

REPORT TO: Audit Committee	DATE 26 June 2012	CLASSIFICATION	REPORT NO.	AGENDA NO. 8.1
REPORT OF: Corporate Director, Resources		Internal Audit Annual Report 2011/12		
ORIGINATING OFFICER(S): Minesh Jani, Head of Risk Management and Audit		Ward(s) Affected: N/A		

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 2011/12. The Head of Audit opinion is attached to this report at appendices 4 and 5.

2. Recommendation

- 2.1 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 2011/12**
- § **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 – Summaries of reports on specific commissioned work from Corporate Directors**
- § **Appendix 4 – List of planned audits undertaken in 2011/12**
- § **Appendix 5 – Summary Head of Audit Opinion**
- § **Appendix 6 – Detailed Head of Audit Opinion**
- § **Appendix 7 – 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 2011/12. 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 2011/12. 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 2011/12. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.
- 6.5 The Annual Fraud report will be presented to the Audit Committee in September 2012, but I have taken account of significant governance matters raised by the Anti Fraud team in 2011/12.

7 Audit Resources

- 7.1 The resources available to Internal Audit are set out in appendix 1 below. Internal Audit is provided in partnership with Deloitte as part of Croydon Framework contract. An in-house team of four auditors together with the elements of the senior management team works with resources provided under the Croydon framework arrangement.
- 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, although sickness absence for the team was 32.4 days per person on average, compared to 4.4.days

in 2010/11. Sickness was higher in 2011/12 as a member of the audit team was on long term sickness absence as reported previously to CMT and the Audit Committee.

7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2011/12, 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. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 3.

8 Summary of Audit Work

8.1 A list of the audits undertaken in 2011/12 is attached to main body of the report at appendix 4 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 2011/12.

8.3 A summary of the audit assurance resulting from audit reports in 2011/12 is provided in the table below.

Audits 11/12		Assurance				
		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	2	44	8	-	2
	Moderate	-	31	10	-	3
	Low	-	2	-	-	1
Total		2	77	18	-	6

- 8.4 The table shows that of 103 systems audits assigned an assurance, 77% 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. 17% of systems audited were rated as limited or nil assurance, and the remainder have not been assigned an 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.
- 8.6 From the Internal Audit work during 2011/12 financial year, we identified risks in the Council's systems for management of asbestos and legionella, contract management and monitoring of the vehicle removal contract, management of void dwellings, management of s.17 payments for children's services, management of assets in schools, management of direct payments to adults social care clients and implementation of the new parking system.
- 8.7 From our Internal Audit work during 2011/12, we can provide an overall assurance that the Council 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 2011/12 is set out in the table below.

Performance Measure	2011/12	
	Target	Actual
Percentage of operational plan completed in the year	100%	99.7%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date (*).	100%	95% 18 out of 19
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	79% 101 out of 128

* - One recommendation was outstanding at the time of the follow up, but I have received confirmation and evidence to show the recommendation has now been implemented.

- 9.2 As at the 31st March 2012, 99.7% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.
- 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. For 2011/12 as a whole, 95% of priority 1 recommendations had been implemented and 79% 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. The outstanding one priority 1 recommendations relates to an audit of Climate Change and the Corporate Director has confirmed, since the follow up audit, the recommendation has now been implemented.
- 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 2011/12 will be submitted and key points will be reported to a future CMT and Audit Committee. The results of benchmarking exercise for 2010/11 are attached at Appendix 7.

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 The council is required by regulation 6 of the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. It is appropriate to have regard to the CIPFA Code of Practice to determine what are proper practices.
- 11.2 The council is further required to conduct a review of the effectiveness of its internal audit at least once a year. The review findings must be considered by the council's audit committee as part of the consideration of the committee's consideration of the council's system of internal control. The subject report is intended to discharge these functions. The audit committee is designated as the

appropriate body for this purpose by paragraph 3.3.11 of the council's constitution.

