

REPORT TO: <b>Audit Committee</b>	DATE <b>31 March 2009</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b> ORIGINATING OFFICER(S): <b>Service Head Risk Management</b>		Quarterly Internal Audit Assurance Report  <b>Ward(s) Affected: N/A</b>		

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2008 to February 2009.
- 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 will feed into the annual internal audit opinion which will be produced at the end of the financial year. The annual internal audit report will be brought to the Audit Committee on 30 June 2009.

## 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: -

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
<b>Substantial</b>	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;
<b>Limited</b>	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;
<b>Nil</b>	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: -

<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or Scale of Service £1m- £5m.
<b>Low</b>	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 on 6 January 2009, 12 final reports have been issued. The findings of these audits are presented as follows:
- The chart below summarises the assurance rating assigned by the level of significance of each report.
  - Appendix 1 provides a list of the audits organised by assurance rating and significance.
  - Appendix 2 provides a brief summary of each audit.
- 5.2. **The Audit Committee is invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
  - The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in appendix 1. For follow up audits, management comments have been added to accompany the summary of audit findings, outlining the current status of the recommendations raised and how the service plans to implement the recommendations where the level of assurance is Limited or Nil. The management comments as such have not been verified by internal audit.
- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

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

Chart 1

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	0	1	0	0	0
	Moderate	0	7	2	1	0
	Low	0	0	1	0	0
Total 100%		0	8 67%	3 25%	1 8%	0 0%

- 5.4. From the table above it can be seen that of the 12 finalised audits which were of extensive or moderate significance, eight were assigned Substantial Assurance, three were assigned Limited Assurance and one was assigned Nil Assurance. The remaining one audit was of low significance which was also assigned Limited Assurance.
- 5.5. Overall, 67% of audits resulted in an adequate assurance (substantial or full). The remaining 33% of audits had an inadequate assurance rating (limited or nil). Work in progress is shown in Appendix 3.

## 6. Performance Indicators

- 6.1. At the start of the year, two performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period April 2008 to February 2009.

Performance measure	Target	Actual
Percentage of Audit Plan completed in year to date	88%	90%
Percentage of Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	79%

- 6.2. The table above shows that the proportion of internal audit work completed to February 2009 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of recommendation implemented at the follow up stage has increased following the proactive approach that has being adopted by audit and management to implement recommendations in a timely manner. For follow ups completed from December 08 to February 09, the percentage of recommendations implemented is 88%. The cumulative position from April 08 to Feb 09 is 79%.
- 6.4. For follow ups, from 2009/10, the performance measure will be refined. In future, the percentage of recommendations implemented will be monitored in more detail capturing the each priority of recommendation. This will provide assurance over the implementation of the most important recommendations. The table below sets out the targets:

Performance measure	Target
Percentage of Audit Recommendations implemented by Auditees at six monthly follow up audit stage:-	
- Priority 1 recommendations	100%
- Priority 2 recommendations	95%

- 6.5. Priority 3 recommendations will not be followed up since these tend to be recommendations around best practice and suggestions for enhancing systems of control and not weaknesses in the current framework of control.

## 7. Comments of the Chief Financial Officer

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

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

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

## 9. One Tower Hamlets

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

## 10. Risk Management Implications

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

## 11. Sustainable Action for a Greener Environment (SAGE)

- 11.1 There are no specific SAGE implications.

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**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 :**

*Minesh Jani, 0738*

## Summary of Audits Undertaken

## APPENDIX 1

### Appendix 1

Assurance level	Significance	Directorate	Audit title
<b>NIL</b>	Moderate	Development and Renewal	Management of Commercial Property Portfolio
<b>LIMITED</b>	Moderate	Children's Services	Old Palace Primary School
	Moderate	Children's Services	St. Agnes RC Primary School
	Low	Tower Hamlets Homes	Horticulture Contract Monitoring
<b>SUBSTANTIAL</b>	Extensive	Children's Services	Building Schools for the Future
	Moderate	Tower Hamlets Homes	Sidney Street Estate – Central Heating Installation Works
	Moderate	Tower Hamlets Homes	Management of Voids
	Moderate	Chief Executive	Communication Strategy
	Moderate	Adults, Health and Wellbeing	Direct Payments – FU Audit
	Moderate	Children's Services	English Martyrs RC Primary School Malmesbury Primary School Wellington Primary School

