

REPORT TO: Audit Committee	DATE 29 June 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Internal Audit Annual Report 2008/09 <i>Ward(s) Affected: N/A</i>		
ORIGINATING OFFICER(S): <i>Service Head Risk Management</i>				

1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2008/09. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

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

3. Introduction

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

3.2 This report is set out as follows:

Opinion and basis of opinion

- **Summary of audit work undertaken in 2008/09**
- **Appendix 1 – Audit Resources**
- **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee. These are the outstanding summaries for 2008/09
- **Appendix 3 – List of audits undertaken in 2008/09**
- **Appendix 4 – Summary Head of Audit Opinion**
- **Appendix 5 – Detailed Head of Audit Opinion**
- **Appendix 6 – Peer review and benchmarking club.**

4. Statement of Responsibility

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

5. Opinion

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2008/09. The basis for this opinion is set out below.

6. Basis of Opinion

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2008/09. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.

- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2008/09. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix one below. Internal Audit is provided in partnership with Deloitte & Touche Public Sector Ltd. An in-house team of nine auditors works with resources provided by Deloitte under the contract.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 6.2 days per person on average, compared to 5 days in 2007/08.
- 7.4 During the year, there was a greater emphasis on risk based audits, which reflects the internal audit strategy in delivering assurance to the Council. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2008/09 is attached to main body of the report at appendix 3 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and

Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.

- 8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2008/09.
- 8.3 A summary of the audit assurance resulting from audit reports in 2008/09 is provided in the table below.

Audits 08/09		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	0	41	10	0
	Moderate	0	24	26	1
	Low	0	2	3	0
Total		0	67	39	1

- 8.4 The table shows that 67 of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place. 40 of systems audited were rated as limited or nil assurance.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses. The one case where Nil assurance was given related to the management of the Council's Commercial Portfolio. A follow-up audit has been programmed to assess the progress in implementing the recommendations made in the audit report.
- 8.6 From the Internal Audit work during 2008/09 financial year, we identified risks in the Council's systems for paying its creditors; procurement; business continuity planning; and recovery of income for housing major works. Action plans have been agreed to address the key control

weaknesses in these areas, and a programme of follow up audit work will be undertaken to assess the progress.

- 8.7 From our Internal Audit work during 2008/09, we can provide an overall assurance that Tower Hamlets has an effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

9 Audit Performance

- 9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2008/09 is set out in the table below.

Performance Measure	2008/09	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	100%
Percentage of recommendations followed up that have been implemented by 6 month review date	95%	77%

- 9.2 As at the 31st March 2009, 100% of the operational plan was completed. A number of audits were still in progress, but have now been completed/ or are awaiting management comment.
- 9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. At the point of follow-up, 77% of recommendations had been implemented. Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.
- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2008/09 will be submitted and key points will be reported to a future CMT and Audit Committee.

10 Comments of the Chief Financial Officer

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

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

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

12 One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

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

13 Risk Management Implications

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

14 Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

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

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

Brief description of "background papers"

Contact :

Minesh Jani, 0738

Internal Audit – Resources 2008/09

<u>Available audit days</u>				
	Revised Plan	%	Outturn	%
In-house staff days	2,228	81	2,282	79
Deloitte / external	522	19	591	21
	2,750		2,873	
Gross days				
<i>less</i> Leave	278	10	264	9
<i>less</i> Sickness absence	60	2	56	2
<i>less</i> Non Operational Time	220	8	194	7
	558	20	514	18
	2,192	80%	2,359	82%
Net productive days				

Internal Audit Budget 2008/09

	Budget £	Actual £	Variance £
Salaries	547	537	-10
Contract costs	209	237	28
Running costs	36	14	-22
Central Recharges	119	124	5
Gross cost recharged	911	(*)912	1

(*) – please note: £35k transferred to Risk Management for implementation of new system.

Internal Audit Reports 2008/09 – Summary of Audit Reports

Assurance ratings

Level

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

Significance ratings

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

APPENDIX 2

Summaries of 2008/09 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Adults, Health and Wellbeing	Sickness Management Follow Up
	Moderate	Children's Services	Redland Primary School
	Moderate	Children's Services	Arnhem Wharf Primary School
	Moderate	Children's Services	Stewart Headlam Primary School
	Moderate	Children's Services	Kobi Nazrul Primary School
SUBSTANTIAL	Extensive	Adults, Health and Wellbeing	Commissioning of Older People's Services
	Extensive	Adults, Health and Wellbeing	Receiverships - Follow Up
	Extensive	Adults, Health and Wellbeing	Homelessness Assessment
	Extensive	Adults, Health and Wellbeing	Supporting People
	Extensive	Children's Services	End of Year School Account Reconciliation – Follow Up
	Extensive	Resources	Council Tax
	Extensive	Resources	NNDR
	Extensive	Resources	Treasury Management
	Extensive	Resources	Cashiers/Cash Income
	Extensive	Resources	Debtors Systems audit
	Extensive	Resources	Data Centre and Data back up
	Extensive	Resources	Software Licensing
	Extensive	Resources	Anti virus and Anti spyware

Assurance level	Significance	Directorate	Audit title
	Extensive	Tower Hamlets Homes	Governance of Tower Hamlets Homes
	Extensive	Tower Hamlets Homes	Right to Buy – Follow Up
	Moderate	Adults, Health and Wellbeing	Family Rent Deposit Scheme – Follow Up
	Moderate	Adults, Health and Wellbeing	Direct Payments Follow Up
	Moderate	Adult, Health and Wellbeing	Income Collection and Banking – Follow Up audit
	Moderate	Children's Services	Cayley Primary School
	Moderate	Children's Services	Blue Gate Fields Infants School
	Low	Communities Localities Culture	Brady Arts Centre