12 One Tower Hamlets

- 12.1 The maintenance of an effective system of internal control assists the Council to meet its responsibilities in paragraph 4.1 above. This in turn contributes to the discharge of the Council's functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

13 Risk Management Implications

- 13.1 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risk highlights risks for the attention of management so that effective governance can be put in place to manage the authority's exposure to 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 :

None

N/A

APPENDIX 1

Internal Audit – Resources 2011/12

	Revised Plan	%	Outturn	%
In-house staff days	1250	69	1250	70
Deloitte / external	558	31	548	30
	1808		1798	
Gross days				
<i>less</i> Leave	124	38	114	36
<i>less</i> Sickness absence	114	36	114	36
<i>less</i> Non Operational Time	82	26	87	28
Unproductive time	320		315	
Net productive days	1488*		1483 *	

Internal Audit Budget 2011/12

	Budget £000	Actual £000	Variance £000
Salaries	441	438	3
Contract costs	207	206	1
Running costs	36	36	-
Central Recharges	115	115	-
Gross cost recharged	799	795	4

Internal Audit Reports 2011/12 – Summary of Audit Reports

Assurance ratings

Level

- | | |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Full Assurance | <i>Evaluation opinion</i> - There is a sound system of control designed to achieve the system objectives, and
<i>Testing opinion</i> - The controls are being consistently applied. |
| 2 Substantial Assurance | <i>Evaluation opinion</i> - While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/ or
<i>Testing opinion</i> - 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 | <i>Evaluation opinion</i> - Weakness in the system of controls are such as to put the system objectives at risk, and/or
<i>Testing opinion</i> - The level of non-compliance puts the system objectives at risk. |
| 4 No Assurance | <i>Evaluation opinion</i> - Control is generally weak leaving the system open to significant error or abuse, and/or
<i>Testing opinion</i> - 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 2011/12 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Council wide	Management of Asbestos and Legionella
	Extensive	Tower Hamlets Homes	Management of Voids
	Moderate	Communities, Localities and Culture	Vehicle Removal – Contract Monitoring - Systems Audit
	Moderate	Children, Schools and Families	Kobi Nazrul Primary School
	Low	Development and Renewal	Cash Incentive Schemes – Systems Audit
SUBSTANTIAL	Extensive	Tower Hamlets Homes	Risk Management
	Extensive	Tower Hamlets Homes	Housing Repairs – Systems Audit
	Extensive	Council wide	Control and Monitoring of Temporary Workers
	Extensive	Council wide	Establishment Control – Follow Up
	Extensive	Council wide	Core Management
	Extensive	Council wide	Back up and Disaster Recovery
	Extensive	Adults, Health and Wellbeing	Assessments and Income Collection – Systems Audit
	Extensive	Resources	Bank Reconciliation – Systems Audit
	Extensive	Resources	Pensions
	Extensive	Resources	HR and Payroll Systems
	Extensive	Resources	NNDR
	Extensive	Resources	Debtors
	Extensive	Resources	Council Tax
	Extensive	Resources	BACS Payments Follow Up

Assurance level	Significance	Directorate	Audit title
	Extensive	Development and Renewal	Homeless Assessment – Systems Audit
	Extensive	Communities, Localities and Culture	Prosecution Case Management – Systems Audit
	Moderate	Children, Schools and Families	Stewart Headlam Primary School
	Moderate	Children, Schools and Families	Arnhem Wharf Primary School
	Moderate	Children, Schools and Families	Cherry Trees Special School
FULL			
	Extensive	Tower Hamlets Homes	Plan for Continuous Improvement
	Extensive	Resources	General Ledger Systems

Summary of Audits Undertaken

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Asbestos and Legionella</p> <p>Corporate Review</p>	<p>May 2012</p>	<p>This audit sought to provide assurance over the Council's arrangements for the management of Asbestos and water installations to ensure compliance with relevant legislation, regulations and Council's H&S Policy. The Council has both specific and general duties to identify, assess and control the risk from asbestos containing materials in its buildings. There is also legal duty to ensure that Legionella control risk assessment of water systems are conducted and managed across Directorates.</p> <p>The Council's governance arrangement is to make each directorate responsible for the management of buildings under its use. Each Corporate Director is responsible for complying with the borough's Corporate H&S Policy, including Asbestos and Legionella management for their buildings. This is achieved by appointing an officer at second tier management level to lead on the coordination and management of health and safety responsibilities within each Directorate.</p> <p>Our review showed that the Council has both Asbestos and Legionella management policies. However, we noted that due to administrative errors, the implementation of these policies could not always be demonstrated. From a sample of 22 properties tested, we noted that in 13 cases, either surveys had been carried out, but not shared with the responsible building managers / attendants to action or surveys were due for survey re-inspection but this had not happened. For water installation, we tested a sample of 22 properties and in 7 cases, we were unable to obtain evidence of timely inspections.</p> <p>We noted information of surveys and water risk assessments is held locally, and is managed locally by directorates. We have recommended consideration be given to holding information of surveys centrally to ensure all surveys are planned, coordinated or actioned in a timely manner. This will reduce the risk of survey re-inspections or full surveys not being carried out in a timely and organised manner and the consequential risk of the Council being in breach of HSE regulations.</p>	<p>Extensive</p>	<p>Limited</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Asbestos and Legionella Corporate Review	May 2012	<p>We also noted each directorate has local arrangements for procuring a supplier to carry out surveys for asbestos and legionella. We have recommended consideration be given to the creation of a corporate contract and that a cost-benefit analysis be conducted, considered and discussed at an appropriate forum to deliver, possibly, better value for money. Finally, we also recommended risks associated with asbestos and water installation management be recorded on the Council's JCAD risk management system as none had been identified on the system.</p> <p>All findings and recommendations were agreed with the Service Head, -Property Services and Corporate Director, Communities, Localities and Culture. Final report was issued to all Corporate Directors and Directorate H&S Champions.</p>		

