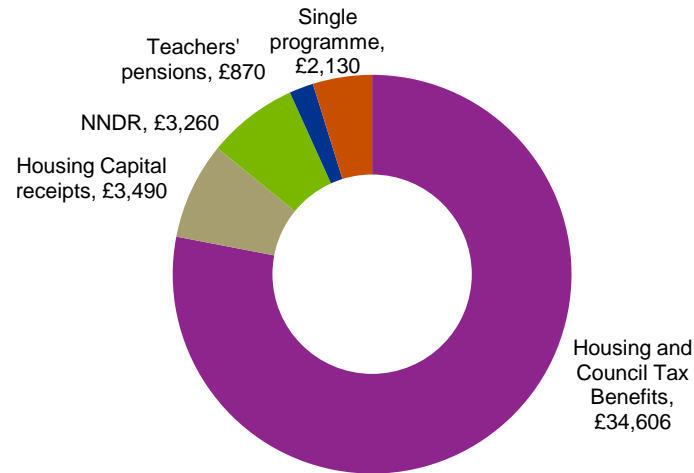
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Housing and Council Tax Benefits Claim</p> <ul style="list-style-type: none"> ■ There were three qualification points identified as part of certifying the Housing and Council Tax Benefits claim. These are summarised below, but the extent and impact of the qualification was significantly less than previous years: <ul style="list-style-type: none"> ■ For non HRA claims there was an underpayment to a benefit claimant due to applying the child maintenance disregard incorrectly. There is no reduction in subsidy payable to the Council as a result of the error. ■ For HRA claims two cases were identified with errors as a result of miscalculating the claimant's weekly income. One resulted in an over payment and one an underpayment. The underpayment has no impact on the subsidy payable to the Council. However, the overpayment could potentially affect the subsidy payable, but this is a decision for the DWP. We have calculated the potential impact as being £9,000. ■ There were very minor differences in reconciliations between the claim and the benefit system (the largest difference was £4). ■ We also included the results of our work that the DWP required in relation to Council Tax Single Persons Discount qualifications made by the Council's previous auditor when certifying the 2009/10 and 2010/11 claims. The Council had assessed all of the cases affected by this issue and included the impact in the 2012/13 claim as prior year overpayments. Our testing confirmed the results of the Council's work. 	NIL

Our overall fee for the certification of grants and returns is less than the initial indicative fee set by the Audit Commission. It is also significantly less than the 2011/12 fee that was charged.

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Breakdown of certification fees 2012/13



Breakdown of fee by grant/return

	2012/13 (£)	2011/12 (£)
Housing and Council Tax Benefits	34,606	48,977
Pooling of housing capital receipts	3,490	1,515
HRA subsidy	No claim	3,759
NNDR	3,260	6,350
Teachers' Pensions	870	1,189
Single Programme – High Street 2012	2,130	4,296
Management and reporting	0	3,120
Total fee	44,356	69,206



The Audit Commission's revised approach means there is no longer a separate fee identified for management and reporting eg producing this report.

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £48,150, based on a 40% reduction on the fees for certifying the 2010/11 claims and returns.

The actual fee we charged was lower than the indicative fee. The main reasons for the fee being less than the original estimate were:

- We were able to limit our testing to part A for the NNDR return; and
- We completed less additional testing on the Housing and Council Tax Benefits scheme.

We made 2 recommendations in our 2011/12 Certification of Grants and Returns report. We have detailed their current status below.

Prior year recommendation	Priority	Status as at December 2013
Housing and Council Tax Benefit Claim – Single Persons Discount		
1 Complete the review of 2009/10 and 2010/11 Council Tax benefit cases to identify instances where single persons' discount should have been applied. Make the results of the review available for our review.		The Council completed this work and included the impact in the 2012/13 claim as prior year overpayments where appropriate. The results were reviewed and tested by us and we were able to confirm the Council's findings. We included the results of our testing in this year's qualification letter for the Housing and Council Tax Benefits Claim.
Overall Control Environment		
2 Strengthen the overall control environment for smaller grant claims and returns.		We did not identify any issues concerning the compilation of the smaller claims and returns certified in 2012/13.



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Agenda Item 4.1

REPORT TO: Audit Committee	DATE 18 March 2014	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director, Resources		Quarterly Assurance Report	
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2013 to February 2014.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

3. Background

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

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

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

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

4. Overall Audit Opinion

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

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in December 2013, eighteen final reports have been issued. The findings of these audits are presented as follows:

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

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

Appendix 2 provides a brief summary of each audit.

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

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

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

- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	6	2	-	8
	Moderate	-	8	2	-	10
	Low	-	-	-	-	-
Total Numbers		-	14	4	-	18
Total %		-	78%	22%	-	100%

- 5.4. From the table above it can be seen that of the eighteen finalised audits which focused on high risk or high value areas; six were assigned Substantial Assurance and two were assigned Limited assurance. A further ten audits were of moderate significance and of these eight were assigned Substantial Assurance and two were assigned Limited Assurance.
- 5.5. Overall, 78% of audits resulted in an adequate assurance (substantial or full). The remaining 22% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

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

Performance measure	Target	Actual
Percentage of Audit Plan completed up to January 2014	80%	74%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	33% 1 out of 3
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	78% 18 out of 23

The table above shows that the proportion of internal audit work completed to January 2014 is below target. This is due to some audits scheduled for the first three quarters being postponed to the fourth quarter of the financial year following management requests. Revised quarterly plans have now been put in place so that audits are completed to draft report by the time of the next audit committee. To facilitate this, all audits have been scheduled in and opening meetings and terms agreed with Service Heads for all outstanding audits.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 33%, whereas the percentage of priority 2 recommendations was 78%. Details of all priority 1 and 2 recommendations not implemented are set out in Appendix 3. Further to the usual actions, meetings are being convened with key officers to seek assurances that agreed recommendations will be implemented promptly.

7. Comments of the Chief Financial Officer

- 7.1 This is a quarterly noting report and thus there are no specific financial implications arising from the contents of this report.

8. Legal Comments

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

9. One Tower Hamlets Considerations

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

10. Anti-Poverty Considerations

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

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APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Education, Social Care and Wellbeing	Assessment and Commissioning of Placements for SEN Children and Young Persons
	Extensive	Communities, Localities and Culture	Management and Control of Markets
	Moderate	Communities, Localities and Culture	Management and Control of Trading Standards Evidence Stores Follow Up
	Moderate	Tower Hamlets Homes	Aids and Adaptations
SUBSTANTIAL			
	Extensive	Communities, Localities and Culture	Health and Safety Follow Up
	Extensive	Assistant Chief Executive	Management and Control of Freedom of Information Act (FOI) Requests
	Extensive	Education, Social Care and Wellbeing	Quality Assurance on Child Protection Services - Follow Up
	Extensive	Education, Social Care and Wellbeing	End of Year Reconciliation of School Accounts
	Extensive	Development and Renewal	Management & Control of Lettings and Nomination Rights Follow Up

Assurance level	Significance	Directorate	Audit title
	Extensive	Development and Renewal	Housing Revenue Account and Medium Term Financial Plan
	Moderate	Education, Social Care and Well Being	Occupational Therapy Follow Up Audit
	Moderate	Education, Social Care and Wellbeing	Lansbury Lawrence Primary School
	Moderate	Education, Social Care and Wellbeing	St Matthias Primary School
	Moderate	Education, Social Care and Wellbeing	Cayley Primary School
	Moderate	Education, Social Care and Wellbeing	Lawdale Junior School
	Moderate	Education, Social Care and Wellbeing	John Scurr Primary School
	Moderate	Communities, Localities and Culture	Equality Impact Assessments
	Moderate	Resources	Mayors' Education Award

Summary of Audits Undertaken - Limited Assurance

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Assessment and Commissioning of Placements for SEN Children and Young Persons Systems Audit	Jan. 2014	<p>This audit sought to provide assurance over the soundness of controls in place for assessing and commissioning of placements for SEN children.</p> <p>Our testing showed that improvements were needed in governance and day to day administration and management. We recommended that the governance arrangements should be reviewed to ensure that all parties contribute to placements where pupils and young people have a significant and complex set of needs. The Joint Commissioning Panel (JCP) required an appropriate authority to operate as a partnership and secure approval to continue as a partnership, with the authority to commit expenditure set down for SEN, Social Care and NHS & Children’s Mental Health Services.</p> <p>We also found that the JCP was not featured in the strategic plans of Children’s Social Care and Special Educational Needs services on whose behalf it is expected to deliver the commissioning function. Management needed to secure a commitment from NHS & Mental Health Trust Directors to ensure that the placements are funded by them as necessary. We noted that there were delays in decision making by individual social workers by not providing feedback to panels and not attending meetings as required and there was no system to escalate these issues to Social Workers’ managers and higher level.</p> <p>With respect to financial control, the requisition to order system needed to have a clearer audit trail as the process begins outside of the accounts payable system. Due to the nature of specialist placements and risks, the JCP needed authority to be exempt from complying with corporate procurement and financial procedures. We recommended controls are strengthened to ensure each child’s placements was supported by a written contract by carrying out a complete review to secure such written contracts to protect Council’s interests. We also noted that there were no performance indicators to measure the JCP’s effectiveness.</p> <p>All findings and recommendations were agreed with the Service Head – Achievement and Learning and final report was issued to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

Management Comments

The governance arrangements are under review to ensure that all parties contribute to placements where pupils and young people have a significant and complex set of needs. The Joint Commissioning Panel (JCP) is requesting the authority to operate as a partnership and secure approval to continue as a partnership, with the authority to commit expenditure set down for SEN, Social Care and NHS & Children's Mental Health Services.

