

REPORT TO: Audit Committee	DATE 29 June 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Internal Audit Annual Report 2009/10 <i>Ward(s) Affected: N/A</i>		
ORIGINATING OFFICER(S): <i>Service Head, Risk Management and Audit</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 2009/10. 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 2009/10**
- **Appendix 1 – Audit Resources**
- **Appendix 2 – Summaries of reports not previously reported.**
Summaries of all audit reports are submitted to the Audit Committee.
- **Appendix 3 – List of audits undertaken in 2009/10**
- **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 2009/10. 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 2009/10. 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 2009/10. 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 5.3 days per person on average, compared to 6 days in 2008/09.
- 7.4 During the year, there was an emphasis on risk based audits, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year.

8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2009/10 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 2009/10.
- 8.3 A summary of the audit assurance resulting from audit reports in 2009/10 is provided in the table below.

Audits 09/10		Assurance			
		Full	Substantial	Limited	Nil
Significance	Extensive	0	42	10	
	Moderate	0	24	20	2
	Low	0	1	1	
Total		0	67	31	2

- 8.4 The table shows that of 100 systems audits, 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, although this does not mean the systems were operating perfectly. 33% of systems audited were rated as limited or nil assurance, and the remainder have their assurance to be confirmed.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.

- 8.6 From the Internal Audit work during 2009/10 financial year, we identified risks in the Council's systems for managing the climate change, managing absences, managing the contract for household recycling, control, monitoring of parking permits, planning of legal meetings and monitoring, management of the Working Neighbourhood Fund and Network control. Within Tower Hamlets Homes, risks were identified in the company's budgetary control systems, management of keys to void dwellings and management of a specific capital contract. 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 2009/10, 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 Committee. The performance for 2009/10 is set out in the table below.

Performance Measure	2009/10	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	100%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	96%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	82%

- 9.2 As at the 31st March 2010, 100% of the operational plan was completed in terms of days used. 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, 96% of priority 1 recommendations had been implemented against a target of 100% and 82% of priority 2 recommendations had been implemented against a target of 95%. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.
- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2009/10 will be submitted and key points will be reported to a future CMT and Audit Committee.

Internal Audit – Resources 2009/10

<u>Available audit days</u>	Revised Plan	%	Outturn	%
In-house staff days	2,205	79%	2,105	73%
Deloitte / external	581	21%	756	27%
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Gross days	2,786	100%	2,861	100%
<i>less</i> Leave	278	10%	275	10%
<i>less</i> Sickness absence	56	2%	48	2%
<i>less</i> Non Operational Time	223	8%	192	7%
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Unproductive time	557	20%	515	19%
Net productive days	2,229	80%	2,346	81%

Internal Audit Budget 2009/10

	Budget £000	Actual £000	Variance £000
Salaries	559	554	(5)
Contract costs	213	213	0
Running costs	36	36	0
Central Recharges	115	115	0
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Gross cost recharged	923	918	(5)

Internal Audit Reports 2009/10 – 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 2009/10 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title	
LIMITED	Extensive	Tower Hamlets Homes (THH)	THH Budgetary Control	
	Moderate	Children, Schools and Family (CSF)	Morpeth Secondary School	
	Moderate	Children, Schools and Family (CSF)	Phoenix Secondary School	
	Low	Tower Hamlets Homes (THH)	Phase 10 of Communal Aerial Installation Works – Current Contract Audit	
SUBSTANTIAL	Extensive	Tower Hamlets Homes (THH)	Governance of THH – Follow Up audit	
	Extensive	Community Locality and Culture (CLC)	Budgetary Control Systems Audit	
	Extensive	Adults, Health and Wellbeing (AHW)	Supporting People – Follow UP audit	
	Extensive	Children, Schools and Family (CSF)	Building Schools for the Future – St Paul’s Way School Current Contract Audit	
	Extensive	Resources	NDR	
	Extensive	Resources	Council Tax	
	Extensive	Resources	Debtors	
	Extensive	Resources	Pensions	
	Moderate	Children, Schools and Family (CSF)	Cubitt Town Infants School	

