

AUDIT COMMITTEE

Tuesday, 16 September 2014 at 7.00 p.m.

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

This meeting is open to the public to attend.

Members:

Chair: Councillor Amina Ali

Vice-Chair: Councillor Ayas Miah

Councillor Ohid Ahmed, Councillor Rachel Blake, Councillor Alibor Choudhury,
Councillor Gulam Robbani and Councillor Andrew Wood

Deputies:

Councillor Craig Aston, Councillor Peter Golds, Councillor Andrew Cregan, Councillor
Julia Dockerill, Councillor Denise Jones and Councillor Candida Ronald

[The quorum for this body is 3 Members]

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APOLOGIES FOR ABSENCE

- 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(S)** **5 - 12**

To confirm the minutes of the Audit Committee held on 30th June 2014.
- 3. KPMG ITEMS FOR CONSIDERATION**
- 3.1 Interim report to those charged with governance (ISA 260) 2013/14** **13 - 36**

To consider the interim governance report issued by the Council's External Auditor.
- 4. TOWER HAMLETS ITEMS FOR CONSIDERATION**
- 4.1 Quarterly Assurance Report** **37 - 70**

To note the work of Internal Audit for the period June 2014 to August 2014, the assurance rating of each audit finalised in the period and an overall assurance rating.
- 4.2 Annual Anti -Fraud Report 2013-14** **71 - 92**

To note an update of the reactive and Anti-Fraud work undertaken during 2013/14 which captures the work of the Corporate Anti – Fraud Team in regard to Corporate Investigations, Housing Benefit Fraud Team Investigations, Social Housing Fraud Investigations and anti- fraud work around Parking Services.
- 4.3 Treasury Management Activity for Period Ending 31 July 2014**

Report to follow.
- 5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

Next Meeting of the Committee:

Tuesday, 16 December 2014 at 7.00 p.m. to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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 5.45 P.M. ON MONDAY, 30 JUNE 2014

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

Members Present:

Councillor Amina Ali (Chair)
Councillor Ohid Ahmed (Cabinet Member for Community Safety)
Councillor Ayas Miah
Councillor Gulam Robbani (Cabinet Member for Education and Children's Services)

Apologies:

Councillor Craig Aston, Councillor Rachel Blake and Councillor Alibor Choudhury

Officers Present:

Robin Beattie – (Service Head, Strategy & Resources, Communities Localities & Culture)
Chris Holme – (Acting Corporate Director - Resources)
Minesh Jani – (Head of Audit and Risk Management , Resources)
Simon Kilbey – (Service Head, Human Resources and Workforce Development)
Bharat Mehta – (Audit Manager)
Kevin Miles – (Chief Accountant, Resources)
Sarah Williams – (Team Leader Social Care, Legal Services, Chief Executive's)
Nishaat Ismail – (Committee Officer, Democratic Services, Directorate Law Probity and Governance)
Antonella Burgio – (Democratic Services)

Others In Attendance:

Daniel Hellary – Mazars
Kevin Jones – Interim Director of Neighbourhood Services, Tower Hamlets Homes

1. ELECTION OF VICE-CHAIR

Councillor Ayas Miah self-nominated that he be appointed Vice Chair of Audit Committee for the duration of the Municipal year and the nomination was seconded by Councillor Amina Ali. There being no other nominations, it was

RESOLVED

That Councillor Ayas Miah be appointed Vice-Chair of Audit Committee for the duration of the municipal year.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made.

3. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes of the Audit Committee held on 18 March 2014 were presented for approval.

RESOLVED

That the minutes of the Audit Committee held on 18 March 2014 be approved as a correct record of proceedings.

4. AUDIT COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS

The clerk presented the annual report which asked Members to note its Terms of Reference, Membership, Quorum and Dates of future meetings and then invited the service Head of Risk Management and Audit to provide a summary of the role of the committee

Members were informed that the Charter for Internal Audit set out the Council's responsibility for internal audit which focussed on: Internal control, Risk management and Governance.

These functions were performed by the Internal Audit Team, and were supplemented, where necessary, by specialised internal audits undertaken by Mazars. The team also delivered a range of regular reports including the audit of key financial systems to provide assurance over the Statement of Accounts, reports of the outcomes of audit work undertaken on behalf of the work of Mazars internal audit work and internal audits of grants.

The Chair enquired and Members agreed that the preferred time of the future of Audit Committees be 7.00PM.

RESOLVED

1. That, Terms of Reference, Membership, Quorum and Dates of future meetings of Audit Committee for the municipal year 2014-15 as set out in Appendices 1, 2 and 3 to the report be noted.
2. That the verbal summary given by the Service Head of Risk Management and Audit be noted.
3. That the preferred time of future audit committee meetings be 7.00PM.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION**5.1 Annual Financial Report 2013/14**

The Acting Corporate Director - Resources presented the Annual Financial Report for 2013/14.

He apologised that, owing to statutory deadlines and the time required to prepare the accounts for external audit, it had been necessary to circulate the Annual Financial Report as a supplementary agenda. He noted there had been change in financial systems whilst preparing the accounts and thanked all officers who had worked to produce the required documents to short deadlines.

He confirmed he had signed off accounts on the 30th June 2014 and these had been passed on to external auditors for external audit review. The accounts were now also available for public inspection and there would be a three month review period where the contents of the accounts could be challenged.

He informed the Committee that Accounts received show Tower Hamlets is in good financial health and had added to reserves of the Housing Revenue Account and the General Fund. This would put the Council in good stead to address the financial challenges anticipated in the next three to four years.

He then offered to provide detailed answers to Members' questions and the following information was provided:

- Councillor Ohid Ahmed noted the increase in reserve funds and supported the prudent approach taken to maximise the use of the council's funds.
- General reserves were presently £64 million and would reduce to £20 million over the medium-term financial strategy which had been agreed at Council.
- Concerning benchmarking of the Council's accounts against other local authorities, members were informed that no comparative local authority data of this kind were kept. However in relation to the comparative financial standing of the Council, Members were advised that Tower Hamlets was an authority that in the past had relied on grant funding and, in the current environment of grant reductions, had good reserve levels relative to other local authorities.

RESOLVED:

That the Annual Financial Report for the financial year ending 31st March 2014 team comprising the explanatory forward and the draft statement of accounts which is subject to audit be noted.

5.2 Internal Audit Annual Report for 2013/14

The Head of Risk Management and Audit presented the report at agenda item 5.2 which summarised the work carried out by Council's auditors during 2013/14.

The report provided:

- A summary of the audit work performed in the year 2013/14
- Together with the Annual Internal Audit Opinion

He also informed the Committee:

- that the internal audit team set out report with recommendations-
- where recommendations had not been implemented these would be raised with the appropriate director and where officers had not implemented recommendations they would be asked to explain why, to the Committee.

The Head of Risk Management and Audit then summarised the recent audit work undertaken informing the committee that a number of limited assurances had been returned. Officers were present to answer questions on the limited assurances returned in four of the audits that had been undertaken.

Procurement below EU threshold: Follow up audit

It was noted that at the time of audit, management had already identified the need to review processes and procedures, a work group set up to ensure standardisation of all documentation and a new procurement system had been implemented.

The Service Head for Strategy and Resources CLC was present to answer the committee's questions. He noted the following:

- Some inconsistency in terminology had made it unclear if the recommendations related to contracts above £50k or to all orders regardless of value.
- Some criticism in the report specific to practice (Level 2 quotations) was not supported by the procedures at the time and, in his view, may have been the result of confusion by the auditor with tender procedures.
- The findings had been based on a sample size of five and was too small to draw reliable strategic conclusions regarding compliance across a large organisation.

He confirmed that the recommendations had been substantially complied with from the follow-up audit and was open to questions from the Committee. The Head of Risk Management and Audit pointed out that CLC had been given the opportunity to raise any concerns before the report was concluded and offered that a fresh review be undertaken to address the sample size issue. The Service Head for Strategy and Resources suggested that before moving to undertake the suggested review audit, the Head of Risk Management and Audit should meet with him to review the current position regarding follow up and collectively agree if any further action is needed.

Controlling and monitoring of disclosure and barring service checks audit

The Head of Risk Management and Audit advised that the audit concerned risks arising to the authority from the transfer of applicants' central records checking systems from Criminal Records Bureau to Disclosure and Barring Service.

A limited assurance had been assigned because although the transition had been good, the process lacked evidence.

The Service Head for HR and Workforce Development was present to answer questions and informed Members of the long and extensive process of going through current posts, to ensure employees do not exceed the three year period.

Looked after children audit

The Service Head of Risk Management and Audit reported that a limited assurance had been assigned as there was insufficient audit evidence of some activities. He noted that no evidence of activity did not imply that the required activity had not been undertaken but solely that it had not been documented.

The Interim Service Head for Children's Social Care was present to answer questions and informed the Committee that there had been work to encourage staff to balance their active work with children, with required administration tasks to ensure that both areas of work were appropriately balanced.

A Member enquired and was informed that, all recommended actions will be in place by September 2014.

Management and control of planned maintenance work

The Head of Risk Management and Audit informed the Committee that a limited assurance had been assigned because of the slippage in the first six month of the programme, which led to concerns that programme management had not been completed.

Additionally:

- More clarity was required concerning value for money (VFM) of the contract
- There was a payment not in the contract

The Interim Director of Neighbourhood Services Tower Hamlets Homes attended to answer questions and informed Members that a revised programme management arrangements had been put in place which would provide more robust measures around contract management.

Right to buy systems audit

The Head of Risk Management and Audit advised that a limited assurance had been returned because of delays in completing sales in this category.

Additionally some right to buy identity checks had not been carried out and control of the valuation of assets was not up to date.

The Interim Director of Neighbourhood Services Tower Hamlets Homes informed Members that:

Internal right to buy procedures had been strengthened to ensure future compliance

There had been some disruption due to changes in right to buy regulations but these were now up to date.

Since the audit, Tower Hamlets Homes RTB Team better shared evaluation data with the Council's asset management team.

RESOLVED

1. That the annual audit report be noted including summary of audits undertaken which have not previously been reported.
2. That the Head of audit opinion be noted and that the internal audit charter be endorsed.

5.3 Annual Governance Statement 2013/14

The Head of Risk Management and Audit presented the Annual Governance Statement, which sets out the framework for reviewing and reporting the Council's system on internal control and governance arrangements.

He reported that no gaps were identified in respect of:

- Establishing principle statutory obligations and organisational objectives
- Principle risks to achieving objectives
- Identifying key controls to manage principle risks.

Having considered process and findings set out in the report members were then invited to approve the draft annual government statement for the financial year.

RESOLVED

That the draft annual government statement for the financial year 2013/14 be approved.

5.4 Risk Management annual Report 2013/4

Noting that there had been error in the order of document publication, the Head of Risk Management and Audit introduced the report printed at page 131 of the agenda advising members that day-to-day management risk lay with officers and managers. However the Council had an overall obligation to identify and mitigate risks which could affect the overall achievement of service objectives.

He stated the Risk Management Team's aims;

- Providing training sessions (last year, all senior managers were required to attend Risk Management training.
- Preparing publications
- E-learning modules are already available

The report states what has been planned for this financial year.

RESOLVED

That the annual risk management report 2013/14, highlighting the effectiveness of the processes deployed to identify and assess priorities and mitigate the risks which could affect the overall achievement of service objectives be noted.

5.5 Treasury Management Activity Update Report For Period Ending 30 April 2014

The Chief Accountant presented the report circulated at agenda item 5.5. He noted the investment levels, interim returns and projected annual returns that had been reported and also informed members of the Council's proposed intention to change the counterparty list. This proposal was to mitigate the effects of the Government's intention to reduce its holdings in government backed banks such as Lloyd's and Royal Bank of Scotland. It was intended therefore to reduce the levels invested with any particular bank.