## APPENDIX 2

### Summary of Audits Undertaken

#### Appendix 2

Nil

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Commercial Property Portfolio</p> <p>Systems Audit</p>	<p>Jan. 2009</p>	<p>This audit reviewed the arrangements in place for managing the Council's commercial property portfolio of 293 commercial units. The total annual income raised from commercial rents is approximately £2.1M. The audit identified the following issues:-</p> <ul style="list-style-type: none"> <li>• There was a high level Asset Management Plan, which governed the management of the Council's property portfolio. However, there were no documented policies and procedures in place which specifically dealt with the operational aspects of managing and controlling commercial portfolio. In the absence of procedural guidelines, there was a risk of inconsistent working practices leading to errors, omissions, irregularities and fraud. For example, instructions were being issued for lease renewals and assignments to Legal Services by Property Officers who did not have the appropriate authority.</li> <li>• We noted that a number of leases were assigned whilst the former leaseholders had outstanding rent arrears. Similarly, there was a risk of leases being renewed despite breaches of the lease terms and conditions, some of these had financial implications for the Council as the renewed leases were in the area earmarked for demolition. We were advised that there were no policy or procedures for rent reviews. Our analysis of the property database showed that of the 259 records shown, rent reviews were overdue in 90 cases, and in a further 52 cases rent review dates were not entered on the system.</li> <li>• Of the total annual value for commercial rents of £2.1M, the level of rent arrears amounted to £964,441 on a cumulative basis with the oldest debt dating back to 1995/96.</li> </ul> <p>All findings and recommendations were agreed with the Service Head – Property Services.</p>	<p>£2.1M</p> <p>**</p>	<p>Nil</p> <p>*</p>



## APPENDIX 2

### Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Old Palace Primary School	Dec 2008	<p>The purpose of the audit was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration, school funds and asset management. The following findings were reported:-</p> <ul style="list-style-type: none"> <li>• Whilst the school produced budget monitoring reports, there was no evidence that budget variances were analysed and appropriate action taken to resolve them.</li> <li>• The school's purchasing procedures required improvement and the system for acknowledging the receipt of goods and services needed to be strengthened.</li> <li>• The system for undertaking and verifying pre-recruitment checks needed to be improved.</li> <li>• Improvements were needed in the management and control of inventory items, including annual check and disposal. Loans of equipment needed to be recorded and controlled.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate  **	Limited  **

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Agnes Roman Catholic Primary School	Dec 2008	<p>The objective of the audit was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration school funds and asset management. The audit review identified scope for improvement in all the areas reviewed by us.</p> <p>Specific focus was required on the following issues:-</p> <ul style="list-style-type: none"> <li>• The school needed to comply with financial regulations on procurement procedures to demonstrate compliance with best value principles.</li> <li>• Improvements were also needed in ordering procedures to raise commitments on the financial system to improve budget monitoring.</li> <li>• The school's personnel/payroll management was not adequate.</li> <li>• Inventory management and control was weak.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services.</p>	Moderate  **	Limited  **

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### Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Horticulture Contract Monitoring Systems audit	Jan. 2009	<p>The objective of this audit was to provide assurance on the framework of systems for monitoring the contract. Following competitive tendering, the contract was awarded on 22<sup>nd</sup> August 2006 for the period 1<sup>st</sup> October 2006 to 30<sup>th</sup> September 2011, with an option for 5 years extension. Officers of the Caretaking and Estate Services are responsible for managing and monitoring the contract. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• The service had just been restructured at the time of the audit and good practices in contract management had not been embedded. There were no comprehensive procedures for the management and monitoring of the contract. Moreover, there was no programme of inspections, and hence no assurance that inspections were carried out on a planned and programmed basis, targeting critical risks.</li> <li>• Whilst improvement notices were being issued, there was no record of a subsequent visit to verify the rectification of fault. There were no documented procedures for issuing and monitoring variation orders and there was little evidence of any market testing for these additional works. Some of the variation works were already included and priced in the contract, but this was not utilised.</li> <li>• Performance monitoring reports were produced on a monthly basis, but compliance by the contractor could not be assessed due to the limited number of inspections currently undertaken. Furthermore, we have noted that there were no local performance indicators and targets for assessing the efficiency of the service.</li> </ul> <p>All findings and recommendations were agreed with the Head of Service and the final report was issued to the Chief Executive.</p>	<p>Contract value £380K Variation £140K</p> <p>*</p>	<p>Limited</p> <p>**</p>