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sickness Management FU	Jan 2009	<p>Our review found that following the original audit, letters were sent to all Managers who have the responsibility for sickness management within AHW. These letters clarified the procedures for recording and submitting sickness returns on a timely basis. However, our testing showed that managers were still non-compliant with the procedures and this exposed the system to risks of errors and omissions which can compromise the quality of data produced for monitoring sickness and absences for the Directorate. There appeared to be persistent non-return of monitoring and absence returns by certain services, which needed to be addressed. From our sample testing, we noted a non return rate of 30%. There was wide variation within the services with some services performing a lot better than others.</p> <p>The findings and recommendations were agreed with the Head of HR and report was issued to the Corporate Director.</p>	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Redlands Primary School	March 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Redlands School is based in the Mile End area of East London and offers education to boys and girls between the ages of 4 to 11 years. The annual budget for the school for the 2008/2009 financial year is approximately £3.0 million, with approximately £2.0 million allocated to staffing expenditure.</p> <p>12 recommendations were made as a result of this internal audit. This includes three priority 1 issues, seven priority 2 issues and two priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Scheme of Delegations did not specify the maximum limits for authorisation of orders for the deputy Head Teacher, budget holders and the Business Manager. • The declaration of business interest had not been obtained from all current governors at the time of the probity visit. • Monthly payroll reconciliations had not been undertaken at the time of the probity visit. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Arnhem Wharf Primary School	March 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Arnhem Wharf Primary School is a Community School with pupils ranging from the age of 3-11.</p> <p>13 recommendations were made as a result of the audit work, including two priority 1 issues, nine Priority 2 issues and two Priority 3 issues. Audit acknowledges that immediate action was taken to implement recommendations in the draft report and prior to finalisation. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Terms of Reference of the Finance Committee did not include the quorum requirements and financial limits. • Asset control in the school is weak. The school did not have an adequate inventory record in place. It is not evident whether a full inventory check had been undertaken in 2008, as the responsible officer (the Premises officer) had been on long term sick since September 2008. Although audit was informed that laptops and other equipment are loaned to personnel, the school did not maintain records for the loan of equipment. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services. It should be noted that a follow up visit was requested by the Head Teacher of the school to demonstrate the immediate action taken to address all audit recommendations. The assurance level assigned to this audit visit is expected to be upgraded on completion of follow up and audit acknowledge the proactive approach of the school.</p>	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stewart Headlam Primary School	Feb 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Stewart Headlam Primary School is a community school which caters for 369 children from the ages of 3 to 11 years.</p> <p>19 recommendations were made as a result of the audit work, including four priority 1 issues, ten Priority 2 issues and five Priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • The financial limits delegated to the Finance Committee in the Scheme of Delegations document were different from the limits specified in the Terms of Reference of the Finance Committee. • Some governors and staff with financial responsibilities had not completed business declaration forms. • The school had not undergone the procedure for obtaining quotes for purchases over £5,000 as specified in the approved Financial Procedures. • The Pay Policy had not been reviewed and approved annually at the time of the audit. New staff members had already started work in the school prior to receiving CRB clearance. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate **	Limited **

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	April 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Kobi Nazrul Primary School is a community school which caters for 233 children from the ages of 3 to 11 years.</p> <p>19 recommendations were made as a result of the audit work, including two priority 1 issues, ten Priority 2 issues and seven Priority 3 issues. The main findings are summarised below:</p> <ul style="list-style-type: none"> • Whilst the Governing Body has set up Committees there were no Terms of Reference drafted specific to these Committees. • There was no evidence of the Governing Body approving the School's Development Plan (SDP). Further, the SDP was not updated to reflect the achievement of objectives. • The school's Financial Code of Practice did not have procedures for selection of suppliers/contractors for procurements over £10,000. Some invoices had not been certified prior to payment. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate **	Limited **