The JCP will feature in the future strategic plans of Children's Social Care and Special Educational Needs services on whose behalf it is expected to deliver the commissioning function. JCP is in the process of securing a commitment from NHS & Mental Health Trust Directors to ensure that the placements are funded by them as necessary. Systems have been changed to address concerns in delays in decision making by individual social workers by not providing feedback to panels or not attending meetings as required. There are now systems which escalate these issues to Social Workers' managers and higher level.

The requisition to order system now has a clearer audit trail as the process begins outside of the accounts payable system. Due to the nature of specialist placements and risks, the JCP needs authority to be exempt from complying with corporate procurement and financial procedures. This will be requested as part of the review of the governance arrangements. There are plans to ensure that each child's placement is supported by a written contract. Performance indicators to measure the JCP's effectiveness will also be part of the review of JCP processes.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Markets	Nov 2013	<p>The main objectives of the audit were to provide assurance to management over the systems and controls for managing the markets service.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> • Traders with arrears are only followed up when Market Panels are held (historically bi-annually). We noted that only one Market Panel meeting had been held in the previous 12 months. Presently no members of staff in the Markets Service have access to the Council's debtors system. Therefore Market Services staff are unable to monitor payments and arrears. • All nine traders who received warnings for outstanding arrears had been invited to the June 2012 panel hearing. Since the June 2012 had been cancelled, no further action had been taken for these traders. From our examination of outstanding amounts at June 2012 and at the time of audit (October 2012), we found that in eight out of nine instances, the arrears amount had increased as a result of trader not having paid further invoices received since June 2012. • Market Services carry out ad-hoc investigations on reported sub-letting by other traders. However, as the service does not have the staffing resources to gather sufficient evidence, it cannot press for legal proceedings. Market Services also does not carry out pro-active work to identify instances of sub-letting. It is acknowledged by Market Services that levels of sub-letting activity are high in certain markets, with the Markets Licensing Manager estimating levels of up to 70% at some markets. • No checks are performed to ensure permanent traders have renewed public liability insurance on an annual basis. Furthermore permanent traders are not required to present evidence of a valid public liability insurance certificate to market officers. <p>All findings and recommendations were agreed with the Service Head – Safer Communities and final report was sent to the Corporate Director – Communities, Localities and Culture and Head of Paid Services.</p>	Extensive	Limited

Management Comments

Since the audit, a number of steps have been taken to strengthen the governance arrangements within Markets. An action plan listing all activities that need to be completed, with appropriate timescales has been put in place and subject to regular monitoring. Specifically, the following actions have been completed or are in progress: -

- Markets admin staff can now access Agresso to facilitate the raising, monitoring and collection of income due from traders. Admin staff plan to carry out a monthly reconciliation of expected and actual invoices but this is not possible as a report detailing traders invoices raised is required. The Agresso team has been asked to devise such a report.
- Markets admin procedures have been reviewed and updated.
- Three part time Theos have been recruited recently to gather evidence around sub-letting and to take appropriate action.
- Letters have been despatched to all licensees advising to register all assistants working in the Market.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Trading Standards Evidence Stores Follow Up Audit	Jan. 2014	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in April 2013. The objective of the audit was to assess the progress made in implementing the agreed recommendations.</p> <p>Our testing showed that out of three high priority recommendations made, one had been implemented. Security arrangements at the property stores had been improved through the implementation of CCTV at the sites.</p> <p>However, although attempts were made to implement a new system to record and control evidence stores, this has not been successful as the new system cannot assure accurate or reliable information on the stock control. Management are currently in the process of discussions in implementing an Evidence Control System which solves these issues. Therefore, the overall control environment has not improved and systems for stock control and monitoring is not as effective as it should be.</p> <p>All findings and recommendations were agreed with the Service Head – Safer Communities, and final report was issued to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Moderate	Limited

Management Comments

The Service has investigated bespoke software packages such as Crimson and Crime Manager but these were not suitable for our needs. We instigated a process using our current CivicaApp software, but on testing by Service this was not as robust as we felt was necessary.

Scoping with other Local Authorities has taken place and a bespoke system will be developed and implemented via IT support to interface with our current IT systems. A budget of £3000 has been allocated.

A temporary written procedure has been put into place to mitigate against any risks.

It is anticipated that the procedure will be implemented by July.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Aids and Adaptations	Jan 2014	<p>The main objectives of the audit were to provide assurance to management over the systems and controls for managing the Aids and Adaptations service within Tower Hamlets Homes and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> • Management has not specified the proportion of aids and adaptations works that should be subject to an inspection upon completion. In addition, THH does not report the outcomes of the inspections it undertakes to the Council. From sample testing of 20 cases, review found six cases (works above £1k) where no records of inspections being undertaken had been retained. • The Council has established a set of business critical indicators to measure THH's performance. However, there is no evidence that indicators relevant to the performance of the aids and adaptations service, e.g. timeliness of completing works and percentage of post-works inspections undertaken, etc. have been developed and are included in any management reports either internally within THH, or to the Council. • The preferred supplier of general maintenance and repairs works in respect of void properties is Mears Limited, the preferred supplier for installing door entry systems is Openview Limited, and for the installation of lifts, ceiling track hoists, step lifts, etc. is Precision Limited. There is a signed contractual agreement in place with Mears Limited, but there is no signed contract in place with Openview Limited or with Precision Limited • Management has not specified the timescales for THH to complete adaptation works. From our audit testing, we noted that more than 56 days (eight weeks) had elapsed from the date that THH received the Occupation Therapist's referral to the date of completion for 13 out of the 20 aids and adaptation works in our sample. <p>All findings and recommendations were agreed with the Director of Finance and Customer Services, and reported to the Chief Executive and Director of Investment.</p>	Moderate	Limited

Management Comments

THH Property Services have initiated Client post-works inspections for 10% Major Works adaptations (all works over £1000) – active from mid-October 2013.

Monthly reporting will be established, in line with programme management meetings, which will provide a basis for contractor performance management – from February 2014. THH Property Services to implement KPIs for contractor performance, deriving from the agreed general build contract established with contractor Mears – February 2014.

THH Property Services will initiate use of Comino workflow management for Aids & Adaptations, which allows monitoring and reporting of cases progressing through pre-works.