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Budgetary Control Systems Audit	April 2010	<p>The objective of this audit was to provide assurance over the systems for budget setting, monitoring and overall budgetary control. The following findings were highlighted:-</p> <ul style="list-style-type: none"> • The Finance team produced the 2009/10 Budget book which provided a consolidated view on services and budgets managed by the company. Guidance was issued to budget holders for both Core and Delegated budgets. However, the existing budget monitoring and reporting procedures have not been formally documented. Budget holders were required to sign-off draft budgets, but this had not been done in all cases. • The system for Senior Management to check and approve amendments to original budget figures by means of virements or revised budgets needed to be improved to manage the risk of budgets being monitored against wrong figures and unclear assumptions. Our review showed that until October 2009, actual expenditure on Core budgets was being monitored against incorrect figures increasing the risk of budget overspend. We have recommended that the audit trail for loading budgets on the GL system should be improved and that all future budgets are agreed and signed off by THH and the Council, ensuring that budgets can be fully reconciled when uploaded on the General Ledger. • Control over carrying out and approving journals needed to be strengthened to ensure that there was sufficient narrative describing the purpose of the journal and each journal was supported by documentation on file. There were a number of journals covering income and expenditure between LBTH and THH, which should be regulated through formal invoicing arrangements to distinguish the company as a separate entity. <p>All findings and recommendations were agreed with the Director of Finance and Resources.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Budgetary Control Systems Audit	April 2010	<p>Management Comments</p> <p>Budget holders have been requested to sign-off acknowledgement of their 2010-11 budget and also their budgetary control responsibilities. Most of these have been received. Outstanding returns are being chased.</p> <p>All revenue budgets for 2010-11 have been loaded on JD Edwards, the LBTH and THH financial ledger system</p> <p>Clear budget monitoring instructions have been provided and this has been reinforced through a series of presentations made to the Directorate Management Teams</p> <p>The reporting format for management accounts has been simplified and is now risk-based.</p> <p>The THH Financial Regulations were reviewed and additional controls approved by the THH Board at its May 2010 meeting</p> <p>A month-end accounts closedown checklist is being developed and expected to be in place by the end of June 2010. It will be a requirement of that this checklist is signed off on a monthly basis</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Morpeth Secondary School	May 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school.</p> <p>Controls were adequate in Financial Planning and Budgetary Control; Accounting for Income and Expenditure; Voluntary Fund and School Journey; Risk Management and Insurance. However, weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> • The school currently does not have a Financial Management Procedures manual approved by the full Governing Body. At the 5th October 2009 Finance Committee meeting, Governors adopted the LBTH model scheme of delegation; however the Financial Management Procedures manual was not adopted. • The current scheme of delegation did not state clear financial limits delegated for authorising payments on the school credit card, school journey account, and for the school fund account. • Declarations of interest had not been obtained from one governor and two staff members with financial management responsibilities. • Seven un-reconciled items on the December 2009 bank reconciliation related to cheques issued by the school in 2008. The cheques amounted to a total of £1,143.48. As the school was unaware of this, no action had been taken. Further, the Finance Officer who performs the bank reconciliations does not sign them off. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	£7.7.M	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Morpeth Secondary School	May 2010	<p>Management Comments; The school have acted immediately and agreed to complete all actions with a defined timeframe. The school and the governing body are fully committed to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • Tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • Confirming additional steps that the school are planning to take in light of the audit findings • Taking immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phoenix School	May 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review reported the following issues:-</p> <ul style="list-style-type: none"> • Declarations of business interest had not been obtained from two Governors. • The review of unreconciled items as at 15 December 2009 revealed items dating back to January 2009. These included an income item outstanding for £631.10 since March 2009, and five items of expenditure totalling some £1206.96. It is of concern as the outstanding income item for £631.10 appears to be income not banked in the school's bank account. • There was no evidence that reports from the payroll provider had been checked and reconciled with the school's records. Audit testing of salary payments of 5 staff members identified discrepancies of salaries paid to two staff members for the months of November and December 2009. • There are weaknesses in control over authorisation of virements within delegated financial authority. • The school had not always complied with the approved Financial Management Procedures for market testing. • Although there are inventory records in place, there was no evidence of an annual inventory check conducted. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	£3.5 M	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phoenix School	May 2010	<p>Management Comments:</p> <p>The school has agreed to complete all actions with a defined timeframe. We have written to the school formally requesting the school and the governing body to fully commit to the recommendations made in the Audit report by:</p> <ul style="list-style-type: none"> • Tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate • Confirming additional steps that the school are planning to take in light of the audit findings • Taking immediate action in mitigating exposure to risks arising from weaknesses in the control environment. 		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phase 10 of Community Aerial Installation Works Current Contract Audit	May 2010	<p>This audit sought to provide assurance over 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 for the works contract. The following findings were reported:-</p> <ul style="list-style-type: none"> • The works could be issued to either of the two contractors partnering the Framework Agreement. However, it was not clear on what basis the works were issued to SSC International Ltd and not the other contractor as there were no clear criteria for allocating works to contractors under the partnering contract. • No contract document describing the nature of works, pricing, start date, completion date etc. was issued to the contractor as required by the main contract conditions. Only an order was issued covering the works for the value of £850k, although contract estimate was £800k. The build up to the contract estimate was not supported by working papers. No cost reports were being prepared and submitted to the monitoring officer. There was no performance bond in place for the scheme. Works commenced on site prior to the approval of the Health & Safety Plan, which resulted in a breach of Health & Safety regulations, although we understand that subsequent to Audit raising this issue, the H&S Plan had been approved. No starting and completion dates were specified against which works programme can be monitored. • In view of a number of non-compliance issues, we have recommended that the Director of Asset Management should investigate a number of aspects of contract administration around this contract. In addition, we have recommended that the Director of Asset Management should put monitoring systems in place to ensure that any non-compliance with controls and procedures is detected and prevented at an early stage in the life cycle of a contract. <p>All findings and recommendations were agreed with the Director of Asset Management.</p>	£850K	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phase 10 of Community Aerial Installation Works Current Contract Audit	May 2010	<p>Management Comments</p> <ol style="list-style-type: none"> 1. Individual recommendations have been implemented to ensure that the control environment improves to address the issues raised by Audit. 2. The Director of Asset Management has inspected the relevant sites. 3. External quantity surveyor is being commissioned to review this contract to obtain additional assurance over systems and procedures. 		