RESOLVED

1. That the contents of the treasury management activity report for the period ending 30th April 2014 be noted.
2. That the gradual planned changes to Lloyd's Banking Group in order for the Council to be timely in reflecting its appropriate monetary and time limits, once its non part-nationalised status was established and confirmed, be noted.
3. That the revised monetary limits to the Council's counterparty list which is to increase each counterparty and money market funds limit but £5 million be approved.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 6.50 p.m.

Chair, Councillor Amina Ali
Audit Committee

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Interim report to those charged with governance (ISA 260) 2013/14

London Borough of Tower Hamlets

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8 September 2014



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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.auditcommission.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 4448 330.

This document summarises:

- the key issues identified during our audit of the financial statements to date for the year ended 31 March 2014 for both the Authority and its pension fund; and
- our assessment based on the work to date of the Authority's arrangements to secure value for money.

The Secretary of State appointed PwC to undertake an inspection of the Authority. A number of areas set out in their appointment and direction have a correlation with my responsibilities as the appointed auditor under the Audit Commission Act 1998. Consequently we will not be in a position to conclude our audit until we have had the opportunity to consider the findings from the PwC inspection.

Scope of this report

This interim report summarises the key findings arising from:

- our audit work to date at the London Borough of Tower Hamlets ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work undertaken to date to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

PricewaterhouseCoopers LLP (PwC) are carrying out an inspection of the Authority, as directed by the Secretary of State for Communities and Local Government, under Section 10 of the Local Government Act 1999. The areas set out by the Secretary of State to be included within the scope of the inspection have a correlation with our responsibilities as the appointed auditor under the Audit Commission Act 1998.

PwC were originally scheduled to report by the end of June 2014 but subsequently an announcement was made indicating the inspection had been delayed, but no revised timescale appears to have been published.

Given the correlation of the scope of the inspection with our responsibilities we will not be in a position to conclude our audit of the financial statements for 2013/14, or conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources for 2013/14, until we have had the opportunity to consider the findings from the PwC inspection.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during April 2014 (interim audit) and July/August 2014 (year end audit).

A final report will be produced when our audit work is complete.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed the work that we expected to complete as part of the Plan to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages based on the work completed to date.
- Section 3 sets out our key findings from our audit work to date in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work to date on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

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 for the Authority and the Fund based on the work completed to date. Sections three and four of this report provide further details on each area.

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<p>Proposed audit opinion</p>	<p>Based on our work completed to date in relation to our planned programme of audit work we have not identified any matters that would impact adversely on our audit opinion on the Authority's financial statements. In addition the wording of your Annual Governance Statement accords with our current understanding.</p> <p>Similarly for the Fund, based on our work completed to date we have not identified any matters that would impact adversely on our audit opinion on the Fund's financial statements, as contained in the Authority's Statement of Accounts. We have not yet received a draft version of the Pension Fund Annual Report.</p> <p>However, as noted on page 2 we are not able to conclude our work and form our audit opinion on the Authority's financial statements for 2013/14, until we have had the opportunity to consider the findings from the PwC inspection.</p>
<p>Audit adjustments</p>	<p>The Authority has identified two adjustments with a total value of £5.0 million. To date our audit has not identified any further audit adjustments. The impact of the adjustments is to:</p> <ul style="list-style-type: none"> ■ Not change the balance on the general fund account as at 31 March 2014; ■ Decrease the surplus on provision of services for the year by £1.3 million; and ■ Decrease the net worth of the Authority as at 31 March 2014 by £1.3 million. <p>The Authority identified adjustments related to grossing up debtors and creditors by £3.7million and the late notification of a creditor by an NHS organisation (£1.3 million). For the former there is no impact on net worth or the General Fund balance and for the latter there was an earmarked reserve set aside for such items and therefore there is no impact on the Authority's General Fund balance.</p>
<p>Key financial statements audit risks</p>	<p>We review risks to the financial statements of the Authority and the Fund on an ongoing basis. We identified one significant risk specific to the Authority for 2013/14 relating to the implementation of the new General Ledger system. We did not identify any significant risks specific to the Fund for 2013/14.</p> <p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.</p>
<p>Accounts production and audit process</p>	<p>We have noted that the quality of the accounts and the supporting working papers has been maintained. Officers dealt efficiently with audit queries.</p>

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

<p><i>ISA 260 Report 2012/13</i></p>	<p>We made eight recommendations in our <i>ISA 260 Report 2012/13</i>, (none were rated as high priority). We are satisfied that one of the recommendations has been implemented and for a second (Member taxi expenses) there were no claims recorded in the General Ledger after September 2013 when the recommendation was made. We have not yet been able to complete our work to assess whether the recommendation relating to evidence to support compliance with the Publicity Code has been implemented.</p> <p>For the remaining five recommendations, three have been superseded by the findings of our audit work this year (annual review of PPE; timeliness of reconciliations and school bank reconciliations) – see Appendix 1 for further details. The remaining two recommendations relating to the completion of the corporate governance review and explanations in budget variance reports have not been implemented (see Appendix 2 for details).</p>
<p>Control environment</p>	<p>The Authority’s organisational and IT control environment is generally effective overall, but we have identified weaknesses in controls over certain key financial systems. Key reconciliations (the main bank account reconciliation and the payroll reconciliation) were not completed on a regular basis throughout the year, we have raised a high priority recommendation around this.</p>
<p>Completion</p>	<p>At the date of this report our underlying audit of the financial statements is substantially complete although we have some areas where we are following up outstanding queries. In addition we have to complete our review procedures, consideration of the findings arising from the PwC inspection (when available) and completion procedures.</p> <p>Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund. However, we will not request the representation letter until we are in a position to issue our audit opinion and VFM conclusion ie following our consideration of the findings from PwC’s inspection on behalf of the Secretary of State.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s and the Fund’s financial statements.</p>
<p>VFM conclusion and risk areas</p>	<p>We have completed the work that we expected to complete as set out in our <i>External Audit Plan 2013/14</i>, and have not identified any issues impacting negatively on our assessment as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>However, as noted on page 2, we are not able to complete our work and conclude on the Council’s arrangements in place for securing economy, efficiency and effectiveness in its use of resources for 2013/14, until we have had the opportunity to consider the findings from the PwC inspection.</p>

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

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Certificate

We have received a number of enquiries from Members during 2013 and 2014 relating to television adverts; the Authority's publication - East End Life; and treatment of Authority assets. We were also specifically referred to in a Council motion relating to the sale of Poplar Town Hall and have considered the report prepared on this by Mazars on behalf of the Authority. In addition we have received a whistle-blowing referral relating to costs of IT purchases and IT services at a Council school, about which we have liaised with Internal Audit who are undertaking an initial review.

At the date of this report we have not yet completed our consideration of all of these matters, although we have made one recommendation based on our work to date (see Appendix 1 for details). The time taken by the Authority to respond to our information requests and queries in relation to some of these have been longer than we would normally expect.

In addition, as at the date of this report we have not completed the procedures specified by the National Audit Office on your Whole of Government Accounts return. We expect to complete our work and report our findings to management by 3 October 2014 on any issues arising with respect to the Whole of Government Accounts return.

We understand that two Local Government Electors (LGEs) have been in contact with the Council on different matters and that both are considering whether to exercise their rights to make an objection to the Council's 2013/14 financial statements. At the date of this report we have not yet received any formal objection. If we receive an objection we will not be able to formally conclude the audit and issue an audit certificate until we have completed a review of any objection.

To date we have identified no audit differences in the course of the audit of the Authority's financial statements that are considered to be material.

The Authority has identified two adjustments with a total value of £5.0m.

The impact of the adjustment is to:

- Leave the balance on the general fund account as at 31 March 2014 unchanged;
- Decrease the surplus on the provision of services for the year by £1.3 million; and
- Decrease the net worth of the Authority as at 31 March 2014 by £1.3 million.

Proposed audit opinion

Based on our work completed to date for our planned programme of audit work we have not identified any matters that would impact adversely on our audit opinion on the Authority's financial statements. However, as noted above we are not able to finalise our audit and form our audit opinion on the Authority's financial statements until we are able to review PwC's findings arising from their inspection.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. 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.

The final materiality level for this year's audit of the Authority's financial statements was set at £23 million. Audit differences below £1.1 million are not considered significant.

The Authority identified adjustments related to grossing up debtors and creditors by £3.7 million and the late notification of a creditor by an NHS organisation (£1.3 million). For the former there is no impact on net worth or the General Fund balance and for the latter there was an earmarked reserve set aside for such items and therefore there is no impact on the Authority's General Fund balance.

The tables on the right illustrate the total impact of the adjustments on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

There is no net impact on the General Fund balance as at 31 March 2014 as a result of Authority identified adjustments.

Movements on the General Fund 2013/14			
£m	Pre-audit	Post-audit	Ref
Surplus on the provision of services	21.7	20.4	Page 6
Adjustments between accounting basis & funding basis under Regulations	13.2	13.2	-
Transfers to earmarked reserves	(8.0)	(6.7)	Page 6
Increase in General Fund	26.9	26.9	

Balance Sheet as at 31 March 2014			
£m	Pre-audit	Post-audit	Ref
Property, plant and equipment	1,839.3	1,839.3	-
Other long term assets	9.9	9.9	-
Current assets	450.1	453.8	Page 6
Current liabilities	(205.8)	(210.8)	Page 6
Long term liabilities	(699.7)	(699.7)	-
Net worth	1,393.8	1,392.5	
General Fund	(65.0)	(65.0)	-
Other usable reserves	(253.1)	(251.8)	Page 6
Unusable reserves	(1,075.7)	(1,075.7)	-
Total reserves	(1,393.8)	(1,392.5)	

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We therefore anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report at the same time as we are able to issue the opinion on the Authority's financial statements.

The wording of your Annual Governance Statement accords with our current understanding.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14* ('the Code'). We understand that the Authority will be addressing these.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements or significant audit differences.

For the audit of the Fund we used a materiality level of £18 million. Audit differences below £900,000 are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion at the same time that we are able to issue the opinion on the Authority's financial statements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code*. We understand that the Fund will be addressing these.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a few minor comments in respect of its format and content which the Authority has agreed to amend.

Pension Fund Annual Report

The Pension Fund Annual Report is in the process of being prepared for the Pensions Committee on 17 September. We are therefore yet to confirm that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; or
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report is currently due to be approved by the Pensions Committee on 17 September 2014.

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

Since our External Audit Plan we have identified, and added, National Non-Domestic Rates (NNDR) as a further area of key audit focus as a result of the implementation of the Business Rates Retention Scheme in 2013/14.

The table below sets out our detailed findings for each of the areas of focus and risks that are relevant to the Authority and Pension Fund. We have indicated in each case whether these relate to the audit of the Authority's financial statements or those of the Fund.


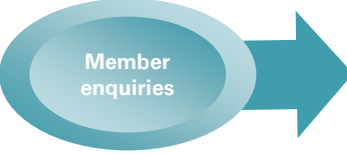
Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.