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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Building Schools for Future	Jan. 2009	<p>Building Schools for Future (BSF) is a long term investment programme for secondary schools. At LBTH this is in the form of a mixture of new build and refurbishment facilities under Design and Build (D&amp;B) scheme. The initial project included two sample schools viz. St Paul's Way Community School and Bethnal Green Technical College, but the procurement contract was a package for delivering all the schools within the BSF programme with a capital value of £300M over a 10 year period.</p> <p>Our review of the pre contract stage for the two sample schemes covered the controls surrounding invitation, receipt, opening, evaluation and the awarding of the contract. Audit testing showed that there was compliance with EU Regulations and the procedures for inviting, receiving, opening, evaluating and accepting tenders were satisfactory. As this was eventually a single tender, approval was obtained for continuing the competitive dialogue with the single bidder subject to testing the sample schools' bids against national benchmarking data. This testing was carried out by an external company. The results of the benchmarking evaluation showed that in both cases, the bids were in the upper quartile of the benchmarking range. We, therefore, recommended that a clear system for variation control and cost control should be established to ensure sound management of design development so that client generated variations are minimised. Furthermore, we recommended that clear systems and structures for client-side contract monitoring during the construction period and also during the operational period be established to ensure continuity over a longer period.</p> <p>All findings and recommendations were agreed by the Service Head – Building Schools for the Future.</p>	£300M ***	Substantial ***

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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sidney Street Estate - Central Heating Installation Current Contract Audit	Jan 2009	<p>This audit examine the systems in place for making interim payments; for controlling and issuing variation orders; for receiving and evaluating claims; and for monitoring cost and work programmes during the currency of contract works. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• We reported that the controls in place for procuring works, managing the works programme and controlling variations were adequate. Furthermore, arrangements for securing a performance bond and deed were also satisfactory.</li> <li>• However, the review did highlight improvements in relation to cost reporting and the valuation of works completed, as cost reports were not being prepared and interim valuations were not undertaken. The only payment made was an advance payment of £700,000 which was secured by a Bond. We have recommended that THH should clarify within its Financial Procedures and policy as to whether Advanced Payments with a security of a Bond is an acceptable practice.</li> </ul> <p>All findings and recommendations were agreed with Interim Head of Asset Management and final report was issued to the Chief Executive.</p>	£1.1M  **	Substantial  ***

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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Voids Systems Audit	Jan 2009	<p>The objective of this audit was to provide assurance over the soundness and adequacy of the systems in place for identifying, inspecting, repairing and re-letting void properties. The responsibility for controlling and managing housing voids, falls within the four Local Service Centres (Less).</p> <p>Our review showed that within their Initial Delivery Plan for the period up to March 2009 THH has a performance target for void turnaround of 30 days. Operational procedures for managing and monitoring void dwellings are currently under review. The Void Monitoring Panel meets on a quarterly basis and identifies the number of voids and their stages, achievement against targets and any specific problems and issues, although we reported that further improvements should be made to increase the effectiveness of the Panel. Higher level performance monitoring is provided by the Voids Star Chamber which considers more strategic and developmental issues.</p> <p>We, highlighted areas for improvement such as standardisation of systems and procedures across the four LSCs, better monitoring by the LSC Managers of compliance with these procedures, better record keeping to ensure that all the required records such as works specification, key records, job completions certificates, safety certificates, monitoring sheets etc. are filed in the manual file properly.</p> <p>All findings and recommendations were agreed with the Interim Head of Service and Final report was issued to the Chief Executive.</p>	Moderate **	Substantial ***