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Governance of Tower Hamlets Homes</p> <p>Follow Up audit</p>	<p>March 2010</p>	<p>This follow up audit assessed the progress made by THH in implementing the recommendations made at the conclusion of the full audit in May 2009.</p> <p>Our follow up review has shown that eight out of the nineteen previous audit recommendations have been fully implemented, six recommendations are in the process of being implemented and two have been partially implemented. Two priority 2 recommendations have not been implemented and these concern the implementation of an Anti- Fraud Strategy and the need to remind staff of the requirements set out in Financial Regulations when processing and certifying payments.</p> <p>All findings and recommendations were agreed with the Director of Finance and Resources.</p>	<p>Extensive</p>	<p>Substantial</p>
<p>Budgetary Control within CLC</p> <p>Systems Audit</p>	<p>April 2010</p>	<p>This audit sought to provide assurance over systems for budgetary control in place within the Communities, Leisure and Culture (CLC) directorate.</p> <p>Our review showed that systems for budget planning, budget setting, budget reporting and monitoring, and year end closure procedures were satisfactory.</p> <p>Improvement was required in systems for carrying out and approving journals. Testing found that all journals were supported by source documents such as invoices, recharge forms etc. However, the narrative in the form of textual attachments did not contain a reason for the journal in the vast majority of journals tested. Moreover, there was no guidance in respect of who should authorise Journal entry transactions and the expected limits of such authorisation. Four recommendations were raised following our review of this area.</p> <p>All findings and recommendations were agreed with the Finance Manger and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Supporting People Follow Up audit		<p>This audit followed up audit assessed the progress made in implementing the recommendations made at the conclusion of a full systems audit in May 2009.</p> <p>Our follow up review showed that both two previous audit recommendations had been implemented. It was established that all Providers who were on the lowest Level "D" on the Risk Register had either improved their grading to Level "C" or were in the process of being decommissioned. Our review showed that the Quality Assessment Framework (QAF) monitoring spreadsheet, which showed Providers QAF scores A to D, will now be reported to a Steering Group headed up by the Interim Corporate Director of Adults, Health & Wellbeing. The Quality Assessment Framework (QAF) monitoring spreadsheet, which showed Providers QAF scores would be presented to the Supporting People Steering Group and Providers on the lowest level QAF score were on the Supporting People Risk Register and were being monitored to improve their score or being decommissioned. The cross authority/sub regional procurement project has now been replaced by a new tendering strategy using the Tollgate process.</p> <p>The follow up report was issued to the Interim Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Building Schools for the Future</p> <p>St. Paul's Way Community School – Current Contract Audit</p>	<p>April 2010</p>	<p>The objective of this audit was to provide assurance over the client-side systems in place for controlling and monitoring the cost and work programme. The Contract for the rebuilding of St Paul's Way School is based on a fixed price Design and Build Contract. Our review found that there was a structured monitoring regime in place to ensure that the controls associated with the currency of contract were monitored, recorded and reported upon. Client-side monitoring of the contract during the construction period had been established to ensure continuity over the Contract period. However, there required to be a structured process to ensure that the payment certificates and variations relate solely to the St Paul's Way contract and are not intermingled with the payments and variations issued to other works that Bouygues are undertaking as part of the BSF programme.</p> <p>Officers needed to ensure that prior to possession of site by the contractor, the Health and Safety plan was in place and was approved by the CDM coordinator, as there was risk of works starting on site without an approved H&S plan. We made 4 recommendations on this report, one of which is priority 1 and the rest priority two.</p> <p>All findings and recommendation were agreed with the Service Head – Building Schools for the Future.</p>	<p>£36M</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	April 2010	<p>The Council collects approximately £290m of NNDR each year and the objective of the system is to ensure the prompt preparation and charging of NNDR to all liable businesses within the Borough, the prompt payment of NNDR and the proper management of NNDR debt.</p> <p>Overall, there were adequate controls in place over Amending of Standing Data and Valuation Lists, Discounts, Refunds, Arrears, Suspense Accounts and System Reconciliation and Management Information and Collection Rates. However, from our review we found that was no process in place to periodically assess the continued eligibility of a rate payer to NNDR relief (i.e. at the start of the year).</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial
Council Tax	April 2010	<p>The objectives of the Council Tax system are to ensure the prompt preparation and charging of Council Tax to all liable properties in the Borough, the prompt collection of Council Tax payments and the proper management of Council Tax debt. The Council collects approximately £66m annually.</p> <p>Overall, there were adequate controls in place over Amending of Standing Data and Valuation Lists, Refunds, Arrears, Suspense Accounts and System Reconciliation, and Management Information and Collection Rates. However our review found that the target for raising a bill within 10 working days (or fourteen days) following notification of occupancy was not being met. We also found that there was no process to assess the continued eligibility of persons claiming the Single Person's Discount or a void allowance and in some cases supporting documents were not available.</p> <p>The findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	April 2010	<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.</p> <p>Our review showed that overall there were adequate control over Collection of Income, Recovery of Debt, Write Off and Access Controls. However, we reported that whilst recent reconciliations had been carried out, the reconciliation working papers had not been signed as reviewed by a more senior officer to verify accuracy. The Council has a performance management system, Excelis, which should be updated with performance targets and actual performance information. Our testing found that performance information had not been updated on a monthly basis. Although targets had been set, actual performance information had not been entered for the year.</p> <p>All findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial
Pensions	April 2010	<p>The objective of this audit was to provide assurance over the controls in place for effective and efficient administration of pensions. Our review found adequate control over Joiners and Leavers, Employee and Employer Contributions, Pension Payments, Maintenance of Pension Records and Reconciliation with General Ledger. We found that Member details are updated via an interface between Resource Link and AXIS, which is run on a weekly basis. We found that the interface was not run on a regular basis which can result in member details not being updated on a regular basis.</p> <p>All findings and recommendations were agreed with the Service Head -Revenues and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cubitt Town Infants	March 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in the management of Schools Bank Account; Accounting of Income and Expenditure; Charging Policy and Income Collection and Banking; School Meals; Security of the IT Infrastructure, Disaster Recovery, Data Protection; and Risk Management and Insurance. However, weaknesses were identified in the following areas:-</p> <ul style="list-style-type: none"> • Budget virements had been performed, but no documentary evidence showing the budget virements made was retained by the school. Moreover, from review of the Governing Body and Finance Committee minutes there was a lack of documentary evidence to show that the virements had been presented for approval. • There was no threshold expenditure limits detailing the number of quotations required when procuring goods and services. Moreover, there was no evidence which demonstrated the school sought any quotations where necessary for large expenditure. From a sample of ten purchase orders selected for testing, five purchase order forms were not authorised by the authorised signatory. • There was no written statement of objectives for the school fund account. • The school was in the process of putting together complete inventory records at the time of the audit. No evidence was identified to confirm that an annual inventory check was undertaken. • The school did not have an approved disposal policy and did not maintain adequate records of disposals made since the last internal audit. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director, Children's Services through Education Finance.</p>	Moderate	Limited