Management Comments

Management Comments CSF

- All non-school premises and all but 1 (a VA primary) non-PFI primary school have had asbestos surveys carried out, which comply with current legislation. However, asbestos management action plans need to be produced by the premises users on how they intend to manage any asbestos in their buildings. Corporate Health and Safety have met with all non-school premises managers and most schools to advise them on doing these. Advice had also been issued to schools through the Head teachers' Bulletin on how to produce an action plan. Secondary schools have been surveyed in the context of the BSF works, and where identified asbestos has been removed. PFI contractors have action plans in place. As part of the 2012/13 programme, arrangements are being made to remove as much of the asbestos as possible from non-school premises. The data collected as part of the asbestos survey will be transferred into CAPS.
- All CSF premises, including schools, are informed each year that they have to comply with the requirements to manage legionella. This involves undertaking a survey and risk assessment every 2 years and to undertake the maintenance identified. Where schools use BaTS this is carried out. All premises are asked, on an annual basis, to confirm that they are meeting these requirements whether they use BaTS or not. In the case of schools, this is not always confirmed. The surveys and risk assessments are held at site level, so would need to be collected if they are to be added to CAPS.

Comments of D&R (Head of Property and Capital Delivery), including Adults Health and Wellbeing

- These comments are written in the context of the management of our community and corporate buildings for which D&R Asset Management and FM teams are

responsible for.

- Legionella – a new contract is being awarded for the legionella checking of the community buildings, so as to ensure it is in line with policy. Our corporate buildings are checked with a risk assessment being undertaken as required every two years by a firm of specialists consultants, last checked in 2011. All highlighted issues have been dealt with relating to upgrading water pipes and valves.
- Asbestos inspections have been carried out on all our community and corporate buildings, actions have been taken where appropriate. There are no outstanding asbestos issues at the moment. Asbestos re-inspections are carried out every year.
- The above surveys are being uploaded onto the CAPs system so that we have robust records of survey that have been undertaken, including the verification of the actions being implemented

Comments from Communities localities and Culture (CLC)

CLC has undertaken the following work for its portfolio of buildings:

- Spring/summer 2009 - a full programme of asbestos surveys across the entire portfolio was carried out. The surveys produced state the re-inspection date as one year from the survey.
- Following the initial survey programme, a major programme of remedial works was commissioned. This programme was completed in autumn 2011.
- After completion of the remedial works programme a programme of re-inspections was commissioned and is nearing completion.