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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Communication Strategy	Jan. 2009	<p>The objective of this review was to provide assurance that the Council's systems and procedures for planning, controlling and monitoring internal and external communications were sound and adequate.</p> <p>The audit review showed that the systems within the Communications Unit were generally sound and complied with legislative requirements. Best practice and professional standards were being adhered to in managing both External and Internal communications. However, we noted that the 2008/09 Corporate Communications Strategy and Team Plans required to be formally agreed. Moreover, the setting of staffing budgets needed to be within the available funding as required by the Financial Regulations and the recovery of debt for advertising in the East End Life needed to be improved.</p> <p>All findings and recommendations were agreed with the Service Head - Communications.</p>	£2.8M **	Substantial ***

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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Direct Payments Follow Up audit	Jan 2009	<p>From our follow up review, we have found that of the six recommendations made in the original audit report, five had been progressed and implemented. Procedures for making, approving and monitoring direct payments were satisfactory. One recommendation relating to the monthly monitoring of performance by DMT on the number of referrals, number of Direct Payment users and the movement towards the set target, could not be verified as minutes of the DMT were not made available for verification purposes.</p> <p>The report was issued to the Corporate Director - AHW and there were no further recommendations raised.</p>	£2M  **	Substantial  ***



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### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>English Martyrs Roman Catholic School</p> <p>Malmesbury Primary School</p> <p>Wellington Primary School</p>	<p>Dec. 2008</p>	<p>A programme of regularity audits was undertaken at the three schools. The objective was to provide assurance on the soundness of school governance, financial planning, budgetary control, financial control, purchasing, personnel/payroll administration, school funds and asset management.</p> <p>Our testing showed that sound controls had been established to support governance within these schools. Financial planning and budget monitoring systems were also adequate.</p> <p>However, improvements were required to ensure that there was a clear process in recording Governing Body decisions and in asset management.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Director of Children's Services</p>	<p>Moderate</p> <p style="text-align: center;">**</p>	<p>Substantial</p> <p style="text-align: center;">***</p>

**Audit Plan 2008/09**  
**Work in progress**

<b>Audit Activity</b>	<b>Audit status</b>
<b>Corporate Systems and Council-wide Reviews</b>	
Mapping of Material Systems	On-going
Project Management	Draft Report
Local Area Agreements	Draft Report issued
Procurement of Mobile Phones	Draft Report
BV Performance Indicators	Draft Report
Scheme of Delegation	Draft Report
Agency staff – FU audit	Field work
<b>Children's Services</b>	
Contract Services Income Collection and Monitoring	Draft Report
Marnar school - Current contract audit	Draft Report
Child Protection	Field work
End of Year School Bank Accounts - FU	Draft Report
Fostering – FU audit	Draft report
Children's Centres	Field work
<b>CLC</b>	
Boroughwide waste collection and cleansing contract - FU	Draft Report

**APPENDIX 3**

<b>Audit Activity</b>	<b>Audit status</b>
Blue Badges systems audit	Exit Meeting
Brady Arts Centre	Draft report
Fuel Purchase - Transport	Exit Meeting
The Car Pound – FU audit	Draft Report
Parking Income	Field work
<b>Development and Renewal</b>	
S 106 planning obligations – FU	Field work
<b>Tower Hamlets Homes</b>	
Gas repairs and maintenance – FU audit	Draft Report
RTB – FU audit	Draft Report
Major Works	Draft Report
TMO – FU audit	Field work
Governance	Field work
<b>Adult, Health and Wellbeing</b>	
Homeless Assessment – systems audit	Draft report
Commissioning of Elderly services	Draft report
Family Rent Deposit Scheme FU audit	Draft report
Sickness Management FU audit	Draft Report
Supporting people – systems audit	Exit Meeting
Head office – Income control FU audit	Field work
Receiverships – FU audit	Field work
Cash Income	Field work
<b>Resources</b>	
Council Tax	Draft Report
NNDR	Draft Report

**APPENDIX 3**

<b>Audit Activity</b>	<b>Audit status</b>
Treasury management	Draft Report
Cashiers	Field work
IFRS – Planning and Implementation	Field work
Photocopier contract monitoring	Field work
Capital Accounting	Field work
General Ledger and Budgetary Control	Field work
Housing Benefit	Field work
Housing Rents	Field work
Sundry Debtors	Field work
Creditors	Field work
Payroll	Field work
Pensions	Field work