Internal Audit Coverage – 2009/10

Internal Audit Reports 2009/10 – Summary of audit reports

Audit Description	Significance	Assurance
Corporate Systems		
Management of Climate Change	Extensive	Limited
Health and Safety at Work	Extensive	Substantial
Risk Management	Extensive	Substantial
Contract Management and Monitoring	Extensive	TBC
Absence Management	Extensive	Limited
Assistant Chief Executive's		
Members Allowances	Low	Substantial
Legal Planning Meetings	Extensive	Limited
Commissioning Approach to Mainstream Grants	Moderate	Limited
Management of Working Neighbourhood Fund	Extensive	Limited
Children, Schools and Family		
Building Schools for the Future - St Paul's Way Community School Current Contract Audit	Extensive	Substantial
Common Assessment Framework	Moderate	Substantial
Social Care Commissioning and Client Monitoring	Moderate	Substantial
Management and Control of Surplus balances	Extensive	Substantial
Manorfield School – Current Contract Audit	Extensive	Substantial
St Edmunds Primary	Moderate	Limited
Bethnal Green Technology College	Moderate	Substantial
Langdon Park Secondary	Moderate	Nil
Harry Roberts Nursery	Moderate	Limited
Seven Mills Primary	Moderate	Substantial
Stephen Hawkings Primary	Moderate	Limited
Phoenix School	Moderate	Limited
Morpeth Secondary	Moderate	Limited
Raines Secondary	Moderate	Limited

Audit Description	Significance	Assurance
Thomas Buxton Infant	Moderate	Limited
Columbia Market Nursery	Moderate	Substantial
Bowden House	Moderate	Substantial
Boy Boys Secondary	Moderate	Limited
Mulberry Girls Secondary	Moderate	Substantial
St Johns CE Primary	Moderate	Substantial
Central Foundation Secondary	Moderate	Nil
Sir John Cass & Redcoat Secondary	Moderate	Substantial
Shapla Primary School	Moderate	Limited
Olga Primary School	Moderate	Limited
Swanlea Secondary School	Moderate	Limited
Harry Gosling Primary	Moderate	Limited
Old Church Nursery	Moderate	Limited
George Greens Secondary	Moderate	Substantial
Ian Mikardo Primary	Moderate	TBC
Rachel Keeling Nursery	Moderate	Limited
Childrens House Nursery	Moderate	Substantial
Bishop Challoner Girls	Moderate	Substantial
Bishop Challoner Boys	Moderate	Substantial
Stepney Green Secondary	Moderate	Limited
Oaklands Secondary	Moderate	Substantial
St Pauls Way Community School	Moderate	TBC
Communities, Localities and Culture		
Recycling of household waste – contract monitoring	Extensive	Limited
Brady Arts Centre – FU	Moderate	Substantial
ASBO Management and Enforcement	Extensive	Substantial
Governance of Tower Hamlets Partnership	Extensive	Substantial
Control and Monitoring of Parking Permits	Moderate	Limited
ASBO Management and Enforcement - FU	Moderate	Substantial
Management of Highways Works	Extensive	Substantial
Budgetary Control	Extensive	Substantial