THH Property Services will engage with LBTH Legal Services to expedite signing of contracts with Openview and Precision Ltd.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Health and Safety</p> <p>Follow Up Audit</p>	<p>Feb 2014</p>	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in October 2012. The objective of the audit was to assess the progress made in implementing the agreed recommendations.</p> <p>From our review we are satisfied that all 4 recommendations made have been implemented and that the risk and control environment within this area has been strengthened.</p> <p>Our review has shown that both the Corporate Health and Safety (H&S) Policy and Directorate level H&S had been updated and signed off. We also found that Corporate Health & Safety had updated the risk assessment policy and guidance for officers. These documents are held on the council's intranet. A number of risk assessment audits have been undertaken by Corporate Health & Safety with the outcomes being reported to the Corporate Management Team. In addition, a Corporate Health and Safety Annual review report was produced for the Corporate Management Team and that quarterly audit registers were produced and circulated to Corporate Directors and Health and Safety Champions</p> <p>This is however an area that requires constant review and monitoring as without such review, compliance with Health & Safety practices and procedures may diminish.</p> <p>All findings were agreed with the Service Head – Safer Communities and final report was issued to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Freedom of Information Act (FOI) Requests Systems Audit	Feb 2014	<p>This audit was designed to provide assurance that there were adequate systems in place for management and administration of requests for information made by public so that the Council complies with the requirements of the FOI Act.</p> <p>Our review showed that revised procedures in respect of control and administration of FOI's were introduced for all Directorates to follow in April 2013. This change afforded greater control and accountability over the administration and issuing of FOI's than before, whereby responses would be collated and issued centrally by Officers within the Complaints and Information Group.</p> <p>A database known as AXLR8 is used to record FOI requests and responses are uploaded to the disclosure log on the Council's main Internet site. However, there was no process in place to ensure that records of information held on the internet were accurate, up to date and complete. Our initial testing showed that the disclosure logs did not always get uploaded to include the response to the FOI.</p> <p>We noted that the AXLR8 system is in the process of being replaced as Officers have informed audit that the system lacks in operational functionality and consequently information is stored within various other IT systems in order to preserve the audit trail and produce management reports. This weakness required further work to be undertaken both by audit and Information Governance Officers to demonstrate a secure audit trail. We tested a random sample of 28 FOI requests processed during the period September 2012 to August 2013 and found some issues regarding the quality of audit trail which we brought to the attention of the Complaints & Information Manager for further investigation.</p> <p>All findings and recommendations were agreed with the Head of Legal Services (Community) and final report was issued to the Monitoring Officer and to Head of Paid Services.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
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<p>Quality Assurance on Child Protection Services</p> <p>Follow Up Audit</p>	<p>Jan 2014</p>	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in October 2012. The objective of the audit was to assess the progress made in implementing the agreed recommendations</p> <p>Our testing showed that out of six priority 2 recommendations, all have been progressed to some degree, but three needed to be progressed further and there were still improvements to be made.</p> <p>Our testing showed that the Quality Assurance Framework page under the Children's Social Care pages of the Intranet was significantly out of date. A revised Quality Assurance Framework was proposed and this needed to be approved and adopted.</p> <p>An alert system for documenting concerns about care planning and practices was developed, and approved by the LSCB in April 2013 to be used across all statutory agencies. However, in order to provide complete audit trail, concerns about case planning or practice arising at child protection conferences or child in need reviews needed to be recorded in writing so that social workers and managers had written record and confirmation of performance/quality issues raised.</p> <p>We also noted that Performance Surgery meetings were held to monitor reviews of children on CP Plan for long time, but the minutes of these meetings were brief and did not show any follow up on the actions agreed in the previous meetings.</p> <p>All findings and recommendations were agreed with the Interim Service Head, Children's Social Care and final report was issued to the Corporate Director – Education, Social Care and Wellbeing.</p>	<p>Extensive</p>	<p>Substantial</p>
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
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End of Year Reconciliation of School Accounts	Feb 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the end of year reconciliation of school accounts. In addition, the audit set out to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The two weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> • For the 20 schools selected for testing, we confirmed that the reconciliation of year-end bank balance to carry forward balance was undertaken appropriately and reconciliation statements were issued to the 20 schools. However, 18 schools did not return a signed agreement of the end of year reconciliation statement back to the Children's Services Finance Team confirming the carry forward figure. • From our testing of 20 schools, we confirmed that in 17 cases the schools had submitted their returns on time prior to 26th April 2013. The three exceptions included Lansbury Lawrence Primary School, where there was no receipt date stamp and thus we could not confirm if submitted on time. For Sir John Cass Foundation and Redcoat School the stamp stated that the return was submitted on 16th March 2013 (which is before the end of year closure 31st March). We were informed this was an error with the stamped date. For Marion Richardson Primary School the return was submitted late on 30th April 2013. <p>All findings and recommendations were agreed with the School's Finance Manager and reported to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control Lettings and Nomination Rights</p> <p>Follow Up Audit</p>	Dec. 2013	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in January 2013. The objective of the audit was to assess the progress made in implementing the agreed recommendations.</p> <p>Our testing showed that out of three priority 2 recommendations followed up, two have been progressed and one was not. The Common Housing Register Partnering Agreement was reviewed in February 2013, but still not signed off due to the Agreement being subject to review by Legal Services.</p> <p>Due to priority being given to implement the new Allocations IT system, the recommended system to carry out review notices to all applicants in priority band 2 and above on the housing waiting list at least every 24 months, was delayed.</p> <p>All findings and recommendations were agreed with the Service Head – Housing Options and final report issued to the Corporate Director – Development and Renewal.</p> <p>All findings and recommendations were agreed with the Service Head, Housing Options and reported to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Revenue Account and Medium Term Financial Plan	Feb 2014	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Housing Revenue Account (HRA) and Medium Term Financial Plan (MTFP) 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 Development and Renewal Finance Team uses a standard financial model obtained from the Chartered Institute of Housing for business planning purposes. The Cabinet approves an annual HRA Budget Report which refers to key risks and incorporates a MTFP. Tower Hamlets Homes (THH) has a range of 'Business Critical Performance Indicators'. Performance information is regularly reviewed by the THH Board and also by a Performance Sub-Group attended by THH and Council staff.</p> <p>The main weakness was as follows:-</p> <ul style="list-style-type: none"> • It was established that an annual HRA Budget Report containing a three-year MTFP is approved by the Cabinet. The HRA financial model provides information to support a business plan for a 30-year period. However, there is currently no written long-term business plan for the period covered by the financial model. <p>All findings and recommendations were agreed with the Finance Manager, Development and Renewal and the Acting Service Head, Resource Development and Renewal, and reported to the Acting Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Occupation Therapy Follow Up Audit	Jan. 2014	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in October 2012. The objective of the audit was to assess the progress made in implementing the agreed recommendations</p> <p>Our testing showed that out of three recommendations made, one had been implemented and two had been substantially progressed.</p> <p>Our testing showed that Policies and Procedures documentation had been reviewed and updated. The focus should now be on compliance and monitoring to ensure that procedures are complied with. There was an improvement in the updating of the monitoring tool which was on a spread sheet, however it needed to be ensured that the spread sheets were kept up to date to reflect information recorded on Framework-i, and that cases were progressed in a timely manner. We have also recommended that management should ensure that Procedures for follow-up visits were adhered to, particularly in cases where follow- up visits are mandatory.</p> <p>All findings and recommendations were agreed with Interim Service Head- Adult Social Care and final report was issued to the Corporate Director – Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lansbury Lawrence Primary School	Jan 2014	<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 main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The School Development Plan was found to be discussed regularly within the Governing Body minutes. However, we were unable to verify that the plan had been formally approved in the last 12 months. • Testing of a sample of 10 petty cash claims established a number of exceptions and departures from the documented financial procedures. • A budget monitoring exercise is undertaken on a monthly basis. However, this is not evidenced. • Audit testing identified that two governors had not completed their declaration of business interest forms. • Examination of a sample of 10 transactions noted two instances where a purchase order had not been raised prior to invoice receipt. • Education Personnel Management (EPM) sheets which are used as starter and leaver forms had not been authorised by the Head Teacher. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Matthias Primary School	Jan 2014	<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 and Personnel Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • We were unable to determine when the Finance Policy, Scheme of Delegation, Charging Policy, Grants Policy, and Whistle Blowing Policy were last reviewed and approved by the Governing Body. In addition, the Health and Safety Policy was last reviewed in 2010. • We identified that the meeting of the Governing Body on March 21st 2013, was not quorate. • Budget monitoring reports were not signed by the Head Teacher as evidence of review in all cases. • Testing a sample of 10 petty cash transactions from April to October 2013 identified that in all cases the petty cash vouchers were being authorised by the Office Assistant, whereas the Finance Policy states that petty cash claims should be authorised by the Head Teacher or Deputy Head Teacher. • Through review of loan forms it was observed that there were seven instances in which the loan forms were not authorised by the Head Teacher. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
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Cayley Primary School	Jan 2014	<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 and Staffing Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • At the time of the audit, the school did not have a Building Improvement Plan in place. • Budget monitoring reports are annotated, but are not signed by the Head teacher or Finance Manager. • We were informed that the Finance Manager meets quarterly with the phase leaders to discuss their budgets and material variances, as well as coding issues and reports any findings to the Head Teacher. However, there was no evidence of this process and monthly monitoring reports were not being provided to the budget holders. • A sample of 10 petty cash payments, made since June 2013, was selected for testing. It was found that in three instances, the vouchers did not include details of the amount paid to the claimant. It was also noted that in one instance a receipt had not been obtained from the claimant (1378 refreshments - £15.00). • Income is banked by the Premises Manager on a weekly basis and a sign off sheet records the transfer of money. A review of all sign off sheets from 7 October 2013 to present identified that all sign off sheets were not signed by both members of staff involved in the transfer. • As an inventory check was recently conducted, all items on loan have been recalled and none were on loan during the time of the audit, with the exception of a laptop loaned to a member of staff working on their dissertation. Examination of the loan form identified that the loan was not authorised by an appropriate officer. Discussion with the Head Teacher established that authorisation is given verbally. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
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Lawdale Junior School	Nov 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 and Premises Committee which have overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. The school 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"> • Testing established that budget monitoring reports are not currently prepared for budget holders and that if a budget holder wishes to review the budgetary position, the budget monitoring reports must be requested from the Head Teacher. • Testing a sample of four purchases over £5,000, identified that on two occasions only two quotes were obtained, rather than the three required by the school's Financial Regulations. On one occasion there was only one viable supplier. In the other case, only two viable suppliers could be found. However, waiver forms were not completed in either case. • A reconciliation of the petty cash held on site was undertaken. It was noted that the amount of petty cash held on site regularly exceeded the £100 limit prescribed in the school's Financial Regulations. Examination of the petty cash tracker confirmed that the float is regularly topped up by £150. • Examination of the weekly banking records established that the amount of money held in the safe regularly exceeds the £500 limit stipulated by the school's contents insurance policy. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
John Scurr Primary School	Feb 2014	<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 and General Purposes Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • A random sample of five new starters established the following exceptions: <ul style="list-style-type: none"> proof of identity documents had not been retained in all five instances; in two instances, there was no evidence that the contractual agreement had been signed by the new members of staff, and in one instance, references had not been retained on the relevant personnel file. • There was no evidence within the School Governing Body meeting minutes for the past 12 months to show that the SIP had been formally approved by the full Governing Body. • Examination of a sample of 10 transactions established that in one instance a purchase order had not been raised and in one further instance case the purchase order had not been signed. • Discussion with the ICT consultant established that the automatic prompts for password changes for staff and students have been disabled on the system. • Out of a random selection of five items from the inventory two items could not be physically located. Additionally, from a random selection of five items from around the school, one item could not be traced back to the inventory, as it had been recorded incorrectly. • Petty cash claim forms were not fully completed and certified in all cases. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Equality Impact Assessments	Nov 2013	<p>The main objectives of the audit were to provide assurance to management that systems and controls have been put into place to facilitate the Council meeting the requirements of the Equality Act 2010, to evaluate the utilisation of effective arrangements within directorates to embed due regard to equality of staff and residents within the overall delivery of services and to alert management to any deficiencies in the control procedures.</p> <p>The Council is responsible for providing the public with a summary of its efforts for embedding equalities and increasing community cohesion. It does this primarily through the use of its website, including outlining the legislation it will comply with, how equalities will be delivered, equality impact assessments, single equalities framework and information on the Equality Framework for Local Government.</p> <p>Testing of a sample of key decisions, savings proposals and plans identified that consideration of due regard to equalities issues was evidenced within the appropriate documents, including reports, committee papers and plans themselves.</p> <p>Our review of a recent reorganisation within the Council identified that the impact upon each of the protected characteristics had been fully assessed and documented to evidence the fact that due regard had been given to the equalities issues.</p> <p>The following weakness was identified:-</p> <ul style="list-style-type: none"> • There is currently no process in place for the central monitoring of compliance with evidencing due regard within key decisions, plans, strategies or policies which are not required to be reported at committee level. <p>All findings and recommendations were agreed with the Service Manager – One Tower Hamlets Team, and reported to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mayor's Education Award	Nov 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Mayor's Education Award (MEA) 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"> • Checks undertaken to confirm eligibility of applicants and the staff who performed the check were not always documented in full. • Timescales for the consideration of appeals received from applicants needed to be set out within the MEA policy. • Testing of five showed all five were reviewed and a decision made by the Benefits Claim Manager. We noted procedures referred to an Appeals Panel reviewing appeals. • The AP1 vouchers relating to payments made to a sample of 20 students needed to be filed systematically. • <p>All findings and recommendations were agreed with the Head of Benefits Services, and reported to the Interim Corporate Director of Resources.</p>	Moderate	Substantial