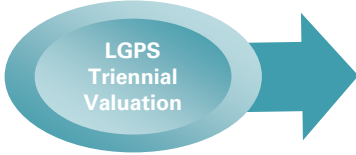
Key audit risk	Issue	Findings
	<p>The Authority has installed a new ledger system (Agresso) which went live on 1 April 2013. There are risks to the completion and compilation of the financial statements associated with such a significant change. We also understand that the Authority has had some issues 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>This risk affects only the Authority.</p>	<p>Our IT team has undertaken a separate exercise to review access and operation controls. We have also reviewed the completeness and accuracy of the general ledger data migration of closing balances from the previous finance system (ie as at 31 March 2013) to Agresso (migration and reconciliation).</p> <p>We have considered the results of the work completed by our IT team and tested the ledger as necessary. Based on the results of this work we are satisfied that we are able to rely on the outputs from the general ledger when undertaking our audit of the financial statements.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

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Area of Audit Focus	Issue	Findings
	<p>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 in this area in our <i>ISA 260 Report</i> on the 2012/13 financial statements.</p> <p>This risk affects only the Authority.</p>	<p>We have completed detailed testing of the following as part of our financial statements audit:</p> <ul style="list-style-type: none"> ▪ Reviewed management’s assessment of property valuations and impairment calculations. ▪ Confirmed the information provided to the valuer from the Authority. ▪ Compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2012/13 for consistency. ▪ Followed up progress on issues raised by us in our 2012/13 ISA 260 report. <p>Our detailed testing has been completed with only one presentational issue identified, which is being addressed by the Authority.</p> <p>Although not an issue for this year we have made a recommendation about the approach to future valuations, see Appendix 1.</p>
	<p>We have received a number of enquiries from Members during 2013 and 2014 relating to television adverts; the Authority’s publication - East End Life; and treatment of Authority assets. We were also specifically referred to in a Council motion relating to the sale of Poplar Town Hall and have considered the report prepared on this by Mazars on behalf of the Authority. In addition we have received a whistle-blowing referral relating to costs of IT purchases and IT services at a Council school, about which we have liaised with Internal Audit who have been undertaking an initial review.</p> <p>This risk affects only the Authority.</p>	<p>We have not yet completed our consideration of all 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 which we have currently estimated to be £14,340 and this additional fee has been agreed by the Audit Commission.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Area of Audit Focus	Issue	Findings
	<p>Due to the introduction of Business Rate Localisation, with effect from 1st April 2013, there were significant changes in the requirements for the disclosure of NDR balances and transactions, as per the CIPFA Code.</p> <p>Furthermore, there were significant variances in the balance sheet and the CIES as a result of the change of accounting treatment. These factors meant that non-domestic rates were reassessed as an area of audit focus and therefore have been included as such.</p> <p>This risk affects only the Authority.</p>	<p>We have completed our review of the disclosure requirements and changed accounting treatment relating to NDR balances and transactions in the Authority's financial statements.</p> <p>We have not identified any issues from the work we have done.</p>
	<p>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 for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The IAS 19 numbers included in the financial statements for 2013/14 are 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 was inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>This risk affects both the Authority and the Fund.</p>	<p>For the audit of the Pension Fund, we completed 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 focused on the data relating to the Authority itself as largest member of the Pension Fund.</p>

We have noted that the quality of the accounts and the supporting working papers has been maintained.

Officers dealt efficiently with audit queries

The Authority has implemented some of the recommendations in our *ISA 260 Report 2012/13* and others have been superseded by work we have completed this year. This leaves two recommendations outstanding.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Authority has strengthened its financial reporting processes by including additional quality checks.</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 30 June 2014.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued in March 2014 and discussed with the Authority, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided generally met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	<p>Officers resolved audit queries in a reasonable time. Where the issues raised were more complex there was appropriate communication around these issues as they were being considered and resolved.</p>

Element	Commentary
Pension fund audit	<p>The audit of the Fund is almost complete. There are no specific matters to bring to your attention relating to this.</p>

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

We made eight recommendations in our *ISA 260 Report 2012/13*, (none were rated as high priority). We are satisfied that one of the recommendations has been implemented and for a second (Member taxi expenses) there were no claims recorded in the General Ledger after September 2013 when the recommendation was made. We have not yet been able to complete our work to assess whether the recommendation relating to evidence to support compliance with the Publicity Code has been implemented.

For the remaining five recommendations, three have been superseded by the findings of our audit work this year (annual review of PPE; timeliness of reconciliations and school bank reconciliations) – see Appendix 1 for further details. The remaining two recommendations relating to the completion of the corporate governance review and explanations in budget variance reports have not been implemented (see Appendix 2 for details).

The Council's organisation and IT control environment is effective, and controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of non-completion of in-year monthly bank and payroll reconciliations.

We needed to complete additional substantive work in these areas at year-end as a result.

Organisational and IT 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 have implications for our audit. We therefore obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented.

The Council also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on reports generated from these we sample test underlying data to ensure the reports can be relied upon.

We did not identify any issues in the accuracy of underlying data in systems generated reports that we tested as part of our financial statements audit.

Review of Internal Audit

Our risk based approach is mainly focussed on completing substantive testing over balances included in the financial statements rather than testing the controls in place at the Council, which does not require us to place reliance on Internal Audit's work.

We used Internal Audit to inform ourselves on the areas of the Council's operations that were relevant to our work and have taken assurance from Internal Audit's contribution to an effective control environment.

We noted in the Internal Audit reports weaknesses in respect of individual financial systems. Internal Audit included recommendations in their reports as appropriate.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. We are satisfied that internal audit are working towards becoming fully compliant with the PSIAS.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors, and our own work on controls over the year end process, and testing of underlying data the controls over the key financial systems are sound, except for the following weakness:

- Key reconciliations (the main bank account reconciliation and the payroll reconciliation) were not completed on a regular basis throughout the year.

Recommendations are included in Appendix 1. The weakness identified meant that we needed to complete additional substantive work at year-end.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter which we will request when we are in a position to complete our audit.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Interim declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We will provide a template to the interim Corporate Director of Resources for presentation to the Audit Committee when we are in a position to complete our audit. We will require a signed copy of your management representations before we issue our audit opinion.

At the time we request management representations we will consider if we need to seek specific management representations for any particular issues.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have completed the work that we expected to complete as set out in our *External Audit Plan 2013/14*, and have not identified any issues impacting negatively on our assessment as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, as noted earlier, we are not able to reach a conclusion about the Authority's arrangements for VFM until we are able to review PwC's findings arising from their inspection.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

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

Work completed

We have completed the work that we expected to complete as set out in our *External Audit Plan 2013/14*, and have not identified any issues impacting negatively on our assessment as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, as noted on page 2, we are not able to reach a conclusion about the Authority's arrangements for VFM until we are able to review PwC's findings arising from their inspection.



We have identified one area of audit focus in relation to VFM.

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Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:


- assessed the Authority’s key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas.

Key findings

Our initial risk assessment did not identify any residual risks for our VFM conclusion as there was sufficient relevant work that had completed by the Authority, other inspectorates and review agencies in relation to these risk areas.

We shall consider the position further when we are able to review PwC’s findings arising from their inspection.

In our External Audit Plan 2013/14, presented to you in March 2014, we identified a specific area of focus for our VFM conclusion. The table below sets out our findings in respect of this.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Even after using reserves of £38 million, the Authority estimates that it will need to deliver £67 million in savings during the two years 2015/17 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 has included a 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> <p>The Authority has developed plans that mean it is confident that a balanced budget will be achieved for 2015/16 and has an agreed timetable to meet this. The Authority is continuing to drive out inefficiencies and secure economies through continuing to review services and the best means of delivery and identify savings in areas such as procurement.</p>

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next

year
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Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	<p>Completion of key reconciliations</p> <p>At the time of our interim audit we identified that a reconciliation had not been carried out for the main Authority bank account during 2013/14 since the implementation of Agresso. Although the 31 March 2014 reconciliation was completed by the Authority, this involved a considerable amount of time and effort from Authority officers as it covered the whole year in one go.</p> <p>At the time of our final audit visit we identified that a payroll reconciliation had not been carried out for the main Authority payroll during 2013/14.</p> <p>These are both key controls which are required to be in place through-out the year in order to maintain a robust control environment.</p> <p>Recommendation</p> <p>The Authority should implement a process whereby going forward each of these reconciliations is completed on a monthly basis. The Authority is required to implement a review process by which non completion of key reconciliations is escalated to the relevant Service Head.</p>	<p>It is agreed that the scale of implementation of a new financial system led to delays in continuing the main bank reconciliation from 31st March 2013 and this was not finalised until the 2013/14 year end. This process has now been fully implemented and is now running monthly.</p> <p>Payroll reconciliations were completed for year end. During the year reconciliations of net pay and tax were reconciled monthly to the BACS payments, and payroll interfaces to the general ledger were reconciled to the payroll system at regular intervals. 3rd party deductions were however only reconciled at year end. A revised procedure is now being implemented to cover all payroll reconciliations monthly.</p> <p>In addition a key controls report is now produced monthly for all key financial controls, and is reviewed by relevant service heads, and any key control which has not been completed or is out of tolerance is now flagged each month for corrective action.</p> <p>Responsible Officer : Richard Lungley Due Date: March 2015</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<p>School bank reconciliations</p> <p>During our review of the school bank reconciliation, we noted that for two schools, Sir John Cass and Olga there were outstanding reconciling items at the year end which had been initially entered into the ledger several years ago.</p> <p>It is noted that schools are provided with copies of the close down procedures at the year end, which does suggest reviewing transactions / cheques over six months old. In the case of these schools these transactions had not been cancelled.</p> <p>Recommendation</p> <p>The Schools Finance Team, during their review of the reconciliations completed by individual schools, should challenge schools which submit reconciliations containing transactions which are over six months old.</p> <p>Schools should be required to submit justification for the inclusion of any aged items within their reconciliations.</p>	<p>As stated by the auditor, the schools finance team issue all maintained schools accounting guidance which recommends schools review cheques older than six months and reverse in their finance system where applicable. As part of planning for the 2014/15 accounts closure, the school finance team will include further guidance on un-reconciled items in the schools newsletter. The school finance team will also sample a number of schools to ensure any cheques older than 6 months are challenged and appropriate action is taken.</p> <p>Compliance testing will take place in Jan/Feb 2015.</p> <p>Responsible Officer : Sailesh Patel Due Date: March 2015</p>
3	2	<p>Other Land and buildings valuations</p> <p>During our review of Property, Plant and Equipment valuations, we noted that for it was not straightforward to identify that the valuer had looked at upward trends as well as impairments when completing the formal valuations for 2013/14 (even though the Authority expressly requested this). We also noted that the valuer only commented about price movements for the last 12 months, but the Authority has a minority of assets that were last valued between 2 and 4 years ago.</p> <p>Recommendation</p> <p>The Authority should continue to work with the valuer to ensure that the report received explicitly covers all of the elements that it has requested. Also the Authority needs to ensure that there is appropriate consideration of assets that have not been valued in the last 12 months to ensure that the values disclosed remain materially accurate between valuations.</p>	<p>For the 2014/15 property valuation, officers have asked Valuers to consider upward trends as well as impairments in conducting the valuations. The Valuers have also been asked to consider material changes in valuations for asset classes valued more than 12 months ago. Officers will work with Valuers to minimise additional valuation costs from this work, for example with the use of valuation indices as part of a desk top valuation exercise.</p> <p>Responsible Officer : Kevin Miles Due Date: March 2015</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	3	<p>111 – 113 Mellish Street</p> <p>During our review of what happened in relation to a Member enquiry about the above site we noted that: the time period available for considering and auctioning the letting of the site was relatively short; there were areas where the documentation supporting the decisions could be improved – particularly the use of an SLA approach, which allowed for reductions in the rental income; and the procedures for allocating properties were written and established in August 2010, since when there have been a number of changes in the process.</p> <p>Recommendation</p> <p>We have therefore recommended to the Authority that:</p> <ul style="list-style-type: none"> • It considers the nature, size and complexity of arrangements being planned for community use/letting and ensure that the timeframes reflect this appropriately to help ensure the Council receives a good selection of quality applications. • The importance of evidencing the basis of decisions is reiterated and, as necessary incorporated in relevant procedural documentation. • Procedures are revised to reflect the updated process and include guidance on the documentation to be retained to support decisions. 	<p>The Corporate Property and Capital Delivery Service Plan will review and update the procedures for allocating properties. This will require the input of the third sector team, specifically in relation to properties that are let for community use as this might require slightly different processes in light of the fact that many community organisations won't have the commercial experience and resources compared to properties let on the open market.</p> <p>The review will include timescales for considering and auctioning the letting of the site, as well as the level of documentary evidence to back up the decisions that are made.</p> <p>Ann Sutcliffe October 2014</p>