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Commissioning of Older People's Services	Feb 2009	<p>The objective of this audit was to assure management that the systems in place for the procurement, placement, performance monitoring and paying for elderly services were sound and secure. The audit showed that the Commissioning for Older People's Service was adequate, particularly budgetary and management information arrangements. The Compliance, Procurement and Placement process were also satisfactory. However, there were certain areas which needed addressing, notably: updating of the Commissioning Strategy, reviewing of the Eligibility Criteria; implementing a Declaration of Interest provision and reviewing of the Placement Panel process. Monitoring arrangements needed to be reviewed and measures taken to ensure full compliance with set criteria.</p> <p>All findings and recommendations were agreed with the Corporate Director.</p>	£19M ***	Substantial ***
Receivership FU Audit	March 2009	<p>From our follow up review, we have found that of the four recommendations made in the original audit report, three had been progressed and implemented. One recommendation stating Management should consider incorporating an independent check of the bank account reconciliation process with client account could not be verified as no documentation was made available for verification purposes.</p>	£1.2M **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homelessness Assessment Systems Audit	March 2009	<p>The objective of this audit was to assure management that the systems of control for managing homeless assessments were sound, secure and in accordance with the statutory requirements.</p> <p>Our review showed that assessments for homelessness were carried out correctly in terms of verification of applicant's eligibility regarding their actual state of homelessness, having a priority need and whether the homelessness was intentional. However, we found that there were no written procedural guidelines for staff to follow in assessing and paying for homelessness. Other weaknesses identified included an absence of a computer interrogation facility to monitor the 33 working day target for assessment and testing showed eight out of 20 cases did not meet this target.</p> <p>All findings and recommendations were agreed with the Service Head.</p>	<p>£25M ***</p> <p>Budget for Homeless Accommodation</p>	Substantial ***
Supporting People Programme Systems Audit	May 2009	<p>The objective of this audit was to provide assurance over the systems of control for the administration and management of Supporting People programme.</p> <p>The audit review showed that there were policy and procedures in place which linked the strategic to the operational. The performance monitoring systems were adequate as were the Budgetary and Management Information arrangements. However, there was concern regarding some providers (10% - 6 providers) still performing at Level 'D' in potentially high risk areas such as safety and protection from abuse, despite having been flagged and reported on for some time.</p> <p>All findings and recommendations were agreed with the Service Head and report was issued to the Corporate Director.</p>	<p>£17M ***</p>	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
End of Year School Accounts Reconciliation FU Audit	May 2009	<p>This follow up review found that out of 11 recommendations agreed at the conclusion of the original report, seven had been fully implemented and the rest were being progressed. In the past the calculation of advances to schools had been inaccurate, which resulted in over advances to some schools creating debts for the schools. We noted that progress had been made in recovering the excess sums advanced to schools, although there was still some £2M still to be collected and arrangements have been made to manage the issues.</p> <p>All findings and recommendations were agreed with the Finance Manager and Service Head – Resources.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax Systems Audit	April 2009	<p>The objective of this audit was to assure management that the systems for administering, managing and controlling Council Tax assessments, payments and recovery are sound and secure.</p> <p>Our review found that clear policies and procedures were in place. Systems for managing processes such as billing, amendments to standing data and valuation lists, discounts, refunds, arrears, recovery and performance monitoring for collection rate were adequate. However, we found that all Council Tax information was not readily available on the Council's website, single person discounts were not always promptly processed and Revenue Services authorised signatory listing for approving refunds was not up to date.</p> <p>All findings and recommendations were agreed with the Revenue Services Manager and final report issued to the Corporate Director.</p>	£66M ***	Substantial ***
NNDR Systems Audit	April 2009	<p>The objective of this audit was to provide assurance over the systems for NNDR assessments, payments and recovery. The audit found that there were clear policies and procedures in place and systems for calculating and assessing liability for NNDR, billing, collection, recovery, account amendments, reconciliation and performance monitoring were adequate. We however found a few weaknesses relating to delays in input of Valuation Office schedules and issues in the Authorised Signatories list for processing refunds.</p> <p>All findings and recommendations were agreed with the Revenue Services Manager and final report issued to the Corporate Director</p>	£291M ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management Systems Audit	April 2009	<p>This audit reviewed the systems for controlling, monitoring and reporting treasury management transactions.</p> <p>The audit reported that the Council's Treasury Management and Annual Investment Strategies had been approved by the Cabinet. The Council has clear policies and procedures for managing its investments and the security and liquidity of those investments. There was a reasonable assurance that investments made during the review period were with counterparties that had been approved by the authority and had the necessary credit ratings.</p> <p>We, however, highlighted some minor weaknesses with regard to retention of evidence to support the transfer of funds to the counter party and managing the risks associated with the Treasury function. Investments were found to be promptly reconciled to the bank account, however, there needed to be a clearer segregation of duties in the certification of the reconciliation process.</p> <p>All findings and recommendations were agreed with the Investment and Capital Manager and final report issued to the Corporate Director.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cashiers and Cash Income Systems Audit	May 2009	<p>This audit reviewed the systems for collecting, banking and reconciling income collected by the Cashiers Office at 62 Roman Road.</p> <p>The review showed that overall, there were adequate systems for receipting all income collected and clear audit trails were present in all the transactions processed by the Cashiers Office. Income collected was being banked promptly and reconciled to ensure that income was allocated to the correct account. Income which could not be identified was allocated to the suspense account for clearance by the Income Officer.</p> <p>We found some issues regarding the income received on the automated telephone payment system which was not being reconciled fully, end-of-day cash reconciliation reports were not being counter signed in all cases and the large volume of HB cheques printed at the office which can be minimised by having a BACS system in place.</p> <p>All findings and recommendations were agreed with the Chief Cashiers and Revenue Services Manager and final report was issued to the Corporate Director of Resources.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors Systems Audit	May 2009	<p>The objective of the Authority's Debtors system is to ensure that debtor income due to the authority is identified, recorded and collected accurately and in a timely manner. Six recommendations were raised as a result of this audit although no priority 1 issues were raised. The main issues are summarised below:</p> <ul style="list-style-type: none"> • It was not evident that when debtors procedures were updated last as there was no version control found on the procedures. It was established that the department are currently in the process of reviewing department procedures on Sundry Debtors however. Instances were found where procedures did not reflect the current processes. • Cash collections are not always banked to the nearest Council bank account and cases were identified where officers were carrying cash collections all day. There is no maximum limit for cash collections that can be held by the staff at any one time. • In cases Service Departments direct the Debt Recovery Team not to take recovery actions for certain customers / invoices. These invoices still appear as an outstanding recovery item in debt recovery's patch and have a negative impact on their performance results. <p>12 Recommendations were made in the 2007/08 Audit of which 11 recommendations were agreed and action scheduled. It was identified that 10 out of the agreed 11 recommendations have been implemented.</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director of Resources.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Software Licensing	May 2009	<p>The objective of this audit was to identify the controls that the Council has put in place to help ensure that software that is in use within the Council is fully licensed and that software licenses are controlled to ensure that the Council has sufficient licenses to meet the current usage of software in use across directorates. The audit was undertaken in December 2008.</p> <p>The Council has a software inventory that is maintained by ICT and all installation of new software is performed by ICT.</p> <p>The audit made four recommendations which were agreed by the ICT Departmental Management Team.</p> <p>Recommendations included the need to undertake a periodic software inventory and to ensure that an annual software audit is performed. We also recommended that installation procedures were documented and that licensing procedures were reviewed to identify if existing licences could be used.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Data Centre and Data back up	May 2009	<p>The objective of this audit was to identify the controls that the Council has put in place over the Data Centre located in Anchorage House including the physical and environmental controls that manage the Councils Server and Communications infrastructure. The second part of the audit covered the procedures put in place for the back up of data located on Authority servers to ensure that in the event of a disaster event that copies of data were held to recover Council data. The audit was performed in November 2008.</p> <p>The audit made 9 recommendations which were agreed by the ICT DMT team.</p> <p>Data Centre - Recommendations were made to ensure that records are retained of maintenance checks on the environmental controls to evidence that these had been serviced. Two minor recommendations were made to ensure that a server room is cleaned and that hand held fire extinguishers are provided.</p> <p>Back up – Recommendations were made to document the back up process and for back up tapes to be replaced according to a cycle. We also recommended that restores should be performed on a periodic basis. Recommendations were also made to ensure a formal log is made for the monitoring of back up tapes and that management should consider encrypting back up tapes.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Anti Virus and Anti Spyware	May 2009	<p>The objective of this audit was to identify the controls that the Council has put in place to prevent virus and spyware attacks on the Councils PC and IT infrastructure. It was performed in August 2008. The Council uses the eTrust Virus Management Console and this allows management to configure and manage the Virus and Spyware policies and alerts for events affecting Council PCs and laptops.</p> <p>The Audit report made 5 recommendations which were all agreed with the ICT Departmental Management Team.</p> <p>Recommendations were made to periodically review anti-virus updates to ensure that the administrator is receiving alerts on virus updates, that all PCs are receiving the latest version of the anti virus software and that software is operating as intended. Recommendations were also raised for the Council to periodically review the software deployed on PCs and to consider locking down the desktop to prevent unauthorised software from being loaded.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Governance of THH	April 2009	<p>The objective of this audit was to provide assurance on the soundness and adequacy of the governance arrangements put in place over THH to ensure that there are clear accountability structures and processes in place to achieve the objectives of the ALMO. The review showed that since its establishment in July 2008, good progress has been made in establishing adequate arrangements to govern the business of the company. The roles and responsibilities of the Board and its three Committees have been established clearly and our testing showed that overall, the framework for accountability at both member and officer level was adequate.</p> <p>We have reported some issues such as the need to strengthen financial controls and risk management and ensuring that Board members are aware of the requirements regarding gifts and hospitalities. At officer level, we have identified issues around ensuring that the Financial Regulations, the Scheme of Delegation and other key procedural documents reflect the current officer structures, receive the approval of the Board and the compliance with these procedures is monitored. We have emphasised the need to have an Anti-Fraud Strategy for the company and to have an adequate segregation of duties at officer level to manage the risk of fraud and irregularities.</p> <p>All findings and recommendations were agreed with the Director of Resources in Tower Hamlets Homes.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Right to Buy Follow Up	April 2009	<p>This follow up review found that good progress has been made by the Home Ownership Section in addressing the weaknesses identified in the original Audit report. Further work is currently in progress to ensure that greater reporting functionality is available from the Comino system which will enable more effective tracking of key milestone dates within the Right to Buy process. We noted that a system of performance monitoring to the star chamber is in place and that some of the targets were not being achieved, which would require management action.</p> <p>The findings and recommendations were agreed with the THH Director of Resources and the Chief Executive.</p>	Extensive ***	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Family Rent Deposit Scheme FU Audit	Jan 2009	<p>Our Follow-up review has found that 8 out of 9 recommendations made in the original report had been implemented. The report indicated one area that needed to be progressed and has resulted in one follow up recommendation. This related to having a monitoring system for recovering historic debt.</p> <p>The report was agreed and issued to the Corporate Director.</p>	£402K [*]	Substantial ^{***}
Direct Payments Follow Up	Feb 2009	<p>This audit followed up the progress made in implementing the recommendations made in the original audit report. The follow up review found that of the six recommendations made, five had been progressed and implemented. 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 meeting needed to be made available to us.</p>	£2M ^{**}	Substantial ^{***}