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

Audit Subject	Recommendation	Service Head	Officer Name
Management and Control of Trading Standards Evidence Stores	Management and control of trading standards evidence stores should be reviewed and overhauled.	Andy Bamber	John McCrohan/ David Tolley
Management and Control of Trading Standards Evidence Stores	Management should review the insurance cover for the stores.	Andy Bamber	John McCrohan/ David Tolley

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

Audit Subject	Recommendation	Service Head	Officer Name
Quality Assurance on Child Protection Services	The revised Quality Assurance Framework and procedures should be formally approved and adopted. The Intranet Page should be up dated to set out the revised Quality Assurance Framework in order to provide users access to key documents and information on latest qualitative issues for service	Steve Liddicott	Brian Stone
Quality Assurance on Child Protection Services	It should be ensured that concerns about case planning or practice arising at child protection conferences or child in need reviews are recorded in writing so that social workers and managers have written record and confirmation of performance/quality issues raised. There should be a clear audit trail of the action taken to resolve the issues raised.	Steve Liddicott	Jane Cooke
Quality Assurance on Child Protection Services	It should be ensured that as agreed by the Performance Surgery meeting of 19 th September 2013, a CPP Panel is formed and commences its functions as soon as possible.	Steve Liddicott	Ann Roach
Quality Assurance on Child Protection Services	It should be ensured that minutes of the meeting of the Performance Surgery are clearly detailed with follow up action and clearly recorded.	Steve Liddicott	Eni Olatunde-Shittu
Lettings and Nomination Rights	It should be ensured that a system is put in place to send out review notices to all applicants in priority band 2 applicants and above on the housing waiting list at least every 24 months.	Colin Cormack	Rafiqul Hoque/John Harkin

Agenda Item 4.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	18 March 2014	Unrestricted		
REPORT OF:	Annual Audit Plan for 2014/15			
Corporate Director, Resources	Ward(s) Affected:			
ORIGINATING OFFICER(S):	N/A			
Head of Risk Management and Audit				

1. Introduction

- 1.1 This report presents the proposed Annual Internal Audit Plan for 2014/15. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process.
- 1.2 The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

2. Recommendation

- 2.1 That the Committee endorse the Annual Internal Audit Plan for 2014/15 (Appendix 1).

3. Background / Methodology

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

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

- 3.3 Following this assessment, those systems with the highest score were added to the audit plan based on the resources available. In addition to the above assessment, auditable areas that have a medium or low score, but in order to support the work of external audit or to provide assurance to key officers, also feature in this audit plan. These include areas such as the reviews of key financial systems, governance arrangements, grant audits, cash income and regularity/probity audits.

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Mazars through the L.B of Croydon Framework Agreement.

Audit Resources 2013/14		Days	Days
Mazars	Core Audit	411	
	Computer Audit	100	
			511
In-house	4 auditors @ 195 days pp	780	
	Management	150	930
TOTAL			1,441
PLAN TOTAL			1,441

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's corporate priorities. The proposed plan has been consulted with each Directorate.
- 3.6 In summary, for 2014/15, the Internal Audit Plan comprises of 1,441 days across all directorates. In line with the established protocols, all changes to the agreed 2014/15 plan will be reported to the Corporate Management Team and Audit Committee in December 2014.

	Original plan 2013/14	Revised Plan 2013/14	Audit Plan 2014/15
Corporate systems	60	75	50
Law, Probity and Governance	20	30	30
Education, Social Care and Welfare	290	336	290
Communities, Localities and Culture	105	135	155
Tower Hamlets Homes	135	135	130
Development & Renewal	105	120	150
Resources	300	280	286
Computer audit	90	100	100
Follow-up, management and reactive fraud provision	250	204	250
Total	1,355	1,415	1,441

4. Comments of the Chief Financial Officer

- 4.1 This report presents the proposed Annual Internal Audit Plan for 2014/15 and recommends that the Audit Committee endorse the Plan for 2014/15 as detailed in Appendix 1.

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

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

report is consistent with the Council's obligations and is within the Committee's functions.

6. One Tower Hamlets Considerations

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

7. Anti-Poverty Considerations

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



London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2014/15

Foreword

The role of internal audit is important in supporting Tower Hamlets achieve its goals and outcomes. For internal audit to contribute towards the overall goals, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2014-15 is devised using a risk based methodology, and focuses on areas where the Council needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A significant proportion of the annual plan focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

One change this year is the audit of risk registers maintained at Directorate and Corporate levels within the organisation. The management of strategic risks has never been in sharper focus and the audit plans recognises the need to provide independent assurance on the effectiveness of risk mitigation.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani
Head of Risk Management and Audit

Context

Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

The Role of Internal Audit

The role of Internal Audit is to provide an independent 'assurance' to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation's internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

The 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector defines internal audit as:

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

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

London Borough of Tower Hamlets 2014/15 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	50	5
Director of Law, Probity and Governance	30	6
Education, Social Care & Wellbeing	290	7-9
Communities, Localities & Culture	155	10-11
Tower Hamlets Homes	130	12-13
Development & Renewal	150	14-15
Resources & core financial systems	286	16-18
Information technology audits	100	20
Follow up, management and reactive fraud provision	250	20
Total Provision	1,441	-

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Systems & Council Wide Reviews</u>				
Management and Control of Sickness	This review will examine systems and controls for management, monitoring and reporting of sickness.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Waivers of Financial Regulations	The objective is to provide assurance that there are sound systems and controls for management and monitoring of waivers to Council's financial regulations.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Service Planning	This review will examine systems and procedures for managing and monitoring service planning process by the corporate performance group.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Director of Law, Probity and Governance</u>				
Information Governance Confidentiality Audits	This review will examine systems and controls for confidentiality audits to meet the requirements set in the IG Toolkit.	30	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source Of Audit	Link with Corporate Priorities
<u>Education, Social Care & Wellbeing</u>				
Building Contract Audit	This audit will examine systems and controls for managing and monitoring capital works contracts. A sample of capital projects in progress will be selected for audit testing at pre-contract, currency of contract and post contract stages.	20	Audit Needs Analysis	A Prosperous Community Support lifelong learning opportunities for all
Framework –I	This will be an audit of the controls around ordering, paying and general data quality on Framework-I system for Adults Social Care.	15	Management Request	A Safe and Supportive Community Empower Older and Vulnerable People
Management and Control of Cleaning Contract services	This audit will examine systems and controls for managing the Cleaning contracts operated by the Contract Services team.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Leaving Care services	This audit will assess the effectiveness of controls for managing the Children’s Leaving Care services.	15	Audit Needs Analysis	A Safe and Supportive Community Focus on Early Intervention
Management and Control of Youth Offending Services	The objective of this audit is to examine and evaluate the effectiveness of systems and controls for management of various Youth Offending services.	15	Management Request	A Safe and Supportive Community Focus on Early Intervention

Auditable System	Broad Scope	Audit Days	Source Of Audit	Link with Corporate Priorities
<u>Education, Social Care and Wellbeing</u>				
Monitoring of Adults Social Care contracts with Third Sector Organisations	This will be a review of systems and controls for monitoring Adults Social Care services delivered by voluntary organisations to ensure that the providers deliver these contracts effectively and provide good value for money.	20	Audit Needs Analysis	A Safe and Supportive Community Focus on Early Intervention
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Schools Probity Audits	The objective of this audit is to carry out programmed regularity audit visits to primary, secondary and special schools to ensure that delegated budgets and functions are managed and controlled effectively by schools.	120	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Education, Social Care & Wellbeing</u>				
Management and Control of Adoption services	This audit will examine systems and controls for managing the Adoption services to ensure that key standards, procedures and requirements are complied with.	15	Management Request	A Safe and Supportive Community Focus on Early Intervention
Management and control of petty cash accounts	This audit will carry out compliance testing on management and control of various petty cash accounts operated by the Directorate.	10	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Public Health Contracts	This audit will examine systems and controls for monitoring a sample of Public Health contracts to ensure that the client – side monitoring is sound and effective.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Customer Journey- First Response	This will be a review of the processes for First Response Services to ensure that there are sound systems and controls in place and objectives are achieved.	10	Management Request	A Safe and Supportive Community Focus on Early Intervention