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our ISA 260 Report 2012/13.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2012/13 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	8
Implemented in year or superseded	6
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2014
1	2	<p>Completion of corporate governance review</p> <p>The Authority should complete the planned corporate governance review and ensure that any issues identified are addressed promptly to ensure that the Authority's structures and personnel are fit for purpose to meet the future financial challenges facing the Authority.</p>	<p>Officers will keep the auditors briefed as the governance review continues.</p> <p>C Holme March 2014</p>	<p>We understand that the review has not yet been completed.</p>
2	3	<p>Budget Variances</p> <p>As part of our interim audit we reviewed the processes and controls in place over budget monitoring. We identified that not all variances over the prescribed £250,000 variance level were being adequately explained.</p> <p>The Authority should consider if a standard £250,000 threshold is appropriate across all directorates or if a more tailored approach would be more appropriate. The Authority must then ensure that it complies with these thresholds.</p>	<p>Officers will ensure suitable budget variance comments are included within the regular budget monitoring reports.</p> <p>K Miles September 2013</p>	<p>Our testing this year identified that there were still examples where the variance explanations were not sufficiently comprehensive.</p>

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the 'Code') which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing Guidance for Local Government Auditors ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Non-audit work

Our IT advisory team completed an IT systems post-implementation review during 2013/14, in addition our tax team have provided advice 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

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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Agenda Item 4.1

REPORT TO: Audit Committee	DATE 16 September 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 June 2014 to August 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 Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

3. Background

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

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

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

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

4. Overall Audit Opinion

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

5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee in June 2014, eighteen final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 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. Members 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.

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	8	3	-	11
	Moderate	-	5	2	-	7
	Low	-	-	-	-	-
Total Numbers		-	13	5	-	18
Total %		-	72%	28%	-	100%

5.4. From the table above it can be seen that of the eleven finalised audits which focused on high risk or high value areas; eight were assigned Substantial Assurance and three were assigned Limited assurance. A further seven audits

were of moderate significance and of these five were assigned Substantial Assurance and two were assigned Limited Assurance.

- 5.5. Overall, 72% of audits resulted in an adequate assurance (substantial or full). The remaining 28% of audits have an inadequate assurance rating (limited or nil).

Performance Indicators

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

Performance measure	Target	Actual
Percentage of Audit Plan completed up to July 2014	25%	21%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	93% 14 out of 15
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	55% 6 out of 11

The table above shows that the proportion of internal audit work completed to July 2014 is below target.

- 5.7. The percentage of priority 1 recommendations implemented at the follow up stage was 93%, whereas the percentage of priority 2 recommendations was 55%. 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.

6. Comments of the Chief Financial Officer

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

7. Legal Comments

- 7.1. 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.

8. One Tower Hamlets

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

9. Risk Management Implications

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

10. Sustainable Action for a Greener Environment (SAGE)

- 10.1. There are no specific SAGE implications.

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APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Corporate	Declaration of Staff Interests - Systems Audit
	Extensive	Resources	Photocopying and Printing Contract Monitoring
	Extensive	Resources	Debtors – Systems Audit
	Moderate	Communities, Localities and Culture	Pest Control – Systems Audit
	Moderate	Education, Social Care and Wellbeing	Kobi Nazrul Primary School
SUBSTANTIAL			
	Extensive	Resources	Treasury Management – Systems Audit
	Extensive	Resources	Pensions – Systems Audit
	Extensive	Resources	Budgetary Control - Systems Audit
	Extensive	Resources	Capital Programme and Accounting - Systems Audit
	Extensive	Tower Hamlets Homes	Key financial systems
	Extensive	Tower Hamlets Homes	Water Systems and Installations - Follow-up Audit
	Extensive	Tower Hamlets Homes	Management and Control of Probationary Tenancies Follow Up audit
	Extensive	Tower Hamlets Homes	Management and Control of Voids - Follow Up
	Moderate	Tower Hamlets Homes	Management and Control of Estate Parking Follow Up audit
	Moderate	Communities, Localities and Culture	Management of Commercial Waste - Follow Up Audit
	Moderate	Communities, Localities and Culture	Parking Appeals - Follow Up Audit
	Moderate	Education, Social Care and Wellbeing	English Martyrs Catholic Primary School
	Moderate	Education, Social Care and Wellbeing	Excluded Children - Systems Audit

**Summary of Audits Undertaken
Limited Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Declaration of Staff Interests</p> <p>Systems Audit</p>	<p>Aug. 2014</p>	<p>This review examined the systems and procedures in place for controlling and monitoring the declaration of staff interests. Under the Employees Code of Conduct, officers have a duty to declare interests which conflict with the impartial performance of their duties and declare in writing any financial or personal/social interests that could be considered in bringing about conflict with the Council's business or interests. Any additional work (whether paid or unpaid) must not conflict with the council's interest or in any way weaken public confidence in the authority. Accordingly, all employees of the Authority are required to obtain consent in writing (and retained on the staff HR file) from their chief officer in advance and on each occasion.</p> <p>The review highlighted the following issues:-</p> <ul style="list-style-type: none"> • HR has implemented a new electronic system to record Staff Declaration of Interests (DOIs) via a questionnaire on the HR Self Service system. This is a positive development from the manual records previously used, but at the time of audit, the system could not fully report on all status of DOI questionnaires. • At the time of this audit, despite reminders being issued to staff not all staff had completed their forms on the HR Self Service system. This was highlighted in a recent National Fraud Initiative report which showed matches on payroll to payroll (highlighting cases of council staff with secondary employments elsewhere), our testing of a sample of ten cases showed that five out of 10 staff had completed a DOI form on additional and secondary employment. 	<p>Extensive</p>	<p>Limited</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> • Our testing also showed the need to ensure arrangements were in place to check and monitor declarations that had been made. To enhance controls in this area, we have recommended that regular HR reports are produced and line managers should take responsibility for monitoring compliance and reports submitted to DMTs on a regular basis. <p>All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and a copy of the final report was issued to all Corporate Directors.</p>		

Management Comments

A complete review of the process for collection and completion of Declaration of Interests and additional/secondary employment has been undertaken. The form has been re-designed to make it easier for staff to complete and also to ensure that there is a clear process for approval prior to submission. There have been problems with the HR self-service system which have prevented early implementation of the new form and process. These have been escalated via Agilisys to Northgate and have finally been resolved.

Managers are responsible for ensuring Declarations of Interest are completed by staff who report to them and that these declarations are signed off and recorded either through the self-service system or, in the case of staff who have no access to self-service by completing a form which is then scanned and sent to HR for recording. Managers have been, and will continue to be, reminded of the need to ensure that Declarations of Interest are kept up to date and registered even when there are no interests or additional/secondary employment to declare. As part of the PDR /PDP process in October, Managers will be required to check with staff that they have declared interests, relationships and additional/secondary employment (where applicable) by completing the appropriate form or submitted a nil return. The returns will be monitored with an escalation process to Service Heads in the case of non -returners/ non-compliance.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Photocopying and Printing Contract Monitoring Systems Audit	June 2014	<p>The objective of this audit was to provide assurance over the soundness of the systems for managing and monitoring the Photocopying and Printing contract.</p> <p>The Council entered into a 36 month rental agreement for the supply of the Multi-Functional Devices (MFD's) which have the capabilities of photocopying, scanning, faxing and printing, providing an integrated solution to its users and reducing the cost of maintaining separate devices.</p> <p>It is anticipated that the charge for lease finance of these machines will be £160,000 p.a. The Council has also through its partnership with Agilisys entered into a Managed Print Service Level Agreement to deliver cost savings. This agreement will cost £94,300 for year one and then £22,000 for the second and third successive years. Click Charges have yet to be billed; however, these have been estimated to be in the region of £240,000 p.a.</p> <p>Our review showed that the systems for monitoring of the MFD Service Level Agreement with Agilisys were being established. Officers have so far concentrated on the roll out of the MFD's to Council buildings, which in turn has left some of the control and monitoring systems at risk. We recommended that officers should risk assess the project and business as usual functions to ensure that measures are put in place to strengthen the control environment, both for the project and for monitoring the SLA with Agilisys. In addition, the supplier's invoicing system was cumbersome and confusing increasing the risk of duplicate payments and errors occurring.</p> <p>We identified discrepancies between the numbers of MFD's recorded by Facilities Management, ICT and the Supplier. The number of MFD's entered on the finance leases did not agree with those recorded on the LBTH asset register.</p> <p>All findings and recommendations were agreed with the Contract and Performance Manager (Client Unit) and final report was issued to the Acting Head of ICT and the Acting Corporate Director, Resources.</p>	Extensive	Limited

Management Comments

Monitoring of the MFD Service Level Agreement

There is an established quarterly meeting between Xerox, Agilisys and LBTH where service performance reports are presented and discussed. The performance reports are based on the SLA and include sections on Performance Review, Observations & Trends, Innovation Ideas and Next Steps. The following quarterly performance indicators are reported on:-

SLA Uptime against Target

Average Monthly Volume

Ticket Summary – GDC Proactive/Reactive

Break Fix – Reactive verses Proactive

Supplies – Reactive verses Proactive

Highest Utilisation/Impressions - Serial Number

Lowest Utilisation/Impressions - Serial Number

The meetings are scheduled on the 3rd week of the month following the quarter and all meetings are now minuted.

This arrangement has been in place since Client Team has taken of the management of the MFD fleet on the 1s of April 2014.

Discrepancies between the numbers of MFD's recorded by Facilities Management, ICT and the Supplier

The discrepancy between FM and ICT assets arose due to timing issue and status of devices (devices on contracts, installed devices, devices subject to moves and changes etc.) as project was in progress and final homes for all 180 devices had not been identified. Highlight report is about installations not necessarily an asset report, but work in progress.

Management Comments (Cont)

Assets are subject to change for example a window has fallen on one of the MFD devices in idea stores and this device may be subject to repair or replacement. Also there were several move requests (MACD) in progress, one due to building closure due to major refurbishment, another due to site wanting to swap out their colour MFD with BW from another site.

The client team now own the Assets list and will retain the responsibility to keep it up to date.

The supplier's invoicing system

There are 3 separate invoicing for the MFD devices.

Agilisys annual management fee – this is a simple process with fixed costs, a PO will be raised at the beginning of the year.

Agilisys click charges – this a quarterly variable charge. Client Team has agreed a process with Agilisys to raise PO on receipt of the invoice. Agilisys will send the invoice with accompanying usage report for each machine and corresponding Xerox invoice. Client Team will sample check the usage report against the Xerox portal for accuracy of the data. Once satisfied, a PO will be requested. All invoices and usage reports will be filed for reference.

Xerox Lease Charges – These are based on the lease agreement, each invoice references a contract number and a period. The start and end of period varies between different agreements as the period commenced from the implementation date. A comprehensive asset register, strict invoice QAing process and invoice logs are now in place to ensure the lease charges are checked against the register and payment logs to ensure duplicate or incorrect payments are not made.