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Income Collection and Banking FU Audit	March 2009	<p>This follow up review found that of the three recommendations made in the original audit report issued in July 2008, two had been progressed and implemented. One recommendation relating to the Finance section ensuring that Collection & Deposit officers comply with the Financial Regulations relating to the collection and banking of income had been partially progressed. We recommended that the Finance Team should reissue the guidance on a regular basis, to ensure that C & D Officers are made aware of the importance of complying with the procedure.</p> <p>The finding and recommendation was agreed with the Finance Manager and report was issued to the Corporate Director.</p>	Moderate **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cayley Primary School	Feb 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Cayley Primary School is a community school which caters for boys and girls from the ages of 3 to 11 years.</p> <p>8 recommendations were made as a result of the audit <u>none</u> of which were priority 1 recommendations. The main findings are summarised below:</p> <p>Some items have been written off in the Inventory. However, there was no evidence of any authorisations for these write offs.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Blue Gate Fields Infant School	May 2009	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>Blue Gate Fields Infant School is a community school which caters for boys and girls from the ages of 2 to 7 years.</p> <p>12 recommendations were made as a result of the audit work, including one Priority 1 issue, eight Priority 2 issues and three Priority 3 issues. The findings are detailed within section five of this report, with the main issues being summarised below:</p> <ul style="list-style-type: none"> The school had not undergone tendering procedures for works carried out over £15,000 as specified in the approved Financial Procedures. Furthermore, official orders had not been raised for all relevant goods and services. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director of Children's Services.</p>	Moderate **	Substantial ***