Overarching Comment of Head of Property and Capital Delivery

- There is a renewed focus on ensuring that the CAPs system is being fully utilised to hold all evidence, monitoring and risk assessments on all statutory testing that the Council needs to undertake on its assets. The working group will also be required to identify their budgets for the statutory testing, and there in an in principle agreement, that the commissioning of all testing is managed centrally, to ensure the efficient use of human and financial resources, as well as managing the quality of the process with regard to the surveys and reports. The current position is a gap analysis review on the statutory testing so as to ensure that all records are up to date and where they are identified as being missed, they are commissioned as a matter of urgency. New contracts are being awarded for the testing and risk assessment of community buildings for legionella to ensure compliance and that no buildings are missed off the list.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Voids</p> <p>Systems Audit</p>	<p>May 2012</p>	<p>The objective of this audit was to provide assurance that the systems in place for identifying, inspecting, repairing and re-letting the void properties are sound and secure.</p> <p>Our review showed that within their Initial Delivery Plan for the period up to March 2012, THH have a performance target for void turnaround of 24 days. Operational procedures for managing and monitoring void dwellings were in place. However; these had not been revised to include the Decent Homes Standards which have now been undertaken. The Void Monitoring Panel meets on a weekly and monthly basis and identifies the number of voids and their stages, achievement against targets and any specific problems and issues. Higher level performance monitoring is provided by the Head of Service to the THH Senior Management Team which considers more strategic and developmental issues.</p> <p>However, we highlighted a number of key weaknesses which could undermine the quality of data in the system as key dates recorded on SX3 system were not accurately recorded. Out of the 21 cases we tested, we were unable to find 6 completed V2's within the Comino system. We also identified differing interpretations made by officers of the dates recorded on SX3 as the notice received date that differed from the actual date recorded on the V2 notice of termination. There was also concern around the record keeping controls to ensure that all the required legal documents such as V2 Termination of Tenancy forms and other records such as Void key record sheets, safety certificates etc, were Scanned to the Comino System to ensure that the integrity of key data is preserved.</p> <p>All findings and recommendations were agreed with Director of Neighbourhood Services and final report issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments

Although limited assurance this audit is positive in the sense that it found a robust management of voids within the department ensuring the properties are let and managed quickly and effectively and within the required targets.

It is also positive that the items that have made the assurance limited are very easily fixed and are “administrative”, i.e. not showing a underlying failing. From discussions with audit the two main issues were the dates of V2 forms matching with SX3 and not being able to find paperwork. We are currently investigating if a) the paperwork was never completed b) it was completed and lost between Neighborhoods and scanning; or c) it was never scanned onto Comino. Actions being taken:

Review of all scanning processes and test of scanning systems being undertaken by Head of Neighborhoods

Process review and annual update being undertaken by head of Neighborhoods including dates on V2 forms.

As suggested by audit a new tick sheet to be added to all tenancy files to ensure that all documents are present before being send for scanning.

All actions are due to be completed by end of June.

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Vehicle Removal – Contract Monitoring	April 2012	<p>The objective of this audit was to provide assurance that there were sound controls in place for managing and monitoring the contract to ensure that the contractor delivered the services contracted for economically, efficiently and effectively. The contract was awarded following approval by the Cabinet on 10th March 2010. The Cabinet also agreed the draft policy statement governing the removal of vehicles.</p> <p>Our testing showed that there was a detailed contract specification, performance monitoring standards and default procedures included in the contract documentation. The contract was signed by the relevant parties.</p> <p>However, the audit identified that sufficient guidance needed to be offered to the Officers now charged with the contract administration. We have highlighted weaknesses in contract administration that could have been addressed had there been proper procedures and risk assessments of the contract, which could have resulted in more effective monitoring of the contract. Variations needed to be priced and controlled. Any permanent changes to the removal policy needed to be finalised and approved. Audit could not verify that the rates and prices being invoiced by the contractor had been checked prior to payments being made.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director, Communities, Culture and Localities.</p>	Moderate	Limited

Management Comments

Staff are fully aware of their responsibilities in regard to the monitoring of the Vehicle Removals Contract. It should be noted that whilst formal invoice checks were not evidenced, the audit did not uncover any mistakes with payments to the contractor. Formal systems have now been introduced.

Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cash Incentive Schemes Systems Audit	March 2012	<p>The power to operate the Cash Incentive Scheme (CIS) is provided under Section 129 of Housing Act 1988. This allows the Council to operate CIS under which council tenants are given cash grants to purchase property in the private sector and vacate their tenancy. The objective of this audit was to provide assurance that controls were in place for managing the CIS applications processed in 2010/11. The audit started in June 2011, but no applications had been processed for 2011/12 as the budget was awaiting for approval. The audit report was discussed at the exit meeting on 15/09/11 and was agreed in March 2012 after undertaking some additional testing.</p> <p>Our review showed that all applications for CIS were date-stamped and logged on a database. The cash grant paid to each applicant in our sample was in accordance with the approved scale of grants by the Cabinet in June 2008. The cash grants were paid directly to the tenant's solicitors. However, our testing of applications showed that separation of duties needed to be improved. During the audit, it was noted that a single officer was involved in a series of processes which could increase the risk of errors, omissions etc. A supervising officer sometimes reviewed the calculations, but there was no systematic process for evidencing reviews. Decisions of rejections were not reviewed and checked, for example.</p> <p>Criteria for prioritising applications were published on the LBTH website. However, in absence of delegated authority to officers to decide the criteria for award of cash grants, the Service Head - Housing Options agreed that criteria be approved by the Mayor and Cabinet at the same time as capital estimate is approved.</p> <p>We recommended that applicant's income and savings declarations are checked and verified and that processes are put in place to check and verify cash contributions promised by friends and relatives. The policy and system for awarding grants to a tenant on the basis of earnings of another person not a joint tenant or not normally residing with the tenant also needed to be reviewed. Key performance indicators and targets needed to be developed to assess the service efficiency and effectiveness.</p> <p>All findings and recommendations were agreed with the Service Head, Housing Options and final report was sent to the Acting Director of Development and Renewal.</p>	Low	Limited