Audit Description	Significance	Assurance
Tower Hamlets Homes		
Financial Systems	Extensive	Substantial
Performance Management	Extensive	Substantial
Budgetary Control	Extensive	Limited
Management and control of decants – Ocean Estate	Moderate	Limited
Management and control of keys to void dwellings	Moderate	Limited
Strategic Management of SLAs	Extensive	Substantial
Community Aerial Installation – Current Contract Audit	Low	Limited
Housing Repairs	Extensive	Limited
Unauthorised Occupants – Follow Up	Moderate	Substantial
Management of Voids – Follow Up	Extensive	Substantial
Governance	Extensive	Substantial
Horticulture Contract Monitoring - FU	Moderate	Substantial
Sydney Street – Central Heating Contract Audit	Moderate	Substantial
Development and Renewal		
Homeless and Temporary Accommodation	Extensive	Substantial
Budgetary Control	Extensive	Substantial
S. 106 Planning Obligations – FU	Extensive	Substantial
Client Monitoring of ALMO – FU	Extensive	Substantial
Commercial Property Management - FU	Extensive	Substantial
Managing of Planning Permissions	Extensive	TBC
Service Charges	Extensive	TBC

Audit Description	Significance	Assurance
Adults Health and Wellbeing		
Governance of Pooled Agreements	Moderate	Substantial
Supporting People – FU	Extensive	Substantial
Commissioning of Elderly Service - FU	Extensive	Substantial
Homelessness Assessment – FU	Extensive	Substantial
Resources		
Investments /Loans/Prudential Borrowing	Extensive	Substantial
Grant Claim of Teachers Pensions	Extensive	Substantial
VAT Management	Extensive	TBC
IFRS Implementation FU	Extensive	Substantial
Housing and Council Tax Benefit	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	Extensive	TBC
Pensions	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Personnel/Payroll	Extensive	Substantial
Housing Rents	Extensive	Substantial
Pensions Fund	Extensive	Substantial
Computer Audit		
Network Follow Up	Extensive	Limited
Internet & e-Mail	Extensive	Substantial
Business Continuity Planning	Extensive	Substantial
Change Management	Extensive	Substantial
Comino (Document Management)	Moderate	Limited
ICT Service Desk	Extensive	Substantial
JD Edwards Finance Application and AS400 Operating System	Extensive	Limited

Audit Description	Significance	Assurance
Icon Income Management and e-Payments	Extensive	Limited
Framework i (Childrens Social Care Application)	Extensive	TBC
Authority Public Protection Application	Extensive	Substantial
Software Licensing Follow up	Moderate	Substantial
Anti Virus and Spyware Follow up	Extensive	Substantial
Server Virtualisation Follow up	Moderate	Substantial
Acolaid Application Follow up	Moderate	Substantial
Information Security Policies and Procedures	Moderate	Substantial
Off Site Working	Moderate	Limited
DR Provisions	Moderate	Substantial
Data Back up and Data centre	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 2009/10

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 2010.