Asset register

The client team now own the MFD Assets list and will retain the responsibility to keep it up to date.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
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Debtors Systems Audit	June 2014	<p>The main objectives of the audit were to assure management that the systems of control around the Debtors system were sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The Debtors system is module within the new finance system that was implemented in April 2013. The majority of audit findings relate to the implementation of the new system, as follows:-</p> <ul style="list-style-type: none"> • Reconciliations between the general ledger and the debtors system have not been performed on a timely basis. • Reminder letters in respect of overdue invoices have not been sent and debt recovery actions have not been undertaken throughout the financial year 2013/14. • There have been issues caused by the migration from CIVICA to Agresso, including incorrect invoice values being raised, which have been rectified using reversals which have not been approved and recorded appropriately. • There are unallocated payments received which could delay the recovery of debt as well as cause unnecessary or incorrect debt recovery procedures to be applied, and suspended payments which have not been cleared. • It was confirmed in discussion with the Debt Recovery Manager that due to issues with the Agresso system and batches of invoices raised in error by the Council, accurate information cannot currently be obtained. It is noted that the team is trying to resolve the issue whereby accurate performance statistics can be provided to the Debt Recovery Manager for monitoring purposes <p>All findings and the recommendations made were agreed with the Head of Revenue Services, and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director of Resources.</p>	Extensive	Limited
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Management Comments

Significant progress has and is being made in all areas working with Agilisys and Unit 4. Reconciliations are now done monthly, all reminder letters are being issued automatically on schedule, reversals are no longer in use, and unallocated receipts are now monitored weekly and are within tolerance. A complete review of the Sundry Debtors system will be carried out in September to assess what is outstanding in terms of addressing the findings of this Audit.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pest Control Systems Audit	June 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Pest Control 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 findings were as follows:-</p> <ul style="list-style-type: none"> • We identified 86 properties where pest control services were provided free of charge, whereby the properties had been registered on Siebel as THH properties, but in reality the properties were not THH properties and a charge may have been payable. • We confirmed that an SLA was in place with the eight RSLs. However, we noted that these SLAs were outdated and had not been reviewed and renewed. Most notably the SLA for Swan Housing Group dates back to 2007 and lists out of date prices for services. • We identified that 5,196 out of the 10,447 jobs undertaken between April 2012 and July 2013 remain at open status on the system. • From discussions we established that documentation relating to calculations in respect of the RSL rate per property is not retained and it is not clear upon what basis these charges are calculated and also whether the service is undercharging for its services. • OAPs receive a free service for pest control. No verification activity is conducted by Customer Contact Centre staff and pest control officers who attend the home do not record evidence to confirm that the home is occupied only by the OAP who requested the service. <p>All findings and the recommendations made were agreed with the Service Head Safer Communities, and reported to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Moderate	Limited

Management Comments

1. Updating Siebel was completed on July 14th 2014.
2. New SLAs have been agreed with Legal Services and sent to client RSLs.
3. Supervisors have been closing jobs down piecemeal, but a comprehensive clean-up of old jobs is being commissioned through Agilisys.
4. The RSL rate is finely balanced between being low enough to attract business and so high that some clients go elsewhere, so whatever theoretical analysis is conducted we will not be increasing the rate. However we will record job unit costs to comply with the audit requirement.
5. The CCC currently notes on the job sheet if it is an OAP 'job', and the PCO notes this and corroborates the validity on site or withdraws if there is no proof of entitlement. At present we cannot run reports on this, and we are discussing a work package to address this with Agilisys.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobu Nazrul Primary School	July 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance Committee.</p> <p>The main findings were as follows:-</p> <ul style="list-style-type: none"> • Through testing a sample of 10 procurement transactions since April 2013 it was established that official orders were not raised in six cases where they should have been. • Through review of the banking spreadsheet and the paying in book it was established that money is not being banked frequently causing cash to accumulate in the safe. • There was one contract where the value was over £15,000 (VMS Cabling) for which three quotes were obtained. However, as the value was over £15,000, a full tendering process should have been followed, rather than obtaining three quotes. • Through review of the business interest forms for the Governing Body and staff with financial responsibilities, it was established that the declarations of interest forms for a number of budget holding staff and governors had not been signed prior to our audit visit. • Through review of a sample of loan equipment forms, it was established that they were not being authorised by the Head Teacher and did not have the loan period specified on them. • Through review of recent reconciliations between the school's financial system and bank statements, it was established that for the month of January 2014, the reconciliation was not undertaken until 13/03/2014. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Management Comments

The Education, Social Care & Well-being Finance Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by ESCW schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.
- In addition, necessary intervention is put in place by ESCW Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities.
- The school has acted immediately and agreed to complete all actions with a defined timeframe.
- The interim school head and the governing body are fully committed to the recommendations made in the Audit report by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate; confirming additional steps that the school is planning to take in light of the audit findings; and to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment.

Schools Finance Manager has contacted the school and their Finance officer to review and support the school in its recommendations.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management Systems Audit	July 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Treasury Management system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The main findings identified were as follows:-</p> <ul style="list-style-type: none"> • Examination of 20 transactions established nine instances where the inputter and approver details for the transactions were not available. The bank does not retain this information for more than six months. • Through enquiry with the Treasury Manager, it was confirmed that the officer reviews the cash flow forecast once it has been produced. However, there was no clear evidence to confirm that this had been undertaken. • In discussion with the Treasury and Investment Manager and from examination of the records in place, it was determined that the reconciliation of the Treasury Management system to the General Ledger was not conducted during the first six months of 2013/14. The reconciliation was first performed in October 2013. As the reconciliations are cumulative, this also covered the earlier months. However, the reconciliations were not performed in a timely manner. • Details were requested from Human Resources of the declarations made by the Treasury Management team members. Of the six employees, four had nothing to declare, one declared membership of a number of voluntary organisations, and one had not completed a declaration of business interest form. Of the five officers who had completed a form, in one case the form was completed in August 2012 and had not been reviewed after this date. <p>All findings and the recommendations made were agreed with the Investment and Treasury Manager, and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Systems Audit	July 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Pensions system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main findings identified were as follows:-</p> <ul style="list-style-type: none"> • Through review of the policies and procedures file it was determined that the procedures still related to the previous system, Axis. Through discussion with the Pension Manager it was understood that the change from Axis to Altair was initiated in March 2014 and hence the procedures are in the process of being updated. • Through testing a sample of 20 amendments, it was established that manual amendments (such as for part time hours) are undertaken by the Pensions Team, Leader but are not checked by a second officer for correctness. • The Altair system is the pensions system and IT back up is provided by Heywood as per the agreement of services. However, the service provider currently does not report to the Pension team to confirm that the backups have been conducted successfully. • Through testing of a sample of 20 transfers in it was established that for inter-fund transfers in (these are transfers between government entities), the employees first fill in a 'P1' form and then a 'Member's Transfer Request Form'. This creates a duplication of tasks as both these forms serve the same purpose. <p>All findings and the recommendations made were agreed with the Pension Manager, and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Budgetary Control Systems Audit	July 2014	<p>To provide assurance to management that the systems at corporate level for controlling and monitoring revenue budgets across the Council to meet the agreed objectives are sound, secure and effective. The following areas of good practice were identified during the audit:-</p> <ul style="list-style-type: none"> • Roles and responsibilities are clearly defined and documented for those accountable for budgetary performance; this includes a budget manager’s manual. • Financial savings and efficiencies are agreed with budget holders prior to the budget being set, and are then appropriately incorporated into the Council’s budget. • There is a sound mechanism for monitoring directorates’ savings positions through a savings tracker and master spreadsheet. In addition, opportunities for additional savings have been identified where agreed savings targets are no longer achievable. • The reporting channels for providing timely budgetary information to CMT and Cabinet are operating effectively. <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> • Of the 10 budget holders selected to test whether budget holders received and checked their budget reports on a regular basis, one reported inaccuracies in the reports received due to changes in the staffing structure. • Monthly budget returns were not completed throughout the year by 96 budget holders, and were not completed for between nine and 11 months of the year by 341 budget holders. <p>All findings and the recommendations made were agreed with the Financial Planning Manager, and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Capital Programme and Accounting</p> <p>Systems Audit</p>	August 2014	<p>To provide assurance to management that the systems of control within the Capital Accounting system are sound, secure and adequate. The following areas of good practice were identified during the audit:-</p> <ul style="list-style-type: none"> • The Council's financial regulations regarding the preparation of the capital programme are adhered to. The resources that will fund the capital programme are identified and discussed when preparing the capital programme. • Responsibility for co-ordinating the closure of accounts process has been assigned to the Closure of Accounts Group, which meets on a regular basis towards the end of the financial year. • Regular reconciliations between the CAPS and the fixed asset register have been performed throughout the year. <p>The main areas for improvement were identified :-</p> <ul style="list-style-type: none"> • From our examination of a sample of 25 items capitalised during the year we raised queries with the Assistant Chief Accountant regarding the rationale for the capitalisation of seven items. The Assistant Chief Accountant provided explanations to confirm that the items were correctly processed to capital, although two had been wrongly processed into revenue initially. We were informed that since the Agresso system was introduced in April 2013, there had been cases where items were wrongly classified into revenue when they should have been capitalised, as with the two items found in testing. • A 2013/14 year-end 'sweep' or reconciliation was conducted in April 2014 to confirm that any such items were identified and reclassified. There is, however, still no assurance that capital items would not continue to be wrongly classified as revenue items on the Agresso system. <p>All findings and the recommendations made were agreed with the Chief Accountant and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes Key financial systems	June 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control around the financial 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 identified were as follows:-</p> <ul style="list-style-type: none"> • Procurement processes cannot be consistently evidenced as being completed. Through testing a sample of 25 payments made to establish whether appropriate documentation was maintained to evidence quotes being obtained or a waiver being completed it was identified that five payments had a waiver raised, which was found to be sufficiently completed; five had the correct number of quotes completed and documented; eight payments were made where either the Council has carried out the value for money process with no documentation being retained by THH or THH is using a council framework contract; and seven payments did not have any evidence of procurement processes being completed. • All of THH's funds are invested with one institution, and this represents a risk to THH should the organisation fail. • There is a lack of evidence of supervisory review of the monthly cashflow analysis, and of the monthly bank and payroll reconciliations with the general ledger. • Sample checking of orders over £5,000 was not being carried out regularly. <p>All findings and the recommendations made were agreed with the Head of Finance (THH), and reported to the Director of Finance (THH), and the Chief Executive (THH).</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Water Systems and Installations Follow-up Audit	July 2014	<p>This audit followed up recommendations made in the original audit report finalised in April 2013.</p> <p>Our testing showed that out of three high priority recommendations made, two had been progressed. Overall, the follow up audit has shown that management action has been taken to improve controls. However, some non-compliance issues were identified during our testing.</p> <p>There is a monitoring system in place by means of a Defect Tracker spreadsheet to monitor defects including those identified in monitoring visits. However, not all defects identified during inspections could be found in the tracker, and there were no clear guidelines to staff as to which defects should be added to the tracker for action. Therefore, the quality of data on the tracker needed to be improved so that the monitoring of defects can be more effective.</p> <p>We also identified some issues with the monitoring spreadsheet e.g. temperatures were not always recorded, and inconsistencies were identified where comments were added to the document. Regular contract meetings were held with the contractor, but the defect tracker was not discussed during these meetings.</p> <p>All findings and recommendations were agreed with the Team Leader and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Probationary Tenancies Follow Up audit	June 2014	<p>The objective of this audit was to follow up recommendations agreed at the conclusion of the original report issued in September 2013.</p> <p>Our follow up review showed that of the four high priority recommendations made at the conclusion of the second follow up audit, all had been addressed. Our review has shown that Senior Management have undertaken a thorough review of the systems and processes for managing probationary tenancies to ensure that greater control over the service is achieved. Audit testing showed that copies of the New Homes Pack were present on Comino.</p> <p>Settling-in visits were being undertaken during the first, third and ninth months, as required. Audit was advised that continuous checks will be undertaken to ensure that all documentation is scanned to the Comino. New Homes Packs were being scanned onto the Comino system along with the settling-in visit forms. Process Maps had been devised along with a data build of the Comino system that drives a process stage for officers to action and management to sign off. This system allows for greater control and accountability in the process to ensure that internal control is adhered to. We were informed that random checks were carried out by Neighbourhood Team Leaders against a number of pre-determined criteria and these checks were recorded on a spreadsheet to evidence the checks. Our testing of a 10 probationary tenancies which had been subject to checks by Team Leaders against the documents present on Comino, showed that the checks by Team Leaders had been carried out.</p> <p>All findings and recommendations were agreed with the Head of Neighbourhoods and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Voids</p> <p>Follow Up</p>	<p>Aug. 2014</p>	<p>The objective of this audit was to assess the progress made in implementing the agreed recommendations at the conclusion of the original audit.</p> <p>Our testing showed that all four priority 1 recommendations had been progressed. We found that the new void process review was undertaken and key tasks were allocated to officers to ensure that audit recommendations made in the original report were implemented. We also found that regular monthly monitoring reports of cases where dates on the V2 forms differ from those recorded on SX3 system were produced explaining the discrepancies. These reports showed non-compliance with some of the key requirements. However these reports were not escalated upwards to the Head of Neighbourhoods. We also reported that the key log was not fully completed with the movement of the keys for all the voids.</p> <p>All findings were agreed with the Head of Neighbourhoods and final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Estate Parking</p> <p>Follow Up audit</p>	<p>June 2014</p>	<p>This audit followed up recommendations made at the conclusion of the original audit in June 2013.</p> <p>The follow up review showed that out of five medium priority recommendations, three needed to be fully implemented. There was still scope to make improvements to further enhance the control environment and we made further recommendations. For example, there was no evidence kept of sample checking of application forms to verify that these were supported by the required documentary evidence. Procedures for guiding staff in processing estate permits had not yet been developed and performance against agreed targets was not being reported to senior management to monitor the efficiency of the service.</p> <p>All findings and recommendations were agreed with the Director of Finance and Customer Services and final report was issued to the Chief Executive.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Commercial Waste</p> <p>Follow Up Audit</p>	<p>Aug. 2014</p>	<p>The objective of this follow up audit was to assess the progress made in implementing the agreed recommendations at the conclusion of the original audit finalised in September 2013.</p> <p>Our testing showed the one high priority recommendation made had been fully implemented. Of the three medium priority recommendations followed up, two had been implemented and one was partially implemented.</p> <p>The follow up review found that the service has moved from receiving income from cash to invoice basis, which will enable the Council to receive income from the contractor as soon as customers are invoiced. We found that the contractor was instructed to provide an annual signed statement confirming that all income due to the Council has been paid in full. In addition, management discussed with the contractor the potential for implementing an effective mechanism by which the Council will be able to obtain increased assurance that all income in respect of commercial waste services due to the Council is actually received. The annual contract fee was formally agreed by both parties. Complaints reports from the contractor are provided on a monthly basis, which are discussed at the contract meetings.</p> <p>However, we noted that clear performance targets of key areas of commercial waste have still not been implemented and there appeared to be no RAG status against corporate drivers. It was also not clear whether the performance of commercial waste had been reported to the performance board.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director - Communities, Locality and Culture and Acting Head of Paid Services.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Parking Appeals Follow Up Audit	Aug. 2014	<p>This audit assessed the progress in implementing the agreed recommendations emerging from the original audit on this subject.</p> <p>Our testing showed that all three high priority recommendations had been progressed. In addition, out of three medium priority recommendations, two had been fully implemented. We found that PCN cancellation reports were run monthly and supervisors were completing sample quality checks to ensure that cancellations had been conducted in accordance with the policy. However, the monitoring process needed to be clearly documented and distributed to all relevant staff to ensure that all staff and management are aware of the requirements and expectations.</p> <p>Chipside system errors and issues were identified and communicated to the software vendor and there was some assurance that the software provider was addressing these issues. In addition, PATAS cases were documented to record outcomes of all cases that were submitted to PATAS and necessary follow up action, training etc. was being undertaken. The Appeals Manual has been reviewed by the Head of Parking and had a version control. A system was in place for monitoring timely processing of informal and formal representations. Monitoring forms were being completed by supervisors to evidence the monitoring checks. However, some forms were not fully completed, signed and dated.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director - Communities, Locality and Culture and Acting Head of Paid Services.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
English Martyrs Catholic Primary School	May 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 which has overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. .</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Through testing of the appropriate documentation retained on file for the new starters, it could not be evidenced at the time of the audit that references were obtained for one out of three of the starters in the sample. Similarly, with regards to the school obtaining proof of qualifications for starters, at the time of the audit it could not be evidenced this documentation was obtained for one of the starters. • Through testing a sample of five items selected from the inventory records and five items selected around the School, it was identified that the items were not security marked. • Through testing a sample of 10 transactions, it could not be confirmed that official orders had been raised for the remaining three transactions • Examination of Governing Body meeting minutes since January 2013 identified that no opportunity had been provided at the beginning of each meeting to declare any interests. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Excluded Children Systems Audit	July 2014	<p>The main objectives of the audit were to assure management as to whether the systems of control for Excluded Children are sound, secure and adequate. The main findings identified were as follows:-</p> <ul style="list-style-type: none"> • From sample testing of 25 fixed term exclusions and nine permanent exclusions between April 2013 – March 2014 we identified the following exceptions; • Four cases (three fixed term exclusions and one permanent exclusion) in which the exclusion was over the five day limit and the school had informed the Council after the one day deadline. • One case (permanent exclusion) in which no 'Monitoring of Pupil Exclusions' form was received from the school and four cases (permanent exclusions) in which no 'Notification of Attendance at the Pupil Referral Unit (PRU) from day six of Exclusion' form was received from the school. • Three cases in which an outcome letter was sent by the school after the one day limit from the time set by the Pupil Disciplinary Committee had expired. • There is no overall record of which schools are sending governors to training sessions and which are not. • A hyperlink in the 'Guidance on the Use of Pupil Exclusion' document and the 'Exclusion from School' leaflet was broken. In addition, no date of review was included on the policies and procedures relating to exclusions. • No future date of review was included on any of the policies and the 'prepared by' box was left blank on the 'Alternative Provision Funding and Charging Arrangements 2013/14' document. <p>All findings and the recommendations made were agreed with the Head of Pupil Admissions and Exclusions, and reported to the Service Head, Learning and Achievement, and the Corporate Director, Education, Social Care and Wellbeing.</p>	Moderate	Substantial