Management Comments

The procedure for CIS has been updated to reflect the recommendations made. The CIS report to Cabinet to will be submitted when the capital estimates are adopted, which will be submitted to Cabinet on the 25th of July.

The review of policy and system for awarding grants to tenants on the basis of earnings of another person will be completed by the end of this month.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	Apr. 2012	<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 showed that the school has a full Governing Body and Finance Committee and retains minutes of the meetings. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; payroll management; school meals; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Scheme of Delegation was found to be out of date. • The Governing Body and Sub-Committees were not clearly defined and ratification of policies and key documents were missed from the minutes. Furthermore policies and key documents were not signed as evidence of ratification. • Declarations of business interest forms are not always retained. • Official order forms are not always completed. • Leaver forms were not always retained on the personnel files. • Whilst monthly payroll reconciliations are being undertaken, these are not signed by the Head Teacher to formally evidence the independent review. • Records to show how the school journeys had been costed were not presented to the Finance & General Purposes Committee prior to the journey. • Inventory records are not up to date. In addition results of the annual inventory had not been presented to the Governing Body. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

Management Comments

The Children, Schools and Families (CSF) Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by CSF schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by CSF Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities. .

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:

- by 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
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

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

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management Systems Audit	April	<p>The objective of this audit was to provide assurance that sound controls and procedures were in place for managing risks in Tower Hamlets Homes. From our testing we found good governance framework for managing risks. There was a risk policy, strategy and risk procedures in place. The Business Plan included reference to Risk Management Strategy and was current. Heads of Service and service managers were made responsible for identifying and managing risks for their service areas. A training programme was in place and workshops had been run for members and senior managers. Risk Management support was also provided on a one-to-one basis on request from managers. Most project management procedures and templates had a provision for risk management.</p> <p>We recommended that THH should include Risk Management in the Terms of Reference for SMT, DMT and other strategic forums so that these forums are actively engaged in identifying and managing strategic risks. Reports on strategic risks and how these are managed needed to be taken to SMT on a quarterly basis. Furthermore, the Risk Management agenda should be driven from the top and should also be flexible enough to have a bottom up approach for which an escalation pathway needed to be defined. Risk registers needed to be populated sufficiently to give a clear indication of the nature of the risk, its triggers, consequences and sound control measures to mitigate risks.</p> <p>All findings and recommendations were agreed with the Director of Finance and Customer Services and final report was issued to the Tower Hamlets Homes Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Repairs – Systems Audit	May 2012	<p>The objective of this audit was to assure management that there were sound and adequate systems in place for managing and controlling repairs to housing dwellings managed by THH. Review of the latest monthly Repairs & Maintenance budget monitoring report showed that total gross spend of £10.5M was forecasted against a full year budget of £11.0M.</p> <p>Our testing showed that an up to date booklet for managing repairs and maintenance was in place and available to residents on the website. Process maps had been developed and agreed with the contractor. The number of customer complaints and the number of complaints upheld had reduced significantly. Members enquires concerning housing repairs had also greatly reduced. Regular monitoring of the contract and contractors performance was undertaken via service critical indicators. The results were reported to the Repairs Board, Core Group and at operational Neighbourhood level.</p> <p>However, we were not able to fully verify that value for money was being obtained for the fixed average cost for internal repairs by way of benchmarking these costs against other similar organisations or evidencing actual costs from the contractor through cost analysis for the works. Matters concerning contractor’s insurances were not flagged up for monitoring purposes at the contract review meetings and it was not always possible to evidence that results of post inspections were being reported and used to identify any areas of poor performance. Furthermore, our testing showed that the job completion information was not being updated on the client system by the contractor within 24 hours of job completion on site.</p> <p>All findings and recommendations were agreed with the Interim Director of Neighborhood Services and final report was issued to the Tower Hamlets Homes Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Temporary Staff	April 2012	<p>This audit was undertaken at the request of the Audit Committee held on 20th September 2011. The objective was to provide assurance that the systems for procuring, controlling and monitoring temporary staff were sound and secure. The audit work started on 30th October 2011. The scope of the Audit was agreed with the Chair of the Audit Committee.