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Brady Arts Centre Regularity Audit	April 2009	<p>This regularity audit sought to provide assurance over the procedures for petty cash, collection of income, banking, ordering, payment of invoices, control of inventory and security of cash. Our review showed improvements since the last audit review in 2002, specifically in the areas of petty cash, income collection and banking. However, we have reported weaknesses in inventory control procedures. We found that an annual inventory check was not undertaken, inventory items were not security marked and that procedures for recording and loaning out equipment were weak. We also found that a TV purchased in March 2008 using the Corporate Purchase card was still (November 2008) in its original box, therefore the need for this item was questioned.</p> <p>Findings and recommendations were agreed with the Centre Manager and Head of Arts.</p>	£1.85M **	Substantial ***

Internal Audit Coverage – 2008/09

Internal Audit Reports 2008/09 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Project Management	Moderate	Limited
Management of Corporate Complaints	Extensive	Substantial
Scheme of Delegation	Extensive	Substantial
Local Authority Performance Indicators	Extensive	Substantial
Assistant Chief Executive's		
Communication Strategy	Extensive	Substantial
Members Code of Conduct – Follow Up	Moderate	Substantial
Children's Services		
Building Schools for the Future – Programme and project management	Extensive	Substantial
Children's Centres	Moderate	Limited
Contract Services – Income Collection and monitoring	Extensive	Limited
Contract Services – Income Collection and monitoring – FU	Extensive	Substantial
Home to School Transport	Moderate	Substantial
Officers Expense Claims	Low	Limited
End of Year School Accounts Reconciliation – Follow Up	Extensive	Substantial
Fostering Follow Up	Extensive	Limited
Marnier School Contract Audit	Low	Substantial

Audit Description	Significance	Assurance
Schools' Regularity Audit		
Lawdale Primary School - Regularity audit	Moderate	Limited
Old Palace Primary School	Moderate	Limited
St. Agnes RC Primary School	Moderate	Limited
Redlands Primary School	Moderate	Limited
Arnhem Wharf Primary School	Moderate	Limited
Stewart Headlam Primary School	Moderate	Limited
Kobi Nazrul Primary School	Moderate	Limited
Malmesbury Primary School	Moderate	Substantial
English Martyrs Roman Catholic School	Moderate	Substantial
Wellington Primary School	Moderate	Substantial
Bluegate Fields Infant School	Moderate	Substantial
Cayley Primary School	Moderate	Substantial
Arnhem Wharf Primary School	Moderate	Substantial
Sir William Burrough Primary (Draft)	Moderate	Substantial
Elizabeth Selby Infant School (Revised Draft)	Moderate	Substantial
Ben Jonson School (draft)	Moderate	Substantial
Holy Family Catholic Primary School (Revised Draft)	Moderate	Limited
St Peters CoE Primary School (Draft)	Moderate	Limited
St Mary and St Michael Primary (Draft)	Moderate	Limited
St Elizaebeth Catholic Primary School (revised draft)	Moderate	Limited
Lansbury Lawrence Primary School (draft)	Moderate	Limited
St Saviours Primary School (draft)	Moderate	Limited
Communities, Localities and Culture		
Control and Monitoring of on-street Parking Income	Moderate	Limited
Brady Arts Centre	Moderate	Substantial
Waste Disposal – Contract Monitoring	Extensive	Limited
Fuel Purchase and usage	Low	Limited Substantial
Crime Reduction – Project Management and grant usage	Extensive	Substantial
Transport Recharges	Moderate	Limited
Blue Badges	Moderate	Limited
Street Lighting – Follow Up	Moderate	Limited
Street Works – Follow Up	Moderate	Limited
Waste Collection Contract Monitoring – Follow up	Extensive	Substantial

Audit Description	Significance	Assurance
Car Pound – Follow Up	Moderate	Substantial
Canary Wharf Idea Stores - FU	Moderate	Substantial
Highways Inspections - FU	Moderate	Limited
HR2 Forms sample test - Compensation Claims for Highways	Moderate	Limited
Penalty Charge Notices - FU	Moderate	Limited
Development and Renewal		
Client Monitoring of ALMO	Extensive	Limited
Local Area Agreements	Extensive	Substantial
Management of Commercial Property portfolio	Moderate	Nil
Tower Hamlets Homes		
Governance	Extensive	Substantial
Horticulture contract monitoring	Low	Limited
Major Works	Extensive	Limited
Management of Voids	Extensive	Substantial
Service Charges	Extensive	Limited
Right to Buy – Follow Up	Extensive	Substantial
Gas Repairs and Maintenance – Follow up	Moderate	Substantial
Sidney Street – Contract Audit	Moderate	Substantial
Adults Health and Wellbeing		
Commissioning of Elderly Services	Extensive	Substantial
Homelessness Assessment	Extensive	Substantial
Supporting People	Extensive	Substantial
Income collection and monitoring	Extensive	Substantial
Sickness Management – Follow Up	Moderate	Limited
Family Rent Deposit Scheme – Follow Up	Moderate	Substantial
Receiverships – Follow Up	Moderate	Substantial
Direct Payments – Follow Up	Moderate	Substantial
Income Control – Follow Up	Moderate	Substantial
Resources		