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities & Culture</u>				
Management and Control of Blue Badges	This audit will examine systems and controls for management and administration of Blue Badges issued to eligible residents.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Current Contract Audit	This audit will examine systems and controls for managing and monitoring capital works contracts. A sample of capital projects in progress will be selected for audit testing.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Parking Income	This audit will examine systems and controls for managing and administering on-street parking income, including electronic cashless payments.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and control of Animal Warden service	This audit will assess the effectiveness of controls for managing the Animal Warden Service.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Refuse Collection and Disposal - Contract Management and Monitoring	The objective of this audit is to examine and evaluate the effectiveness of systems and controls for client-side monitoring of the contracts.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities & Culture</u>				
Transport Services	This will be a review of systems and controls within Transport Services Unit to ensure that key service priorities are delivered effectively.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Rechargeable Works	The objective of this audit is to examine systems and controls for managing rechargeable works to ensure that all such works are identified, assessed and income raised and collected for the works carried out.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Poplar Mortuary	This audit will be a regularity audit to provide assurance that key standards, procedures and requirements are being complied with.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Markets – Management of Licence Revocation	This audit will examine systems and controls for management and administration of revocation of traders' licences to ensure that procedures are sound and secure and debt arrears are managed and controlled.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>				
Management and Control of Housing Repairs	This audit will examine the systems and controls for management and monitoring of reactive housing repairs works carried out to tenanted dwellings.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Asbestos	This audit will examine systems and procedures for management of Asbestos to assure management that key standards and procedures are in place.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Financial Systems	This will be an annual review of financial systems.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Contract Audit	This audit will examine systems and controls for managing and monitoring capital work projects. A sample of capital schemes will be selected for audit testing at pre-contract, currency of contract and post-contract stages.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Housing Insurance Claims	This audit will assess the effectiveness of controls for managing the housing insurance claims. This will be consultancy piece of work.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>				
Management and Monitoring of Out of Hours Repairs	This review will examine systems and controls for monitoring Out of Hours Repairs processed by THH, through LBTH via Vangent and by various repairs contractors	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Follow Up Audits	To carry out follow up audits to assess the progress made in implementing previously agreed recommendations.	20		One Tower Hamlets Working efficiently and effectively as One Council
Management Requests	To service management requests for additional audit work.	10		One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development & Renewal</u>				
Management and Control of Community Infrastructure Levy	This audit will examine the systems and controls for management and administration of CIL.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Community Chest programme	This audit will examine systems and controls for managing and monitoring Community Chest grants.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Management and Delivery of Homelessness Strategy	The objective of this audit is to assure management that Homeless Strategy is being delivered effectively to achieve objectives and priorities of the Council.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Contract Audit	This audit will examine systems and controls for managing and monitoring capital work projects. A sample of capital schemes will be selected for audit testing at pre-contract, currency of contract and post-contract stages.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and monitoring of Energy contracts	This audit will assess the effectiveness of controls for managing and monitoring the borough-wide contracts for the supply of gas and electricity.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development & Renewal</u>				
Management and Control of Housing Improvement and Renovation Grants	The objective of this audit is to examine and evaluate the effectiveness of systems and controls in place for awarding, monitoring and paying for improvement and renovation grants.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Tower Hamlets Homes – Client side Monitoring	The objective of this audit is to examine systems and controls for client-side management and monitoring of the Management Agreement with THH to deliver housing services for the Council.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of s.106 non-financial obligations	This audit will review the controls in place for ensuring that s.106 non-financial obligations are managed and controlled to secure their delivery in accordance with the agreements.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Asset Management	This will be a review of systems and controls for management of Council's assets to achieve the key priorities and objectives.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>				
Management of Business Rate Retention Scheme	To provide assurance over the soundness and adequacy of the business rate retention scheme.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Bank Reconciliation	We will examine the arrangements for the bank reconciliation of Council's various bank accounts.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Debtors incl. Recovery and write-offs	To provide assurance to management in preparing the annual statement of accounts and to support the authority's " Managed " audit approach.	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
General Ledger	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Budgetary control	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>				
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Council Tax	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Capital Programme and Accounting	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Pensions	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>				
Housing rents	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Reconciliation of Feeder systems with GL	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Systems Development and Variation Control for Future Sourcing Contract	This audit will review the effectiveness of systems and controls for monitoring ICT systems development work packages referred to Agilisys. We will also review the soundness of systems for controlling and monitoring variations to the contract.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
HR Improvement - Systems development and advice	This audit will be part of the HR systems development review and advice	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Cash and Deposit System	Annual Review of key financial system	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Post completion review of the new Financial Information System	This will be a complete post-implementation review of the new financial information system.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>				
Management of VAT	We will review systems and controls for VAT management.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Revenues, Processing and Reconciliation Functions (ex-Cahiers)	This audit will review the systems and processes for managing and controlling the various functions within the Revenues, Processing and Reconciliation service based at Roman Road.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Savings Programme	Review of systems and controls for managing and monitoring the Council's savings programme.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Information Technology</u>				
ICT Audits	This will be a programme of ICT systems and applications audits.	100	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
<u>Other</u>				
Management Requests	Provision for additional management requests	50		One Tower Hamlets Working efficiently and effectively as One Council
Reactive Fraud	Provision for reactive fraud work	50		One Tower Hamlets Working efficiently and effectively as One Council
Follow Up audits	Provision for undertaking follow up to recommendations raised during 2013/14.	100		One Tower Hamlets Working efficiently and effectively as One Council
Management Time	This is a provision for management time to direct, control and monitor the work of the team.	50		One Tower Hamlets Working efficiently and effectively as One Council

Governance-based Audit Assessment Methodology

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Strategy

Introduction

What is Internal Audit?

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

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

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

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

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

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

Why do we need an Internal Audit Strategy?

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

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

- on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;
- audit of the Authority's risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;
- improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- effective co-operation with external auditors and other review bodies functioning in the Authority;
- Provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

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

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

Strategic Aims

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

- Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;

Appendix 2

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

Internal Audit & Risk Management

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

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

Identifying Audit Coverage

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

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

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

For each auditable system, Internal Audit will classify the systems into one of three risk bands according to the system’s significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority. Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also be included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

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Delivering the Strategy

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

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

Audit Reporting

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

Quality

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

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

The Internal Audit Process

The Pre-Audit Stage

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

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

During the Audit

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

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

Post Audit Stage

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

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

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

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

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

The Monitoring Process

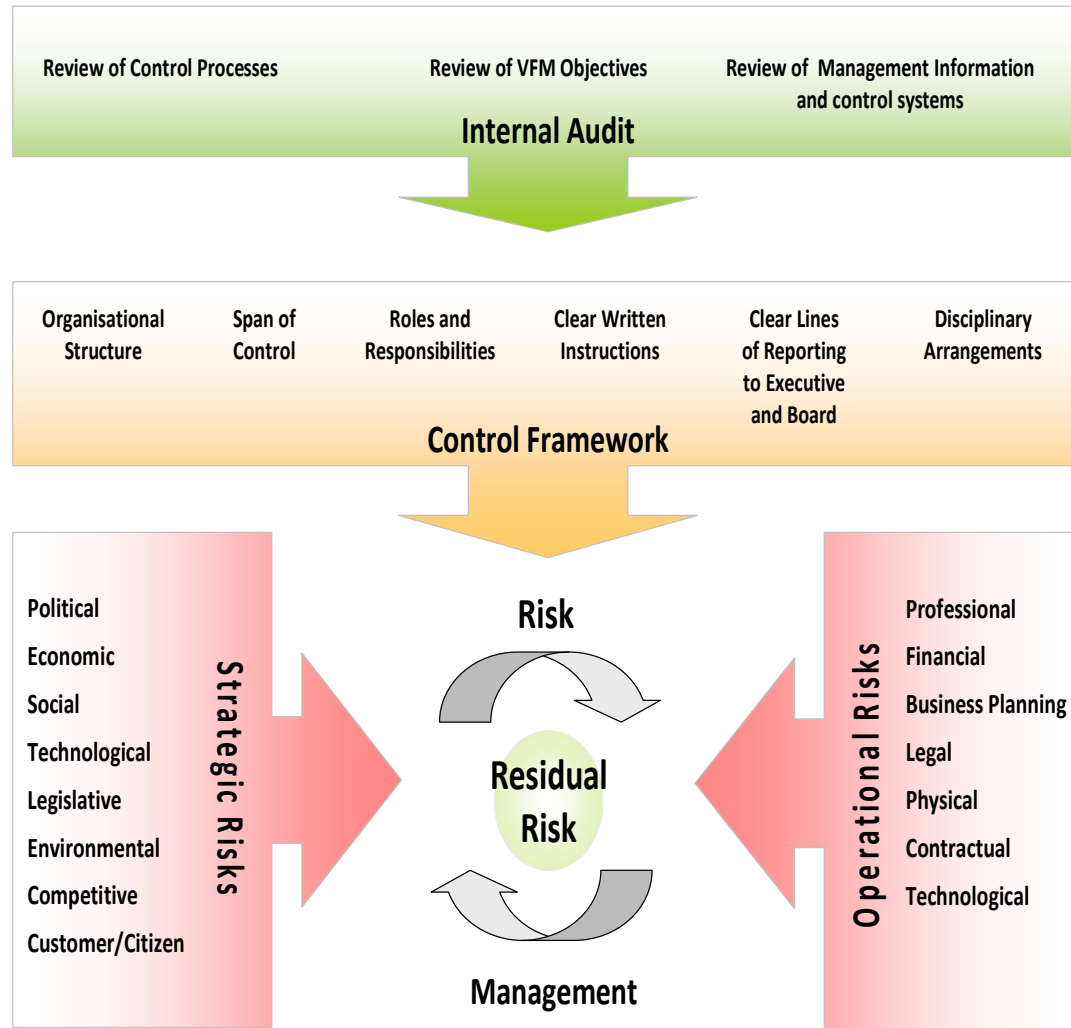
Follow-up audits will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

Internal Audit recommendations are classified as follows:

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

Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

Summary



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

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

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

Appendix 3: Risk Management Framework

Definitions

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

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

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

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

Objectives of Risk Management:

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

These Objectives will be achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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

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

Classification of Risk

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

Agenda Item 4.3

REPORT TO: Audit Committee	DATE 18th March 2014	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director, Resources		Anti-Fraud and Corruption Strategy and Proactive Anti - Fraud Plan 2014-15	
ORIGINATING OFFICER(S): 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 2014-15.