</p> <p>The governance arrangement for controlling and monitoring of temporary staff is through the People Board and individual Directorate DMTs. The guidance notes for managers together with supporting protocols and procedures on procuring and managing temporary staff was revised in October 2011 and is available on the staff Intranet and covers temporary workers procured via an employment agency, a sole trader or a Limited Company. Audit testing showed that overall there were satisfactory systems in place for controlling and monitoring agency staff provided via the Comensura contract. All current assignments had been booked through Comensura, and employing agencies were required to carry out pre-recruitment checks. Good quality and comprehensive management information was being provided to the Council by the Comensura Relationship Manager. This data was analysed and specific management reports were being produced and reported to DMTs and the People Board for control and monitoring of levels and spend on Agency Staff. The People Board provides scrutiny of Directorate agency spend, length of assignments and other key issues.</p> <p>However, although managers have responsibility to carry out checks when appointing temporary staff, we recommended that there should be regular publicity and reminders to managers of Council procedures around pre-recruitment checks. All findings and recommendations were agreed with the Service Heads HR&WD and Procurement and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Establishment Control Follow Up audit	May 2012	<p>The objective of the follow up audit was to assess the progress made in implementing the recommendations made at the conclusion of the original report finalised in February 2011.</p> <p>Our testing showed that six of the seven priority 1 recommendations had been fully implemented and the remaining recommendation partially implemented. An Establishment Control Process and Procedure advising managers on creating, amending and deleting posts and undertaking staff structure was written up in August 2011 and posted on the Intranet. From our sample testing we can conclude that the Council's Establishment List as at 9th December 2011 was up to date. Budgeted posts reflected the actual number of posts and the Benefits Realisation Team conducted an analysis of the Establishment List as part of their monthly monitoring. There was a system in place for reporting Establishment Lists to service managers for regular review and monitoring. The maintenance of the Establishment List is carried out by Human Resources and Workforce Development (HR&WD).</p> <p>However, audit reconciliation between the staffing budget for the 10 service areas in the audit sample and the Establishment List costing contained some anomalies. The staffing budgets on JDE against which budgets are monitored did not accurately reflect the salary totals as per approved Establishment Lists in 6 service areas. There were cases where staffing budgets on JDE exceeded the establishment levels and also where staffing budgets on JDE were below the establishment levels. Necessary action needed to be taken to ensure that staffing budget fully reflected the level of establishment within each service as required by the Council's Financial Regulation CR 9.3.</p> <p>All findings and recommendations were agreed with the Service Head HR&WD and Interim Service Head, Corporate Finance and final report was issued to Corporate Director Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Core Management Processes	Mar. 2012	<p>The purpose of this audit was to provide assurance to management as to whether the systems of control over the Core Management Processes functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Corporate Policies to direct core management processes have been developed and publicised on the Council's intranet. • There is a robust monitoring and management of sickness absence process in place. • Disciplinary procedures which should be adopted in the event of a major/minor breach of the employee's code of conduct are in place. • The Workforce Development Team perform a training needs analysis to identify common learning and development needs across the organisation <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • There is no corporate policy for managing employees who are consistently late for work. In addition, we found evidence of inconsistencies in how line managers treat lateness in commencing the core working hours. • Testing identified that the template of the flexi-time does not account for 'other breaks' (if taken). One time sheet was arithmetically incorrect (overstated by 15 minutes), and flexi-time sheets were not checked and signed by the respective line managers. • Sample testing identified that only 60% of staff had an annual PDR at the time of audit. Data provided by the HR& WD showed a completion rate of approximately 68% with individual directorates ranging between 37% and 100%. • There is no evidence that employees are signing to confirm their understanding of the Acceptable Conduct Code. <p>The findings and recommendations were agreed with the Senior Manager, HR Strategy and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Back up and Disaster Recovery	March 2012	<p>This audit was designed to provide assurance over the Council's ICT Back up and Recovery arrangements. The audit covered the following areas:- Back up Procedures, Management of Back up Media, Back up Testing, Disaster Recovery Plan Management, Business Continuity Alignment, Disaster Recovery Testing, Alternative Processing Arrangements and Disaster Recovery Plan Maintenance.