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
Water Systems and Installations	A review of the contractual spreadsheet should be completed to set up mandatory fields to facilitate all essential information being provided. The contractor should be reminded to record a date of inspection for each inspection completed.	Jamie Carswell	Keith Peirson

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

Audit Subject	Recommendation	Service Head	Officer Name
Control of Estate Parking Follow Up audit	A system for management control and monitoring should be put in place to ensure that staff comply with the laid down policies and procedures for the processing and approval of parking permits issued to applicants and that all applications are valid and meet the acceptance criteria and are complete and accurate	Les Warren	Savio Fernandez
Control of Estate Parking Follow Up audit	The Head of Customer Access and Facilities should ensure that all staff involved in the estate parking function has operational procedures to guide them when processing estate permits. The Anti-fraud and proactive fraud aspects should be included within the procedures.	Les Warren	Robert Winters/ Khadija Begum
Control of Estate Parking Follow Up audit	The Head of Customer Access and Facilities should provide the Senior Management Team with a bi-annual report on the performance against agreed targets for the service being provided. This information will allow any underperformance to be addressed to ensure that the service to the customers improves on a continuous basis.	Les Warren	Eshe Dow
Commercial Waste	Performance reports required to be produced by the contractor should contain a comparison of KPI against targets.	Jamie Blake	John Williams
Parking Appeals	Supervisors who complete PCN monitoring forms should ensure that these forms are signed and dated.	Jamie Blake	Stephen Willie

Agenda Item 4.2

REPORT TO: Audit Committee	DATE 16th September 2014	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director, Resources	TITLE: <i>Annual Anti -Fraud Report 2013-14</i>		
ORIGINATING OFFICER(S): <i>Tony Qayum, Corporate Anti-Fraud Manager</i>	<i>Ward(s) Affected: N/A</i>		

1. Introduction

- 1.1 This report provides the Audit Committee with an update of reactive and Anti-Fraud work undertaken during 2013/14.
- 1.2 It captures the work of the Corporate Anti – Fraud team which includes Corporate Investigations, Housing Benefit Fraud Team Investigations, Social Housing Fraud Investigations and anti- fraud work around Parking Services.

2. Recommendations

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

3. Background

- 3.1 This report provides the Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2013/14. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and the Social Housing Fraud Investigation service.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	1	<ul style="list-style-type: none"> • Corporate Anti-Fraud Manager
	2*	<ul style="list-style-type: none"> • Corporate Anti-Fraud Team Leader* • Corporate Anti-Fraud Investigator*
	3	<ul style="list-style-type: none"> • Tenancy Fraud Officers • Temp Tenancy Fraud Officer – THH Funded
Housing Benefits Fraud Team	2	<ul style="list-style-type: none"> • Team Leaders
	7	<ul style="list-style-type: none"> • Investigation Officers
	1	<ul style="list-style-type: none"> • Intelligence Officer
Parking Services	1.5	<ul style="list-style-type: none"> • Parking Fraud Investigation Officers

* Posts created in July 2013

4. Key matters arising from the Service Outturn for 2013-14

- 4.1 There have been three substantial inquiries which have involved close working between the relevant Directorates, the Corporate Anti- Fraud Service, the DWP, Police, UKBA, and Legal Services.
- 4.2 The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality.
- 4.3 The Corporate Anti – Fraud service has also provided support to Directorates upon request. This included an ongoing review of the National Fraud Initiative, investigations into potential systems abuses in front line services and a range of investigations into allegations of financial impropriety from a range of referrals.
- 4.4 We have also undertaken a detailed review of Council Tax refunds to ensure we had not been subject to Money Laundering and supported the Annual Governance Statement by reviewing external assessments of the Council and undertaking detailed reviews of the Complaints system.
- 4.5 We have continued to work closely with the Council’s Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of reputational concern and or fraud have been identified.

- 4.6 We have developed a small team of Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties.
- 4.7 We have organised and run several training sessions with staff and external bodies/visitors on Anti- Fraud and Corruption matters as part of our proactive initiatives and more are planned for this financial year, together with training exercises with our Risk Management Service and provided a joint training session to members in November 2013.
- 4.8 We have also developed a Service Level Agreement with Parking Services and undertaken five Pro- active initiatives with the Police and Community Safety Service.
- 4.9 We were also shortlisted for a Local Government Chronicle award on fraud management and have been highly commended in a recent ALARM (Association of Local Authority Risk Managers) awards process.

5. The National Fraud Initiative (NFI)

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

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

- £712,060 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
- HB/CTB £370,791
- Income Support /JSA £138,176
- Pensions £25,761
- Payroll & Other £88,474
- Creditors £61,693

6. Other Activity

6.1 The following work areas have been undertaken, during 2013/14 by the Corporate Anti-Fraud Team:-

- ◆ On-going liaison and support to corporate and departmental personnel;
- ◆ Proactive joint working with other Local Authorities, the Police, the DWP and other government Agencies;
- ◆ Training and Development via the Public Sector Partnership with the Metropolitan Police; and
- ◆ Monthly Governance reports have continued to be provided by the Corporate Anti Fraud Manager to the Corporate Director of Resources and Monitoring Officer identifying on team activity and areas of inquiry requiring corporate input.

7. Housing Benefits Investigation Service

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

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

7.2 During 2013/14 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-

- 151 sanctions achieved;
- 48 convictions at court.
- 15 Cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);

- 62 Parking Offence Cautions
- 26 Administrative Penalties; and
- Total Housing and Council Tax overpayments that represent these cases equates to £825,353.63.