2. RECOMMENDATIONS

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

3. INTRODUCTION

- 3.1 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.
- 3.2 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.

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

Brief description of "background papers"

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

N/A

Tony Qayum, 0207 3644773

4. ANTI FRAUD AND CORRUPTION STRATEGY

4.1 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 1a is the revised strategy that picks up key changes resultant from new legislation and best practice as identified by CIPFA.

4.2 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, which has been issued annually since 2009 and new legislation including the Criminalisation of Social Housing Subletting in October 2013.

4.3 The key tests were:-

4.3.1 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.

4.3.2 Measuring Fraud and Corruption Losses

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

4.3.3 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.

4.3.4 Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action.

4.3.5 Defining Success

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

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

5. ANNUAL CORPORATE ANTI FRAUD PLAN 2014/15

5.1 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.

5.2 The key drivers used to compile the corporate anti- fraud plan for 2014/15 has built on experience and takes account of the: -

- Fraud Risk Register (maintained by the Corporate Fraud Team and responsive to both the organisations changing circumstances, the results of Internal Audit work and the Risk Environment);
- Continued development of a single Corporate Anti-Fraud resource under one managerial structure.
- Management requests and priorities;
- Local Knowledge;
- Joint working arrangements - external (DWP, CCG, 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.
- 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, the National Fraud Authority and publications such as the “The Local Government Fraud Strategy” produced by Fighting Fraud Locally.
- 5.3 Our plan is attached as Appendix 1. 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
 - Continue management of the National Fraud Initiative process for the Authority, ensuring we meet our requirements under the Audit Commissions 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 pro-active Anti-Fraud initiatives that bring together all services within the Council and with the Police, UKBA and CCG 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 produce monthly reports on Governance issues for consideration by the Corporate Director of Resources and Monitoring Officer;
 - 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.

- Further develop mechanisms for categorising and quantifying fraud for more accurate reporting to enable better informed risk assessments

5.4 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.

5.5 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, recovery 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.

- 5.6 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.
- 5.7 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.
- 5.8 The following table shows the Corporate Anti-Fraud Team resources for 2014/15 and the resource required to complete the anti -fraud work in 2014/15.

Reactive resources	Days
Corporate Anti-Fraud Manager	80
Corporate Anti-Fraud Team Leader and support*	360
Allocation from Internal Audit Plan	50
	<u>490</u>
Housing Benefit Fraud Investigation	1,170
3 x Social Housing Fraud Officers	585
2 x Parking Fraud Officers (one term time)	315

- *Recruitment procedure in place to fill one Corporate Fraud Investigator post.

6. Comments of the Chief Financial Officer

- 6.1 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 2014-15.
- 6.2 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 Corporate Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

- 7. Concurrent Report of the Assistant Chief Executive (Legal Services)**
- 8. One Tower Hamlets Considerations**
 - 8.1 This progress update on significant issues arising from the National Fraud Initiative should allow the Audit Committee to focus on management action taken to date to improve risk management and control in order to minimise future risk exposure.
- 9. Anti-Poverty Considerations**
 - 9.1 There are no specific Anti-Poverty issues arising from this report.
- 10. Risk Management Implications**
 - 10.1 This report highlights risks relating to the coverage of Anti-Fraud within the Council and the arrangements to respond to allegations of Fraud and Corruption. It demonstrates how the Council is responding to potential risks to the control framework that may be exploited by fraudsters.
- 11. Sustainable Action for a Greener Environment (SAGE)**
 - 11.1 There are no specific SAGE implications.

Appendix 1

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	15	This will involve close working with a number of our external partners including the Police, DWP and CCG.	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	40	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>55</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 Advisory Committee	10	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	10	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	15	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.
	50						

Activity	No of Days	Broad Scope	Risk Assessment	Scale of Service	Business Risk as %	Source of Risk	Link to Corporate Priorities
<u>NFI 2013/14</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	75	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>100</u>						
<u>Joint working with other agencies</u>							
Joint working and referrals DWP	10	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>15</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, CCG) 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.
	5						
<u>Proactive</u>							
Internal data matching exercises with council services and trial of Fraud Hub with, inter alia, Social Housing providers, Housing benefit and Housing Allocations Development of new areas of investigation including C. Tax reduction scheme, SPD and Student discount reduction awards and NNDR reduction schemes.	100		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	35		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	20	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>155</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	50	See Internal audit plan	H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
Management of Whistle blows	25		H	-	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.
<u>Reactive (audit and anti fraud) total</u>	490						

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>315</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	-	-	Governance arrangements and Ethics	One Tower Hamlets Working efficiently and effectively as one Council.

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ANTI FRAUD AND CORRUPTION STRATEGY

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

INTRODUCTION

The London Borough of Tower Hamlets has a revenue and capital budget of in excess of £1.4 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.

We are committed to making sure that the opportunity for fraud and corruption is reduced 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.

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 council's 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."

BACKGROUND

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.

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.

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.

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

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

THE LEGISLATIVE FRAMEWORK

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.

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.

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

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.

Relevant Legislation

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 Documents Act 2010

Further information on a number of these can be found at Appendix 2.

THE ANTI- FRAUD ENVIRONMENT

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.

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
- Anti-bribery policy

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.

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

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.

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

We will deal with all information fairly and confidentially. We will endeavor not to reveal the names of the people who gave us the information. Our Fraud Response Plan (Appendix 3) gives more advice on this issue.

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.

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.

PREVENTING FRAUD AND CORRUPTION

The diversity and scope of the Council's 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:

Anti -fraud culture

The council believes that the on-going 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.

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.

Internal Controls

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.

Effective Action

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.

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)**.

Publicity

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.

DETECTING, INVESTIGATING AND RECOVERY

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

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.

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 prescribed by CIPFA and in compliance with the Councils Fraud Response Plan and legislative guidance.

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)

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.

Data Matching

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 identify 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

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.

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

Housing and /or Council Tax Benefit Fraud

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

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

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

Other possible fraudulent activity includes 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

Training and Awareness

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.

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
- Multimedia anti-fraud/anti-money laundering training

Conclusion

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.

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 Documents Act 2010

The Identity Documents Act 2010 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 area's 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 Council's 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 criminal offence;**
- a failure to comply with any legal obligation;**
- a miscarriage of justice; and**
- 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 – Corporate Fraud Team leader – Sue Oakley Ext. 7423
- Head Risk Management and Audit - Minesh Jani Ext 0738
- Interim Monitoring Officer - Meic Sullivan-Gould Ext 4800
- Director of Resources – Chris Holme Ext 4700
- Via the Confidential Staff Whistleblowing Hotline on Free phone 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.

Suspicious 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. To protect staff who maybe the subject of a false, malicious and vexatious expression of concern or a mistaken belief, the Council will investigate the complaint in a timely manner and in accordance with the following timescale:

A professional investigator will review and classify the matter within 15 days;

If, following an investigation it is determined that there is a case to answer a decision will be made for an independent confidential investigation to be carried out, under the Council's Disciplinary Code. This will be communicated to the person who is the subject of the complaint in accordance with the Councils existing Disciplinary Investigation procedures as will all timescales outlined in the appropriate HR strategy.

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)
<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.

	<ul style="list-style-type: none"> • 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><u>PLEASE CALL 0800 528 0294</u> if you have any concerns or would like further details of the process.</i></p> <p><i>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 Service, 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. To consider whether it is in the public interest to prosecute then seven (7) questions need to be considered:

- (a) How serious is the offence committed? The more serious the offence, the more likely it is that a prosecution is required. When deciding the level of seriousness of the offence committed, prosecutors should include amongst the factors for consideration the suspect's culpability and the harm to the victim by asking themselves the questions at b) and c).
- (b) What is the level of culpability of the suspect? The greater the suspect's level of culpability, the more likely it is that a prosecution is required. Culpability is likely to be determined by the suspect's level of involvement; the extent to which the offending was premeditated and/or planned; whether they have previous criminal convictions and/or out-of-court disposals and any offending whilst on bail or whilst subject to a court order; whether the offending was or is likely to be continued, repeated or escalated; and the suspect's age or maturity (see paragraph d) below for suspects under 18).
- (c) Prosecutors should also have regard when considering culpability as to whether the suspect is, or was at the time of the offence, suffering from any significant mental or physical ill health as in some circumstances this may mean that it is less likely that a prosecution is required. However, prosecutors will also need to consider how serious the offence was, whether it is likely to be repeated and the need to safeguard the public or those providing care to such persons.