</p> <p>We raised six recommendations:-</p> <ul style="list-style-type: none"> • Procedures should be adopted to ensure that regular tests are carried out on a sample of backup media before they are placed into storage to confirm that media can be read. • The review of the ICT DR Plan should be finalised and the plan should be formally approved. The plan should be subject to regular review and procedures should be in place to help ensure that all key members of staff are provided with the most up to date version of the plan. • Documentation relating to the system configurations within ICT should be readily available along with the ICT DR Plan. This documentation should be reviewed and updated on a regular basis. • The Backup System policies should be subject to a regular review. • Procedures should be in place to proactively monitor the quality of tape media in the rotation cycle for all the backup tools in use. • The Council should ensure that there are documented restoration procedures for all backup systems in use. These procedures should be reviewed on an annual basis or following system change. <p>The findings and recommendations were agreed with the ICT Operations Manager and ICT Business Support Manager and a copy of the final report was issued to the Service Head Customer Access and ICT and Corporate Director – Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Assessment and Income Collection</p> <p>Systems Audit</p>		<p>This audit sought to provide assurance that sound controls were in place for managing assessments for charges for clients in residential care and nursing homes and the collection of associated income. A project was set up to procure an ICT system to replace the present mix of MS Access Database and Excel spreadsheets. This should improve the workflow processes and should make processes more efficient and effective.</p> <p>Our testing showed that in absence of an ICT system, there was initial screening of cases allocated to Assessment Officers. This kept the work flow assigned to officers who could effectively deal with it as effectively and efficiently as possible. Clear written operational procedures, protocols and templates required to be developed to ensure that high standards and consistent approach was adopted to achieve service objectives. A risk assessment needed to be undertaken to identify key risks around this service. A code of practice for encouraging Council 'appointee ships' from vulnerable adults needed to be set out and approved. The policy of billing service users outside the Council's Debtor's system required to be reviewed as part of the procurement of the new ICT system. This will ensure that all income is invoiced, collected and recovered via the Council's sundry debtors system, which should interface with newly procured system. We also recommended that the new ICT system should be capable of producing detailed management information and reconciliations on a range of key activities including the control and monitoring of debts and recovery action.</p> <p>All findings and recommendations were agreed with the Head of Finance and final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation Systems Audit	March 2012	<p>The objective of this audit was to provide assurance that sound controls were in place for managing and controlling bank reconciliations.</p> <p>From our audit testing, we could provide assurance that the reconciliation of the main bank account was carried out each month and all balances on the bank accounts were matched to the general ledger and subsidiary account balances. The reconciliation statements were reviewed, signed and dated by a senior officer. In addition to the subsidiary bank accounts feeding into the main bank account, there were a number of other bank accounts administered by individuals across the Directorates and a record of these other bank accounts was held.</p> <p>The Council's Financial Regulations require that reconciliations are undertaken in a regular and timely manner to ensure that transactions are correctly recorded on the accounting systems. However, there were no written procedures in place and that there was a single officer who completed bank reconciliation. In absence of written procedures, there is complete reliance on one officer. We recommended that the risk of a single officer creating the accounting entries and journaling these, where there is no other system/person generating them, should be assessed and mitigated by having compensatory checks/controls in place. There were significant inter-dependencies in carrying out bank reconciliation effectively. Hence we recommended that a pre-agreed time table for the process should be in place so that contributory information to be provided by other parties such as Cashiers, was provided on a timely basis. We noted that although each reconciliation was reviewed and signed by a supervising officer, in absence of a documented procedure, we were not clear as to what checks and sample tests were carried out by the reviewing officer.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head, Corporate Finance and Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	Mar. 2012	<p>The objective of this audit was to provide assurance to management as to whether the systems of control over the Pension functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Pensions Team have comprehensive policies and procedures in place. • Pension transfers in are authorised and the calculations are independently checked. • Reports are run on a weekly basis to enable employee change details on Resource Link to be reflected in AXIS. • Resource Link automatically calculates the employee contribution rate based upon the employee's salary or the Full Time Equivalent (FTE) pay for those working part time. These rates correspond to the rates prescribed by the UK Government Department for Communities and Local Government in England. • Life certificates are issued on an annual basis to all individuals receiving a pension abroad. Payments are withheld where life certificates are not returned. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • P3 (Opt out) forms are not always actioned in a timely manner. In addition P1 forms are not always held on file. • Final payment calculations are not always signed off by the officer completing it. • Dummy payment details are not always removed from the system once the estimate had been calculated. • Pension leaver forms are not always signed off by the officer certifying them. • Although reconciliations had been completed, they are not always signed off as evidence of review. <p>The findings and recommendations were agreed with the Pensions Manager and Service Head HR&WD. The final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