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 2009/10, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2009/10 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

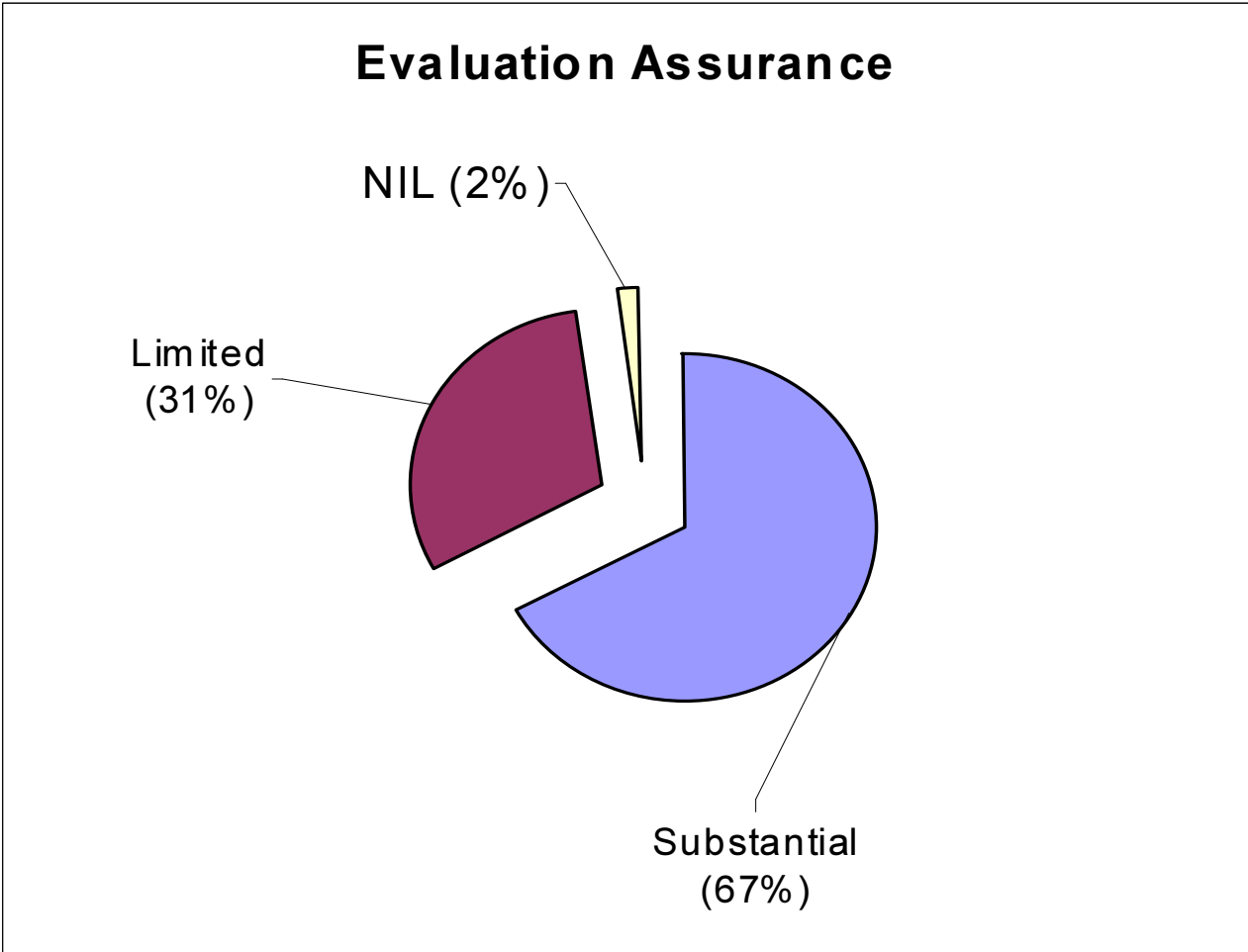
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 3](#).

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.