Audit Description	Significance	Assurance
Housing and Council Tax Benefit (draft)	Extensive	Substantial
General Ledger incl. Budgetary Control	Extensive	Substantial
Cashiers / Cash income	Extensive	Substantial
Council Tax	Extensive	Substantial
Sundry Debtors including Recovery and Write offs	Extensive	Substantial
Creditors	Extensive	TBC
Capital Accounting (draft)	Extensive	Substantial
Pensions (draft)	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll (draft)	Extensive	Substantial
Housing Rents (draft)	Extensive	Substantial
Investments /Loans/Prudential Borrowing	Extensive	Substantial
Grant Claim of Teachers Pensions	Extensive	Substantial
Procurement	Extensive	Limited
Housing Allowance - implementation	Extensive	Substantial
Implementation of IFRS	Extensive	Substantial
Photocopying Contract Monitoring	Moderate	TBC
Compensation Claims - FU	Moderate	Substantial
Bank Reconciliation FU	Extensive	Limited
Acting up and Honoraria - FU	Moderate	Substantial
Staff Hospitality and Gifts - FU	Moderate	Substantial
Corporate Complaints - FU	Extensive	Substantial
HB Overpayments	Extensive	Substantial
Agency Staff - FU	Extensive	Substantial
Computer Audit		
Business Continuity Planning	Extensive	Substantial
Virus Protection	Extensive	Substantial
Accolaid Applications Review	Moderate	Substantial
Off-site working	Moderate	Limited
Software Licences	Extensive	Substantial
IT Security	Extensive	Substantial

Audit Description	Significance	Assurance
Network Security	Extensive	TBC
Data backup and data centre	Extensive	Substantial
ICT Management and Organisation	Extensive	Substantial
IT Server Consolidation	Extensive	Substantial

Head of Audit Opinion - Summary

Background

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

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

The Code of Practice also states at Paragraph 10.4 that:

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

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

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

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2008/09

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2009.

Scope of Responsibility

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

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

The Purpose of the System of Internal Control

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

The Internal Control Environment

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

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2008/09, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2008/09 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

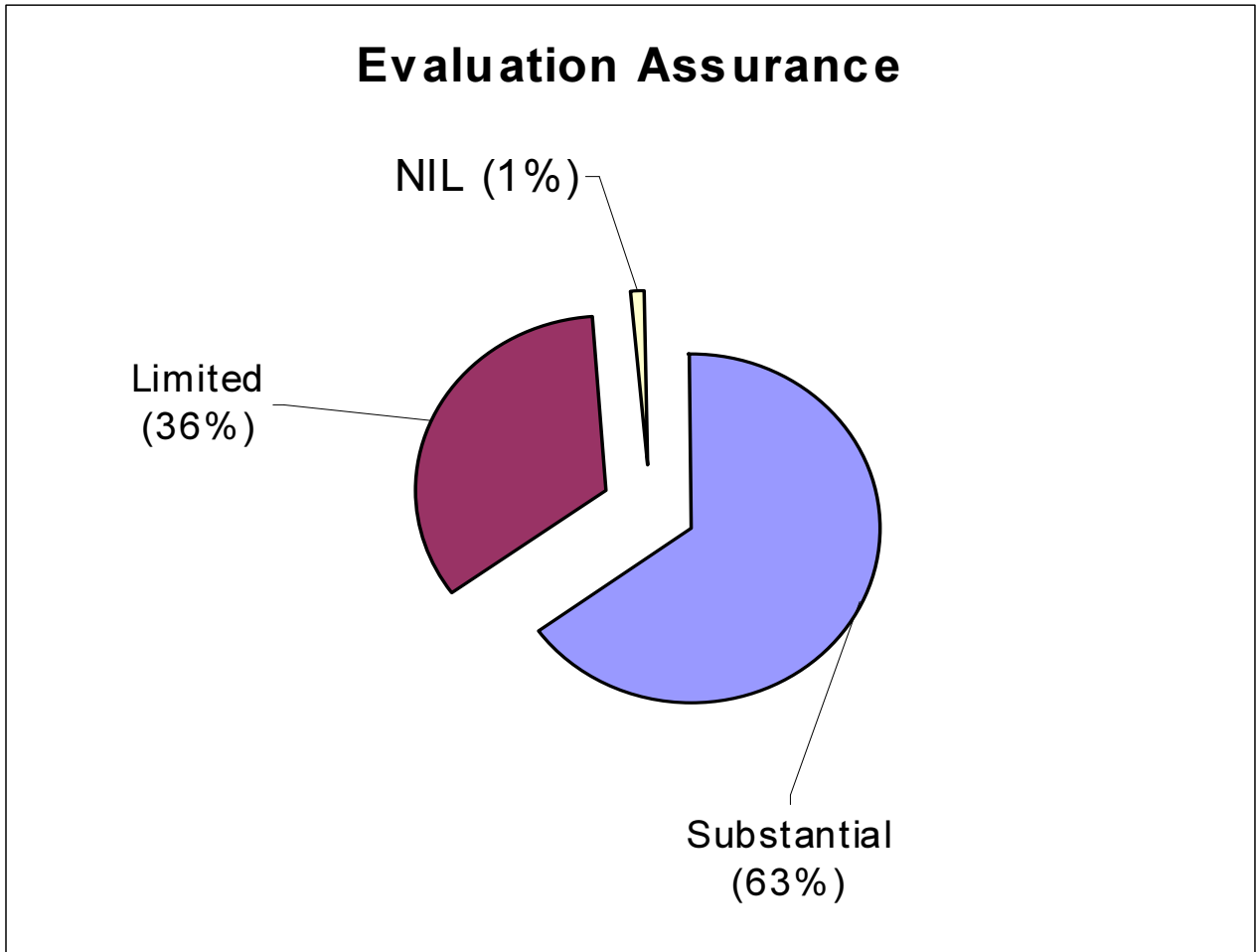
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 3](#).