- (d) What are the circumstances of and the harm caused to the victim? The circumstances of the victim are highly relevant. The greater the vulnerability of the victim, the more likely it is that a prosecution is required. This includes where a position of trust or authority exists between the suspect and victim. A prosecution is also more likely if the offence has been committed against a victim who was at the time a person serving the public.
- (e) Prosecutors must also have regard to whether the offence was motivated by any form of discrimination against the victim's ethnic or national origin, gender, disability, age, religion or belief, sexual orientation or gender identity; or the suspect demonstrated hostility towards the victim based on any of those characteristics. The presence of any such motivation or hostility will mean that it is more likely that prosecution is required.
- (f) In deciding whether a prosecution is required in the public interest, prosecutors should take into account the views expressed by the victim about the impact that the offence has had. In appropriate cases, this may also include the views of the victim's family.
- (g) Prosecutors also need to consider if a prosecution is likely to have an adverse effect on the victim's physical or mental health, always bearing in mind the seriousness of the offence. If there is evidence that prosecution is likely to have an adverse impact on the victim's health it may make a prosecution less likely, taking into account the victim's views. However, we do not act for victims or their families in the same way as solicitors act for their clients, and prosecutors must form an overall view of the public interest.
- (h) Was the suspect under the age of 18 at the time of the offence? The criminal justice system treats children and young people differently from adults and significant weight must be attached to the age of the suspect if they are a child or young person under 18. The best interests and welfare of the child or young person must be considered including whether a prosecution is likely to have an adverse impact on his or her future prospects that is disproportionate to the seriousness of the offending. Prosecutors must have regard to the principal aim of the youth justice system which is to prevent offending by children and young people. Prosecutors must also have regard to the obligations arising under the United Nations 1989 Convention on the Rights of the Child.

- (i) As a starting point, the younger the suspect, the less likely it is that a prosecution is required. However, there may be circumstances which mean that notwithstanding the fact that the suspect is under 18, a prosecution is in the public interest. These include where the offence committed is serious, where the suspect's past record suggests that there are no suitable alternatives to prosecution, or where the absence of an admission means that out-of-court disposals which might have addressed the offending behaviour are not available.
- (j) What is the impact on the community? The greater the impact of the offending on the community, the more likely it is that a prosecution is required. In considering this question, prosecutors should have regard to how community is an inclusive term and is not restricted to communities defined by location.
- (k) Is prosecution a proportionate response? Prosecutors should also consider whether prosecution is proportionate to the likely outcome, and in so doing the following may be relevant to the case under consideration.

The cost to the CPS and the wider criminal justice system, especially where it could be regarded as excessive when weighed against any likely penalty. (Prosecutors should not decide the public interest on the basis of this factor alone. It is essential that regard is also given to the public interest factors identified when considering the other questions in paragraphs 4.12 a) to g), but cost is a relevant factor when making an overall assessment of the public interest.)

Cases should be capable of being prosecuted in a way that is consistent with principles of effective case management. For example, in a case involving multiple suspects, prosecution might be reserved for the main participants in order to avoid excessively long and complex proceedings.

- (l) Do sources of information require protecting? In cases where public interest immunity does not apply, special care should be taken when proceeding with a prosecution where details may need to be made public that could harm sources of information, international relations or national security. It is essential that such cases are kept under continuing review.

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](#)

Agenda Item 4.4

REPORT TO: Audit Committee	DATE 18 March 2014	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Acting Corporate Director, Resources		Treasury Management Activity Update Report to 31 January 2014	
ORIGINATING OFFICER(S): Kevin Miles, Chief Accountant		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 January 2014 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director - Resources, the investment strategy for the current financial year and the projected investment returns.
- 1.3 The current average return on investment stands at 0.83%, and is on target to achieve budgeted cash return on assets of £2.545m.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of the treasury management activity report for period ending 31 January 2014.

3 REASONS FOR DECISIONS

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

4 ALTERNATIVE OPTIONS

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

5 BACKGROUND

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

6. TREASURY MANAGEMENT STRATEGY 2013/14

- 6.1 The Treasury Management Strategy was approved on 27 February 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;
- The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April 2013 to 31 January 2014

- 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 31 January 2014.

8 MARKET UPDATE

- 8.1 In the UK, the economy continues to provide evidence that the recovery remains robust at the start of 2014. Although a weakening has been noted in some surveys, the levels are still indicative of a healthy GBP growth, with little concern in the markets. Business and consumer confidence have continued to improve. This is helped by ongoing improvement

in the labour market, falling inflation, and the strengthening housing market. The Bank of England (BOE) has continued to state that it is in no rush to raise interest rates and the fall in inflation should support the view that there is no need to change policy, which could dampen current levels of enthusiasm.

- 8.2 In Europe, the signs of a slight improvement in economic indicators, shows that the economic recovery gained a little momentum at the turn of the year. This was supported by a sharp fall in unemployment. The European Central Bank (ECB) however, remains under intense pressure to offer more policy support to the recovery.
- 8.3 The Federal Reserve policy meeting confirmed market thinking that further tapering of monthly asset purchasing programme would come into effect in February, setting the Central Bank on target to end additional quantitative easing purchases by the end of the third quarter.
- 8.4 As the month ended, there was a sell-off in equity markets and a move to safe haven investments, such as gilts. Concerns about the emerging market economies also saw a massive sell-off in the currencies.
- 8.5 As at the time of writing this report, the crisis in the Ukraine could potentially have a major impact on economic conditions. Officers will keep the situation under review.

9 **CREDIT CRITERIA**

- 9.1 The following credit criteria for investment counterparties were agreed by the Council in February 2013. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating.

Institution	Minimum Credit Criteria	High	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable		In-house	£100m*
Term deposits – Other Local Authorities	Not applicable		In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA		In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating		In-house	£30m
UK Government Gilts	Long Term AAA		In-house	£20m
Institutions with UK Government support.	Sovereign rating		In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating		In-house	Lesser of £70m or 40% of portfolio
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Money Market Funds	AAA rated		In-house	£15m

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

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

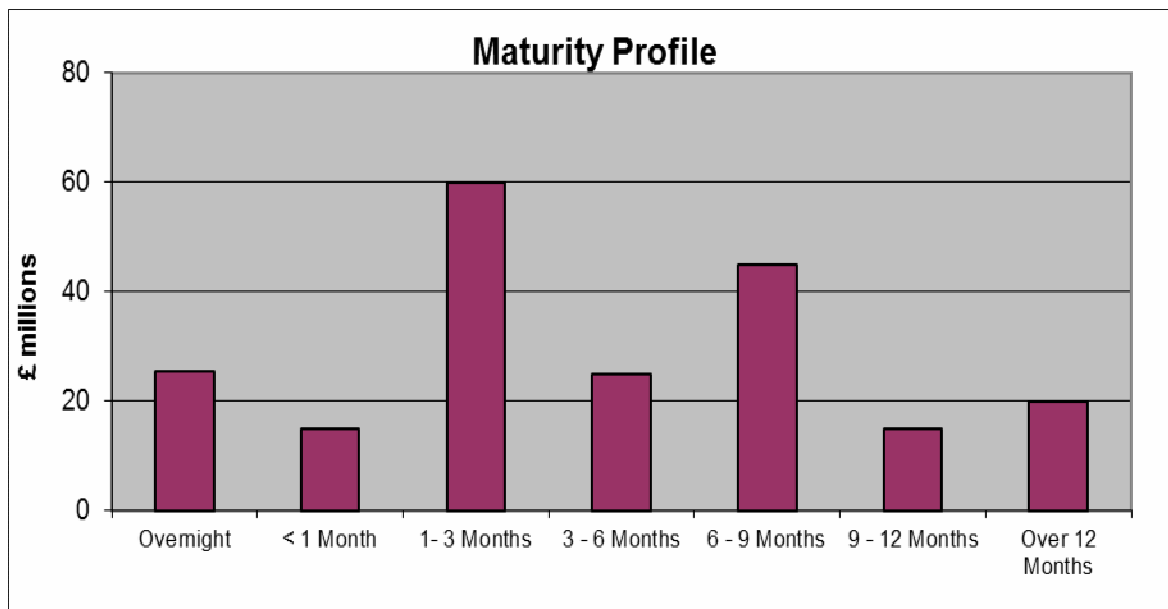
10 INVESTMENT STRATEGY

- 10.1 Capita provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so Capita's role is purely advisory.
- 10.2 In addition to providing cash management services, Capita also provides treasury consultancy/advisory service to the Council.
- 10.3 Capita's current interest rate projections are that base rate will remain static at 0.50% with limited changes in Bank Base Rate before 2015. Although the outlook for interest rate is below expectation, budgeted return on investment is expected to be achieved this financial year due to higher than expected levels of cash balances.
- 10.4 The Council's bankers, the Co-operative Bank Plc. are used as depositors of last resort for investment of additional funds received after treasury transactions have been completed and the money markets have closed.
- 10.5 The current investment portfolio, within the constraints of the Councils credit criteria and liquidity requirement, together with the maturity profile of the portfolio is as set out below.