7.3 The service is going through the process of transfer to the DWP as part of the Government's Universal Credit commitment which will apply to all authorities. Attached at Appendix B, is a detailed paper that outlines the future resourcing issues for the team following its transfer to the DWP as part of the Government's move towards the Universal Credit scheme and the resultant work that is likely to remain following the demise of the function.

8. Social Housing Recoveries

8.1 The team achieved 43 recoveries for the year and were able to prevent three Right to Buy sales from going forward that represents a saving of £100,000 per unit in non-applied discounts. We entered a data matching exercise with a commercial organisation in December 2013 which has enabled us to match data on tenancies to credit histories in order to improve our intelligence of suspected subletting and this resulted in an increased number of good referrals and consequently increased the number of recoveries in the first half of this financial year. The team is funded primarily by Government grant which is time limited and will cease at the end of this financial year.

8.2 The success of the team is unquestioned with nearly 200 recoveries since the team was created in 2010 and a significant impact on systems and processes to improve the Council's Lettings Service as well as improvements to systems and better controls within our ALMO - Tower Hamlets Homes.

8.3 At present the team consisting of three staff funded via the Government grant are continuing to perform as part of the Corporate Anti-Fraud team resource and efforts are being made by the Head of Audit and Risk to secure future funding from the Council via the Development and Renewal Directorate. A decision on future funding needs to be made with haste as the staff if not available for retention will need to be given three months' notice in December 2014 in order to comply with the Council's re deployment and redundancy procedure. The data matching exercise with a commercial provider has identified a large number of potential matches using the 'traffic light' criteria and we have circa 500 remaining of either Red or Amber quality that need investigation going forward.

9 Parking Services

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

9.2 There were also 93 Penalty Notices, 16 Removals, 50 Recovered Disabled badges and 45 Recovered Resident Parking Permits.

10. Comments of the Chief Financial Officer

10.1 This report is an update of reactive and Anti - Fraud work undertaken during 2013/14. The Corporate Anti-Fraud Service identified Housing and Council Tax overpayments to the value of £ 825,353.63 and National Fraud Initiative (NFI) overpayments to the value of £712,060.

10.2 There are no specific financial implications emanating from this report. The Corporate Anti-Fraud team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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

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

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

13. Anti-Poverty Implications

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

14. Risk Management Implications

14.1 There are no specific risk implications arising from this report.

15. Sustainable Action for a Greener Environment (SAGE)

15.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact : 7364 4773

N/A

Tony Qayum 020

National Fraud Initiative

1. Background

- 1.1 The NFI compares different sets of data, for example payroll and benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found, this means there may be an inconsistency that needs investigation.
- 1.2 The NFI is managed by the Audit Commission which has recently come under the auspices of the Cabinet Office following the winding up of the external audit function previously undertaken by the Audit Commission.
- 1.3 The NFI will continue to exist under its new managerial arrangements and its aim remains to help prevent and detect fraud and has historically been one of the key ways in which the Audit Commission has fulfilled its responsibility to promote economy, efficiency and effectiveness in the use of public money.
- 1.4 The Audit Commission processes the NFI data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998). These powers put data matching on a statutory footing for local government and NHS bodies, as well as allowing the Audit Commission to extend the NFI to central government and private sector organisations that wish to take part
- 1.5 The London Borough of Tower Hamlets has been participating in the National Fraud Initiative (previously known as the London Fraud Initiative) since 1994.
- 1.6 The Serious Crime Act 2007 (SCA) gave the Audit Commission new powers to enable the benefits of NFI to be extended to central government and the private sector. The Serious Crime Act 2007 inserted a new Part 2A into the Audit Commission Act 1998 (ACA).
- 1.7 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the Commission's data matching exercises must by law, have regard to a statutory Code of Data Matching Practice.
- 1.8 The exercises have evolved over time and the Commission has extended its partners to all Local Authorities in England, Wales, Scotland, and Northern Ireland and pension details from the Health, Police, and Fire Services. To date the National Fraud Initiative has successfully detected fraud and overpayments totalling over £1 billion since 1996.

2. Statutory Framework and Code of Data Matching Practice 2008

- 2.1 The Commission conducts data matching exercises under its statutory powers in the Audit Commission Act 1998, Part 2A. The Legislation requires the Commission to prepare a code of practice to govern its data matching exercises, and to consult over it before approving and laying it before Parliament. The Code of data matching practice 2008 was finalised, published, and laid before Parliament on 21 July 2008. A copy of the 45 page Code can be found on the Audit Commission website on the following link www.audit-commission.gov.uk/nfi
- 2.2 The Commission may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise. The Commission requires certain bodies to provide data for data matching exercises. Currently those are all the bodies to which it appointed auditors or to which it inspected other than registered social landlords. Other bodies may participate in its data matching exercises on a voluntary basis where the Commission considers it appropriate. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to the Commission. The requirements of the Data Protection Act 1998 continue to apply.
- 2.3 The processing of data by the Commission in a data matching exercise is carried out with statutory authority. It does not require the consent of the individuals concerned under the Data Protection Act 1998. However the Data Protection Act 1998 normally requires participants to inform individuals that their data will be processed. Unless an exemption applies, for data processing to be fair, the first data protection principle requires data controllers to inform individuals whose data is to be processed of:
- the identity of the data controller;
 - the purpose or purposes for which the data may be processed; and
 - any further information that is necessary to enable the processing to be fair.
- 2.4 The Audit Commission's code of practice requires that the Director of Finance or equivalent senior named officer will act as Senior Responsible Officer for NFI purposes. The Director of Finance, or equivalent senior named officer acting as 'senior responsible officer' for NFI, has key responsibilities to ensure the statutory requirements for bodies participating in NFI are met, as follows:
- nominate a key contact
 - ensure the key contact has access to the matches (via the secure NFI software) as soon as they become available.
 - ensure that the key contact fulfils all data protection requirements
- 2.5 Key Contact role - The key contact will be responsible for:
- nomination of appropriate users to upload data submissions
 - nominating appropriate dataset contacts

- ensuring that the data formats guidance and data specifications are adhered to
- fulfilling data protection requirements. The key contact should be in direct communication with their organisation's data protection officer or person with equivalent responsibility
- nominating appropriate users that will investigate the matches and act as point of contact for other bodies
- coordinating and monitoring the overall exercise
- Ensuring outcomes from investigations are recorded on the web application promptly and accurately

Participants should submit a declaration confirming compliance with the fair processing notification requirements (Fair processing compliance return).

- 2.6 Data submission - The user responsible for submission of the data should ensure that data:
- meets the specifications
 - is in the correct format
 - is submitted by the specified method (in other words, the data file upload facility (DFU))
 - is received by the required deadline(s)
- 2.7 Secure Data File Upload (DFU) facility is available within the NFI software.. This enables the data to be uploaded quickly and easily.
- 2.8 The code also requires the external auditor to 'provide reasonable assurance' that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.
- 2.9. Therefore, the code advises, where there is a significant number of over or underpayments identified using a data matching technique may give the auditor reason to believe that there has been a material misstatement of the accounts. This may lead to audit recommendations to improve the systems of internal control.
- 2.10 Data matching in the NFI involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body to see how far they match. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found, it indicates that there is an inconsistency that requires further investigation. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.
- 2.11 The purpose of this Code is to help ensure that the Commission and its staff, auditors and all persons and bodies involved in data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998, and to promote good practice in data matching. It includes guidance on the

notification process for letting individuals know why their data is matched and by whom, the standards that apply and where to find further information.

2.12 Layered notices –

The Information Commissioner recommends a layered approach to fair processing notices. Usually there are three layers: summary notice, condensed text and full text. Taken together, the three layers comprise the fair processing notice. Participants should decide the content and means of issue of fair processing notices for themselves.

3. **National Fraud Initiative 2012/13 and beyond**

3.1 In accordance with the Code of Data matching Practice 2008 the Key Contact has been notified to the Audit Commission. The main functions of this role in addition to those specified in Item 2.5 are -

- To ensure that the data has been obtained fairly so that it can be released for the exercise and submit the certificate of fair processing compliance
- Ensure that the data complies with the required formats and submitted to the Commission on time
- Manage the output data on Audit Commissions web site and act as local administrator to the site to manage enrolment and training of investigators
- Co-ordinate the Authority's results and liaise with the Commission
- Provide advice, training and assistance to investigators

3.2 An example of the time table for the next NFI has the following deadlines:

- 30th September 2014 - Submission of Fair processing Compliance return
- 6th October 2014- Data extraction date
- 6th October onwards - Data to supplied to the Commission
- 29th January 2015 – Output data expected from the Audit Commission

3.3. As previously advised the NFI is a national data matching exercise of data from Authority's key financial systems to identify potential fraud or error. For the NFI 2014/15 all Local Authorities are required to provide the mandatory data :-

- Payroll
- Pensions
- Trade creditors' payment history and Trade creditors' standing data
- Housing
- Housing benefits² **
- Council tax (not required until 2015)
- Electoral register (not required until 2015)
- Students eligible for a loan³ **
- Private supported care home residents

- Transport passes and permits (including residents' parking, blue badges and concessionary travel)
- Insurance claimants
- Licences - Market trader/operator, Taxi driver and (new) Personal licences to supply alcohol

(NB some data sets ** will be obtained from other sources i.e Benefits Department for Work and Pensions and Students data to be provided by Student Loan Company (SLC).

3.4. Whilst participation in the NFI's is mandatory all participants need to ensure that all information to be released for the NFI is fair processing compliant under the Data Protection Act 1998.

3.5. Tower Hamlets achieves fair processing compliance in two processes :-

- The fair processing statement is included in all key data collecting applications held by the Authority. All applications advise the applicants that the Authority has a duty to protect the public purse, and that as part of the declaration signed by applicants they understand that the Authority has this duty and that it will take steps to recover or redress abuse and share information with other Authorities or agencies for the prevention and detection of crime. This is consistent with the Authority's Anti Fraud and Corruption Strategy.
- In addition data subjects are notified of the Authority's participation in the current NFI's by a range of processes-

3.6. A layered processing of notifications has been used in the past accordance with the code of Data Matching practice 2008 and this is currently in progress at time of writing the report, with the following :-

- First Layer to advise the data subjects that LBTH is taking part in the next National Fraud Initiative and the name of the officer at LBTH who should be contacted should more details be required.
- So far we have achieved compliance with fair processing on Council Tax (annual Council Tax Statement in March 2014) and Pensioners via their annual newsletter in April 2014.
- Employees will be notified (including school governors) in early September after the summer recess.
- Articles are also to be released in the Members bulletins and Managers Briefing before the deadline.
- Tenant's notifications will be made via local free publication and also via the website and social media.
- Second layer is a summary of what the NFI is about and who to contact at the Authority and provide link of the Audit Commission site for detailed information, this has been achieved by a summary outline of the exercise and who to contact for more information being publicised on the Council's web site on the following link www.towerhamlets.gov.uk/nfi

- Third layer is the detailed information held on the Audit Commission web site. <http://www.audit-commission.gov.uk/nfi/Pages/default.aspx>
- 3.7. A Flexible Matching Service (FMS) has been introduced by the Commission, which is designed to compliment the two year mandatory batch data matching service.
 - 3.8. This service allows participants to submit new data and also allowing a re performance of the existing NFI matches at a time the authority chooses.
 - 3.9. There is also the option for a group of authorities or participating organisations to arrange a match to their chosen risk area, in order to target their specific needs.
 - 3.10. There are additional fees for this service, which will depend on the volume of data submitted. Where less than 1,000 records are submitted the results are expected to be available within the hour. The cost is £300.00 per dataset.