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

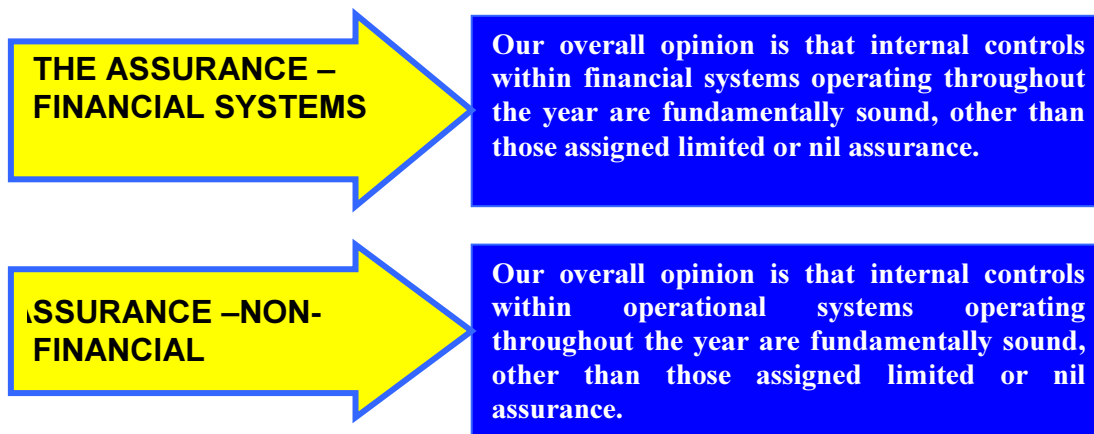
100% of Internal Audit work for the year to 31 March 2009 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the Audit Panel and Audit Committee in 2008/09 are depicted in Graph 1 below. This shows **that 63%** of the systems audited achieved an assurance level of full or substantial assurance, whereas only **37%** of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a positive performance by the Council, particularly given that 77% of recommendations followed up had been implemented within six months of the recommendations being raised. However, I recognise this means just under a quarter of the recommendations raised are not implemented within six months which exposes the authority to unnecessary risk. I have therefore developed escalation procedures over the last year to improve on current performance.

Graph 1



From the Internal Audit work undertaken in 2008/09, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2009 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **page 6**. The assurance can be further broken down between financial and non-financial systems, as follows:



In reaching this opinion, the following factors were also taken into particular consideration:

- In its Annual Audit and Inspection Letter 2008/09, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission’s definition of the Council’s achievement of a score of three means that the Council is performing well and the direction of travel was positive.
- The Audit Commission’s CPA assessments on financial standing, systems of internal financial control, standards of financial conduct and the prevention and detection of fraud and corruption, and their opinion on the financial statements.
- BFI (Benefit Fraud Inspectorate) reviews

In October 2007, the Audit Commission in their Service Inspection of the Benefits service assessed Tower Hamlets as providing a fair service that has promising prospects for improvement. A report by the Benefits Fraud Inspectorate assessed the Service as Excellent.

- Other review agencies

In the 2008 annual performance assessment of the service for Children and Young People, Ofsted rated the overall effectiveness of Children’s services grade 4, and in its commentary, said “Tower Hamlets Council consistently delivers service well above minimum requirements and makes an outstanding contribution towards improving outcomes in all five areas for its children and young people.”

The summary report for annual performance assessment of social care services for Adults Services for Tower Hamlets awarded the service 3 stars with “excellent” awards for 5 of the 7 delivering outcome judgements and capacity to improve.

Corporate Governance

In my opinion the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The External Auditors scored judgements under the CPA process, *particularly in relation to governance, standards of conduct and Performance Management*

Elements of governance and standards of conduct were included in the CPA review of Use of Resources that the Audit Commission scored at 3 out of 4.

Risk Management

In my opinion, risk management within the Council continues to improve, with increased emphases on buy in from staff, Member and the Executive Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. In drawing together my opinion, I have relied upon the following:

- The CPA assessment of Use of Resources

Elements of Risk Management were included in the CPA review of Use of Resources that the Audit Commission scored at 3 out of 4. The Council was also scored at 3 out of 4 for Internal Control, the element that specifically relates to risk management.

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

Minesh Jani – Service Head, Risk Management

June 2009

DETAILED REPORT**Introduction**

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2008/09 year against the original Internal Audit plan; and
- a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2008/09. Key issues included:

- Procurement systems audit – the Council's Procurement Strategy and Policy required to be reviewed. There were no up-to-date procedures for the procurement process and the forward procurement plan had not been fully developed. A system was required to ensure that the contracts register was supported by an appropriate monitoring of the contracts. A follow up audit is scheduled for quarter 2 within the audit plan.
- Creditors systems audit – the objective of the creditors system is to ensure that payments are made accurately, cost-effectively and in a timely manner. We found that the controls around setting up of new creditors on the system and preventing payments without purchase orders were not adequate, increasing the risk of error, omission etc. Invoices were not generally processed promptly upon receipt. A debit balance of more than £3.3m was identified in the Sundry Creditors Account, which may represent the likely balance of money owed to LBTH by various creditors. A follow up audit will take place as part of the full audit in quarter 3 in this financial year.