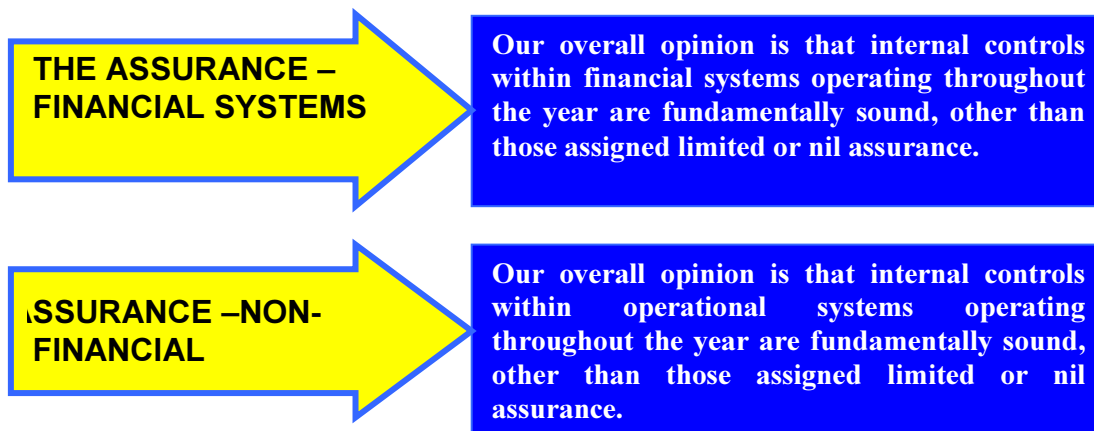
100% of Internal Audit work for the year to 31 March 2010 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted in 2009/10 are depicted in Graph 1 below. This shows **that 67%** of the systems audited achieved an assurance level of full or substantial assurance, whereas only **33%** 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 **96%** of priority 1 and 82% of priority 2 recommendations followed up had been implemented when the audit revisited the area. This is a significant improvement on last year's performance of 77% for all recommendations. I have therefore developed escalation procedures over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee. In particular, all priority 1 recommendations must be implemented as a matter of course.

Graph 1



From the Internal Audit work undertaken in 2009/10, 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 2010 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 35-36**. 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 CAA 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.
- Other review agencies
- *In the 2009 annual performance assessment of the service for Children and Young People, Ofsted rated the overall effectiveness of Children’s services as performing excellently, and in its commentary, said “Specialist provision and services for children and young people whose circumstances make them vulnerable is almost all good or outstanding. Nearly half of the special schools in the borough and services for looked after children, including the local authority’s fostering agency, are outstanding”.*
- *Adult Social Care Services was rated as “Performing Excellently” for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, by the Care Quality Commission in February 2010.*

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

- The of Use of Resources

Elements of Risk Management were included in the 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 2010

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 2009/10 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 2009/10. Key issues included:

- Absence Management systems audit – we reported that managers' compliance with the Council procedures on absence management needed to be reinforced. Significant improvement was required in the systems for recording, reporting and monitoring of sicknesses to ensure that all absences are recorded and reported accurately and correctly to ensure data quality.
- Control of Parking Permits systems audit – our review highlighted the need for more effective control over the issue and control of parking permits to residents and business users to ensure that the administration of permit is based on clear policy and procedures.
- Recycling of household waste contract monitoring – the management and monitoring of the contract was weak. We reported that effective monitoring should be supported by a clear organisational structure and documented procedures and processes which are complied with in practice. Moreover, there was a need to increase contractor and client accountability in order to deliver the benefits from the contract.

- Management of Climate Change, corporate review – our review found that effective arrangements were required to be put in place to manage climate change and carbon reduction programme across the Council at corporate and directorate level to achieve the ambitious carbon reduction targets set by the Council. In addition, the Council should proactively promote carbon reduction within the authority, providing a clear vision and leadership in this area.
- 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.
- Contract Management and Monitoring, corporate review– our audit of this area found that effective contract management and monitoring is required to ensure that there is clear corporate guidance on contract management of revenue contracts so that benefits are derived from improved monitoring.
- 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 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) Care Quality Commission
- d) Ofsted

Risk Management Process

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

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

- 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 2009/10 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 2009/10 year programme. The Internal Audit plan was agreed at the start of the year and revised in December 2009. A summary of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

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

Internal audit was also subject to a peer review by the Head of Audit of London Borough of Redbridge 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 for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

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

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

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

Minor recommendations were raised which are being addressed.

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 2010, the Head of Internal Audit from the London Borough of Redbridge 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 2008/09 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 £345 compared with the comparator group average of £393 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.