1. SUMMARY

- 1.1 This report provides the Audit Committee with a summary of the arrangements for the transfer of existing Housing Benefit Fraud investigation Services to the DWP. The programme of rollout has started already and is due to finalise by March 2016.
- 1.2 As part of the Governments ongoing commitment to welfare reform the concept of a Single Fraud Investigation Service for the examination and review of all welfare related benefits has been developed with a series of 'pilot' authorities in various parts of the country being established. Following the early success of these pilots the DWP wrote to all Local Authorities in March 2014 setting out the approach to the transfer of Housing Benefit Fraud Investigation teams advising that the process would be outlined in a paper setting out the manner of the transfer, employment rights and clarity about how the scheme would be rolled out.
- 1.3 Each authority was asked to complete a questionnaire of 31 key questions covering resource and performance statistics and the percentage of posts that worked exclusively on Welfare related investigations as against Corporate Fraud work. A copy of our return is attached as Appendix B2.
- 1.4 The return would give the DWP an initial indication of work load and resources on which to base their statistics and likely transfer of resource to them.
- 1.5 On 31 March 2014 a 'Roadshow' was organised by the DWP to provide some more detail on the transfer of resource issue and each authority was requested to send up to two representatives from the Housing Benefit Fraud Investigation Service, one to be an operational investigator. The DWP intend to undertake such events across the country and each roadshow would be represented by a cross section of authorities.

3. CONSULTATION WITH HR

- 3.1 All information associated with this transfer has been communicated to the Head of HR who has informed Staff Side as part of ongoing communications. Legal Services have been kept informed from an Employment Law perspective. It is likely that local negotiations will take place with each Local Authority where those identified to be in scope have specific issues to resolve such as access to a local DWP site for future work or where special arrangements such as Travel Allowances, Parking Permits and other unique benefits apply.

- 3.2 The DWP have advised the council that we will transfer to them in February 2016 thus making us one of the very last London authorities to transfer. This creates some opportunity to examine our resources going forward and we have continued to set challenging targets for this financial year on a 'business as usual' basis.

4 RESOURCES GOING FORWARD

- 4.1 There will be areas of Fraud investigation which are currently 'by products' of Housing Benefit Fraud Investigations that will require consideration for future resourcing. These include Parking Permit abuse, Council Tax Investigations- CT Reduction Scheme, Single Person Discount Investigation and Student status discount.
- 4.2 It is proposed to submit a detailed paper of resource requirements for emerging and residual work in the near future when further clarity of what resources are determined to be in scope are clarified by the DWP.

APPENDIX B 2

LOCAL AUTHORITY QUESTIONS

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No.	Question	Yes/No where appropriate	Additional requested information - Response
1	Do you have a standalone Benefit Fraud team or is it combined with Corporate Fraud work?	Yes	
2	How many Benefit Fraud Managers do you employ? Please provide your response as both a Full Time Equivalent (FTE) and number of people.	2 People, full time	
3	Do those Benefit Fraud Managers listed above also undertake other duties (eg Blue Badge, Tenancy etc)?	N/A	
4	How many of the Benefit Fraud Managers listed above are also Fraud Investigators? (It is important that staff are only counted once) .	N/A	
5	How many Benefit Fraud Investigators do you employ? (Do NOT include any Managers/Team Leaders counted above) . Please provide your response as both a Full Time Equivalent (FTE) and number of people?	8 people, full time	
6	How many of those Benefit Fraud Investigators listed above also undertake other Fraud activity (eg Blue Badge, Tenancy etc.)	N/A	
7	Do you have any staff who support Benefit Fraud Investigators in an Admin capacity, and if so, how many? Please provide your response as both a FTE and number of people.	2 people, full time	
8	Do any of your benefit fraud staff work from home and if yes, is this within the terms of their contract	No	

	or an "unofficial arrangement"?		
9	What is your average HB/CTB fraud referral rate received per week? Where do referrals come from? (ie source)	22 per week average. From a variety of sources	
10	Approximately what percentage of cases are HB/CTB only and approximately what percentage also involve other (non HB) DWP benefits?	Appx 60%	
11	On average, what percentage of HB/CTB fraud referrals are accepted for investigation?	Approx 50%	
12	What is your current HB/CTB fraud file caseload? - ie Live cases being investigated	458	
13	Have you contracted out/set up a shared service for your fraud services? With whom?	No	
14	Does your contracted out/shared service fraud service cover more than just HB/CTB Fraud activity? (eg Does the contract cover all HB admin activity including Fraud).	N/A	
15	Will this contract require re-negotiation following the introduction of SFIS and cases being passed to SFIS? Have you started to take steps towards doing this?	N/A	
16	Do you believe the introduction of SFIS will affect any contractual agreements? If so, with whom and to what extent. (Please only include anything relating to HB fraud and not corporate fraud) Examples - Credit Reference Agencies/Membership of Professional organisations/Mobile phone contracts/Vehicle costs/Typing transcription costs/Agency workers		Fraud Case Management System Investigative work tools such as: Experian, Companies House access, Tape transcription contract Temporary Contract Investigators

17	If yes to above, what steps are you taking to mitigate any impact?		Not knowing exact date the change is going to happen makes this extremely difficult.
18	Which case management IT system/Fraud database do you use for fraud work? Is this supported by a contract?	Fims	Yes it is supported by a contract.
19	Is your Case Management system or Fraud database used solely for HB fraud or will this continue to be used for other areas (eg HB admin or corporate fraud)	Yes	Corporate & Tenancy held on separate contract.
20	Do you have your own Financial Investigation Unit? If so how many staff does this involve and how much of their work is HB/CTB only?	No	
21	Do you use NAFN for HB/CTB fraud cases?	Yes	
22	Do you use NAFN for other services in the council (eg corporate fraud or trading standards)	Yes	
23	Do you undertake your own Authorised Officer function within the fraud team? If not, who do you use?	Yes	
24	Do you currently conduct joint investigations with DWP?	Yes	
25	Do you work with one or more DWP FIS teams and if so which one(s)	Yes	City A & City B teams
26	Do you undertake any work for other LA sites. If so, to what extent and which ones?	No	
27	Does your LA run their own hotline or advertise a Fraud hotline number?	Yes	
28	How many Employee Pension schemes does your LA have?	1	
29	Please provide any other information about your HB fraud service which you feel would be helpful	N/A	
30	Please provide Single Point of Contact details for future implementation engagement. (Name, address, tel number, e-mail address)		Mr T Qayum. LBTH, Mulberry Place, 5 Clove Crescent, London E14 2BG Tony.qayum@towerhamlets.gov.uk Tony.qayum@towerhamlets.gcsx.gov.uk

31	Please provide name & contact details of the person completing this form		As above
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Example Activities Transferring from LAs to DWP SFIS

- Conducting Housing Benefit / residual Council Tax benefit fraud investigations in line with instructions in user manuals/guidance.
- Conducting Interviews under caution in accordance with The Police and Criminal Evidence Act 1984 (England and Wales) and Common Law (Scotland).
- Conducting interviews with Customers to offer Administrative Penalties, Formal Cautions (England & Wales) and Administrative Cautions (Scotland).
- In respect of welfare benefit fraud, recording the progress of a case on IT/ Case management systems, taking into account the potential for referring appropriate cases to, and liaising with, other teams such as Customer Compliance / visiting officers, DWP Fraud Investigations and Financial Investigation Unit (FIU).
- Maintaining relevant evidence files, annotating appropriate material as sensitive including maintaining an N1 notebook, in respect of fraud.
- Information / Intelligence gathering to ensure suitability of case for fraud investigation
- Information / Intelligence gathering to build case for investigation
- Developing cases into prosecution cases and attending Court as a witness.
- Liaising with other Departments/organisations on fraud matters.
- Making requests for surveillance to the TFI in line with the Regulation of Investigatory Powers Act (RIPA) and the accompanying code of practice.
- Conducting surveillance.
- Making requests to Authorised Officers in line with the Social Security Fraud Act (SSFA) and FPI for information from information providers.
- Requesting information such as employment details from an employer in line with current policy.
- Managing welfare benefit fraud business on behalf of the LA within a specific team.
- Recommending requests for surveillance to the appropriate LA Officer in line with the requirements of the Regulation of Investigatory Powers Act (RIPA) and the accompanying code of practice. This requires the authority of a Magistrate.
- Performing Financial Investigation Recovery activity on welfare benefit fraud cases on behalf of the LA, including conducting this work for other LAs.
- Carrying out instructions set out by the Assets Recovery Agency (ARA) and other user manuals.
- Requesting orders as prescribed within the Proceeds of Crime Act.
- Preparing all submissions relating to Proceeds of Crime action in Court and to attend Court where necessary.

Work NOT Transferring from LAs to DWP SFIS

- Hotlines/ LA call centres that take reports of fraud/suspected fraud
- LA compliance/ visiting staff
- HB/CTB decision makers, benefit processors, overpayment or debt staff
- Solicitors employed / contracted by LAs for the purpose of Fraud Prosecution work

SFIS Project - Questions and Answers

Q: Why doesn't TUPE apply to the transfer of staff into DWP when single investigations are introduced?

A: The transfer of staff in to DWP is considered to be an administrative transfer and is therefore not covered by the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) (1). However, DWP is committed to taking those employees currently assigned to benefit fraud investigation work. In order to effect the transfer of contracts of employment of employees, and provide them with similar employment rights protection to that which they would have under TUPE, the Secretary of State proposes to use powers under the Employment Relations Act 1999 to create a statutory staff transfer scheme (STS) which will be "TUPE-like".

Q: What protections are there for staff transferring to DWP under the Statutory Transfer Scheme?

A: In order to ensure the fair and equitable treatment of employees we are seeking to ensure that the transfer scheme and consultation process mirrors TUPE, as far as practicable. This reflects the approach set out in the Cabinet Office Statement of Practice on Staff Transfers (COSOP).

Q: Can DWP unilaterally change my terms and conditions of employment post transfer?

A: Your terms and conditions of employment will transfer with you. There may be little difference between those on offer in DWP. They could also be more or less favourable. Terms and conditions can only be changed by negotiation and consent.

Q: Will I become a Civil Servant on transfer to DWP?

A: Yes, you will become a Civil Servant on transfer.

Q: Can I object to the transfer?

A: Yes you can. But if you object to transfer you would not transfer over to DWP and your contract of employment will come to an end unless your current employer agrees otherwise.

Q: What happens to my salary?

A: Your salary will be protected. If it is more than the DWP pay scale you will retain your current (higher) salary. If your salary is below the minimum of the DWP pay scales, your salary will be automatically uplifted.

Q: What happens to my pension on transfer?

A: Transferring staff will join the Principal Civil Service Pension Scheme (PCSPS) on their first day with DWP. They will be given the option of transferring their previous pension service into the PCSPS, or leaving it with their current scheme until they are entitled to receive pension payments.

Q: Am I guaranteed a job in SFIS?

A: We expect the vast majority of staff to be allocated to a role in SFIS. Where we are unable to do this, other options will be considered in consultation with those affected. This could include posting you into another DWP role.

Q: How far am I expected to travel to my new location when I move to DWP?

A: All fraud investigations will be delivered from sites where FES employees currently are located but we may also base people in other DWP sites. If this means a longer commute to work, your daily commute will be in line with your employer's current mobility policy. This will be a matter for individual discussion where necessary. There may be isolated cases where individuals will have mobility restrictions which mean they are unable to travel to any DWP site. In these circumstances we will discuss this with your employer before the transfer to explore what options would be available based on individual circumstances.

Q: When will I know which role I will be given and where I will be based?

A: Prior to the transfer, we will look at the transfer propositions from each employer in the vicinity. We will then consider a number of factors which includes the total number of staff available, where they live, and then compare this against the delivery options in DW

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