- Business Continuity – our review of the systems of control to ensure that the Council’s key services can continue to operate in case of interruption to its infrastructure, showed that the business continuity arrangements needed to be strengthened. Particularly, disaster recovery priority, critical recovery times and testing of recovery systems required addressing. A follow up audit is scheduled for quarter 2 within the audit plan.
- Management and control of commercial portfolio- this audit reviewed the arrangements in place for managing the Council’s commercial property portfolio. There were no documented policies and procedures in place for dealing with the operational aspects of managing and controlling commercial portfolio, which increased the risk of inconsistent working practices, such as unauthorised instructions being issued to Legal Services. There were issues regarding overdue rent reviews and high level of accumulated rent arrears. A follow up audit is scheduled for quarter 3 within the audit plan.
- Contract Management and Monitoring – we reported on 4 contract monitoring audits during the year, viz. horticulture contract, photocopying contract, telephony contract and waste disposal contract. The objective was to provide assurance on the framework of systems for monitoring the revenue contracts. We found that generally there were adequate systems for letting contracts. However, weaknesses were identified in the systems for managing and monitoring revenue contracts. In our view, if the Council aspires to realise full benefits and efficiency savings from these contracts, then a robust contract monitoring regime must be established at Directorate level. A follow up audit is scheduled for quarter 3 within the audit plan.
- Major works – this audit examined the systems for consulting, calculating, apportioning, and recovering costs of major works from leaseholders. We reported that leaseholders were not being provided with sufficient information to demonstrate that the works were competitively priced under partnership contracts and that VFM was being achieved. In the previous 18 months, no reminders or chase up letters had been issued to leaseholders in respect of significant level of outstanding debt for major works. Therefore, no recovery action has been undertaken since January 2007. A follow up audit is scheduled for quarter 2 within the audit plan.
- Client monitoring of THH – The objective of this review was to examine the robustness of monitoring of THH by LBTH. The client side has not yet developed written procedures for monitoring the key activities. The system for controlling and approving variations to the Management Agreement e.g. the annual Delivery Plan, required to be clarified. Overall, the robustness of the monitoring system to ensure that THH delivers the key outcomes needed to be improved. A follow up audit is scheduled for quarter 2 within the audit plan.

- Service Charges – significant post-implementation IT problems were encountered in the service charge module of SX3 application. There are significant issues relating to the raising of accurate accounts to leaseholders and prompt arrears recovery action. There is a significant level of outstanding debt to be recovered for service charges. A follow up audit is scheduled for quarter 1 within the audit plan.
- Highways Inspections - the Council has a statutory duty to maintain its highways and footways to a satisfactory standard and regular inspection programme is an important element. We found that the highways asset database is still incomplete and not in a standardised format without a common referencing point across the different teams. The inspection regime has still shown some weaknesses in its recording and provision of relevant information of the Highways network. A follow up audit is scheduled for quarter 1 within the audit plan.
- Follow Up Audits – we carried out a programme of follow up audits during the year to assess the progress made in implementing the agreed audit recommendations to improve systems of control. We were satisfied that progress was made in some cases, but we were generally concerned that some high and medium priority recommendations had not been implemented. In order to address the matter, an escalation procedure was introduced which involved the relevant Service Head and Corporate Director being alerted and we will keep this under review.

Qualifications to the Opinion

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

Other Assurance Bodies

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

- a) Audit Commission
- b) Benefit Fraud Inspectorate
- c) Commission for Social Care Inspection

Risk Management Process

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

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

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

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

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

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

Comparison of Internal Audit Work

The Operational Plan for 2008/09 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

100% of audit fieldwork is complete for audits relating to the 2008/09 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2008. A copy of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

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

Internal audit was also subject to a peer review by the Head of Audit of London Borough of Barking and Dagenham and benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 6.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year

we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

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

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

External audit carried out a review of internal audit and a final report was issued in March 2008. The main conclusions of their review were: -

“We have assessed Internal Audit against the code and are pleased to report that Internal audit is compliant with the code across the 11 areas.

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

Our review of a sample of files concluded that they contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

However, our review identified the following areas which could be strengthened further:

- Internal Audit terms of reference, audit strategy and annual report require updating to reflect the new requirements of the code;
- Staff job descriptions require reviewing and updating as necessary; and
- documentation and evidencing would be strengthened by implementing the new Audit Manual.”

Peer Review and Benchmarking Club Results

1. Peer Review

1.1. The Accounts and Audit (Amendment) (England) Regulations 2006

states that:

- (a) An authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
- (b) The authority shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.

1.2. Circular 03/2006 provided by the Department for Communities and Local Government states that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 would be acceptable as the appropriate professional guidance to determine what is “proper practice”.

1.3. In order to ensure that a robust review of the internal audit service has been carried out, Financial Directors (or equivalent) agreed that in addition to the internal reviews, peer reviews would be undertaken to ensure that internal audit service has been externally assessed as well. As a part of this reciprocal arrangement, in May 2009, the Head of Internal Audit from the London Borough of Barking and Dagenham conducted a peer review of the effectiveness of internal audit at LBTH. The review focused on compliance with the 11 Professional Standards set out in the CIPFA Code of Practice on Internal Audit. The review is currently on-going and any issues arising from this will be reported separately.

2. Benchmarking Club Results

2.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.

- 2.3. As part of the 2007/08 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.
- 2.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £324 compared with the comparator group average of £370 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.