Investment Portfolio as at 31 January 2014

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Santander		Call	10.00	1.10%
	Svenska Handelsbanken		Call	15.40	0.55%
	SUB TOTAL			25.40	
< 1 Month	OCBC	04/11/2013	04/02/2013	5.00	0.45%
	OCBC	12/08/2013	12/02/2014	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/02/2014	5.00	1.10%
>1 - 3 Months	Lloyds Banking Group	04/03/2013	04/03/2014	5.00	1.10%
	Lloyds Banking Group	04/12/2013	04/03/2014	5.00	0.70%
	Barclays	05/09/2013	05/03/2014	10.00	0.53%
	Lloyds Banking Group	11/04/2013	11/04/2014	5.00	1.10%
	Nationwide Building Society	11/10/2013	11/04/2014	5.00	0.53%
	Lloyds Banking Group	15/04/2013	15/04/2014	5.00	1.10%
	Royal Bank of Scotland	16/04/2013	16/04/2014	5.00	0.73%
	Nationwide Building Society	16/10/2013	16/04/2014	5.00	0.53%
	OCBC	17/10/2013	17/04/2014	10.00	0.45%
	Deutsche Bank	29/10/2013	29/04/2014	5.00	0.50%
>3 - 6 Months	Lloyds Banking Group	04/06/2013	04/06/2014	5.00	1.05%
	Royal Bank of Scotland	12/06/2013	12/06/2014	5.00	0.65%
	Lloyds Banking Group	04/04/2013	04/07/2014	10.00	1.01%
	Lloyds Banking Group	11/10/2013	11/07/2014	5.00	0.83%
>6 - 9 Months	National Australia Bank	18/09/2013	18/09/2014	10.00	0.58%
	National Australia Bank	03/10/2013	03/10/2014	10.00	0.58%
	Lloyds Banking Group	07/10/2013	07/10/2014	5.00	0.98%
	Royal Bank of Scotland	09/10/2013	09/10/2014	10.00	0.59%
	Lloyds Banking Group	29/10/2013	29/10/2014	5.00	0.98%
	Lloyds Banking Group	13/11/2013	13/11/2014	5.00	0.98%
>9 - 12 Months	Lloyds Banking Group	04/12/2013	04/12/2014	5.00	0.98%
	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
> 12 Months	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	28/02/2013	26/02/2016	10.00	1.90% *
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	SUB TOTAL			180.00	
	TOTAL			205.40	

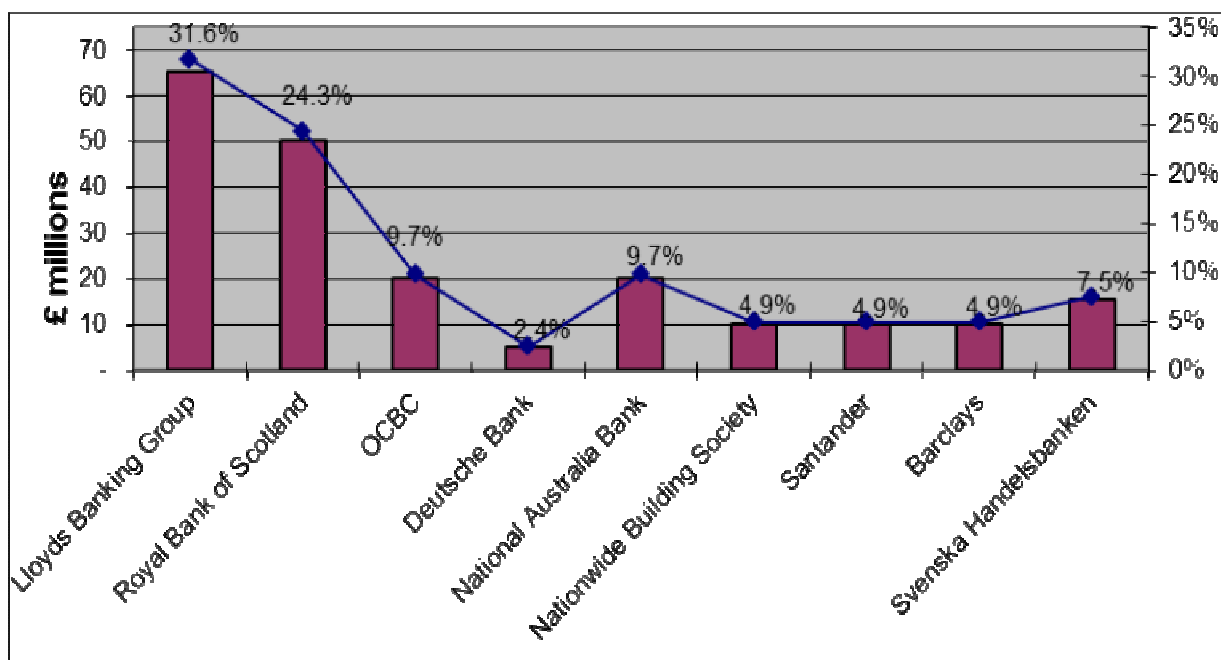
* This is a structured deal, the terms of which could change during its tenor.



10.6 The amount in overnight instruments is money market fund deposits which, though technically classed as overnight investments, are in reality used as longer term investment vehicles. This allows the Council to maintain liquidity whilst still being able to secure reasonable returns on its assets.

10.7 The Council's exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 31 January 2014.

Counterparty Exposure



INVESTMENT RETURNS

- 11.1 Investment returns since inception of the cash management arrangement with Capita has been consistently above the portfolio benchmark and the 7 day London Interbank Bid Rate (LIBID).
- 11.2 Low rates of return on the Money Market Funds (MMFs) and longer term investments (which have now matured and are being replaced with lower rate investments), have resulted in a decline in the rate of return of the fund. Our latest counterparty credit rating list is attached at Appendix 2.
- 11.3 Notwithstanding these constraints, the portfolio has outperformed the 7 day LIBID, which currently stands at an average of 0.36%, by 0.47%.
- 11.4 The budgeted investment return for 2013/14 is £2.545m. It is expected that this target will be achieved. The table below details performance of investments.

Period	LBTH Performance	7 Day LIBID	(Under)/Out Performance
Full Year 2012/13	1.24%	0.64%	0.60%
Quarter 1 2013/14	0.86%	0.36%	0.50%
Quarter 2 2013/14	0.81%	0.36%	0.45%
Quarter 3 2013/14	0.81%	0.35%	0.46%
January 2014	0.83%	0.34%	0.49%
Average for 2013/14	0.83%	0.36%	0.47%

12. DEBT PORTFOLIO

- 12.1 There has been no new borrowing this financial year to date. Current debt portfolio stands at £90.4m.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

14. LEGAL COMMENTS

- 14.1 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.

- 14.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 14.3 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

15. ONE TOWER HAMLETS CONSIDERATIONS

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

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

17. RISK MANAGEMENT IMPLICATIONS

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

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

19. EFFICIENCY STATEMENT

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

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

Brief description of "background papers"

January 2014 Investment Portfolio Analysis Report

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

*Kevin Miles Ext. 6791
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
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

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

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+
Bank of Scotland Plc	A	F1		1	A2	P-1	D+	A	A-1
Barclays Bank	A	F1	A	1	A2	P-1	C-	A	A-1
Citibank International Plc	A	F1		1	A2	P-1	C-	A	A-1
Co-operative Bank plc	B	B	b	5 NP	Caa1				
Credit Suisse	A	F1	a	1	A1	P-1	C-	A	A-1
Goldman Sachs International	A	F1			A2	P-1		A	A-1
HSBC Bank Plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+
Lloyds Bank Plc	A	F1	bbb+	1	A-1	P-1	C-	A	A-1
Merryl Lynch International	A	F1		1				A	A-1
National Westminster Bank	A	F1		1	A3	P-2	D+	A-2	A-
Nationwide Building Society	A	F1	aa-	1	A2	P-1		A	A-1
Royal Bank of Scotland	A	F1	bbb	1	A3	P-2	D+	A-	A2
Santander UK Plc	A	F1	a	1	A2	P-1	C-	A	A-1
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+
UBS Ltd	A	F1		1	A2	P-1			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-	A+	A-1
Commonwealth Bank of Australia	AA-	F1+	a	1	A1	P-1	C-	A	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
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A-1	A
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+
Denmark	AAA	F1+			Aaa	P-1	B	AA-	A-1+
Finland	AAA	F1+	aa-	1	Aaa	P-1	-	AAA	-
Nordea Bank Finland plc	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1		1	Aa3	P-1	C-	AA-	A-1+
Germany	AA-	F1+	aa-	1	Aa3	P-1	C-	AA-	A-1
Banque et Caisse d'Epargne de l'Etat					Aa1	P-1	C	AA+	A-1+
BGL BNP Paribas SA	A+	F1		1	A2	P-1	C	A+	A-1
Deutsche Bank AG	F+	A+	a	1	A1	P-1	C-	A	A-1
DZ Bank AG	A+	F1+		1	A1	P-1	C-	AAA	A-1+
KfW	AAA	F1+		1	Aaa	P-1		AAA	A-1+
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Luxembourg	AAA	-	-	-	Aaa	-	-	AAA	A-1+
Norway	AAA	F1+	-	-	Aaa	-	-	AAA	A-1+
DnB NOR Bank					A1	P-1	C-	A+	A-1
Singapore	AAA	F1+	-	-	Aaa	-	-	AAA	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	F1+	-	-	Aaa	P-1	-	AAA	A-1+
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	F1+	-	-	Aaa	-	-	AAA	A-1+
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1
OTHERS - UK	AA+	F1+		1	Aa1			AAA	A-1+
Debt Management Office									
Local Authorities									
Money Market Funds									

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