HR and Payroll systems	Mar. 2012	<p>This audit sought to provide assurance to management as to whether the systems of control over the Payroll functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Payroll policies and procedures are reviewed on an annual basis and are available to all staff. • Deductions are paid over to the relevant bodies in a timely manner. • The payroll run is completed efficiently and effectively in line with the payroll timetable. • P45s are produced in a timely manner for all leavers. • Payroll exception reports are reviewed in advance of each payroll run. • Regular reconciliation of the payroll system is undertaken and differences are investigated with details narrated on the reconciliation reports. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • New starter checklists are not always signed by one authorised signatory • Overpayment had occurred due to incorrect or untimely information being supplied. • Payroll amendment form had not been certified. • Documentation or approval for deductions is not always maintained on employee's file. • There are no performance indicators in place for the Payroll Team. • Evidence of the spot checks of starters and leavers payroll personnel files is not evidenced. <p>The findings and recommendations were agreed with the Payroll Manager, Central Service Manager, Senior Manager - HR Operations and Service Head HR&WD and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	Jun. 2012	<p>This audit was undertaken to provide assurance to management as to whether the systems of control over the NNDR functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Key procedure notes have been drafted and are available to staff. • Parameters in the NNDR management system are updated, checked and rate payers are notified of their annual liability in writing. • The Business Rate team reconcile the rateable list to the Valuation Agency Office's listings on a regular basis. • A dedicated bank account and accounting codes have been established for the collection of council tax. • NNDR suspense account postings are investigated and cleared on a daily basis. • Segregation of duties are in place between those raising invoices and the receipting of income. • The NNDR system is password protected to prevent unauthorised access to data. Amendments to standing data are verified by the Head of Service. • NNDR reductions are supported by a signed application from the ratepayer • Periodic inspections of void properties are undertaken. • Senior managers authorise write-off of irrecoverable debts once recovery action has been pursued. • Income collected is reported monthly to the Corporate Management Team. • The Council is part of a CIPFA NNDR benchmarking club. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • There were no major weaknesses identified as a result of our testing. However we did identify that internal procedures covering the key processes relevant to NNDR do not have version controls. • The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources. 	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	Jun. 2012	<p>The objective of this audit to provide assurance to management as to whether the systems of control over the Debtors functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Up to date policies and procedures are in place that have been communicated to the relevant officers. • Invoice requests are scanned on to the IBS system and an accurate invoice is subsequently raised. • The suspense account is reviewed and cleared regularly with a full audit trail being maintained. • Extensive actions are taken to recover sundry debts before write off is considered. All write offs below £20,000 are authorised by the Head of Revenue Services and the Director of Resources. • Password controls are in operation on the IBS system whereby restrictions according to job type and job role are applied. • Monthly performance indicators are completed to illustrate the amount of sundry debt that is collected, and whether this is in line with monthly targets <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • Unreconciled amounts are noted with an explanation detailing the reason for the item. A number of items which have remained unreconciled for over four months. • Ledger reconciliations had not been completed consistently for every code. However, the reconciliation in subsequent months would have identified anomalies. <p>The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	June. 2012	<p>The objective of this audit was to provide assurance to management as to whether the systems of control over the Council Tax functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Service objectives and priorities have been documented and are reviewed on an annual basis. Following review, they are communicated to all relevant members of staff. • There are clear policies and procedures for the administration and management of Council Tax collection and recovery. • There are effective systems in place for prompt billing and payment methods are sound and secure. • There are effective controls for amending standing data. Amendments to the standing data for 2011/12 council tax year were carried out accurately and in a timely manner. • The Council's financial procedures are complied with in managing arrears and write-offs. There are robust systems in place to ensure all recovery procedures are exhausted prior to writing off irrecoverable debt. • Suspense accounts are managed effectively and systems reconciliations are carried out in full on a regular basis. • Management information including performance data is produced, reported to management and monitored on a regular basis. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • There were no major weaknesses identified as a result of our testing. However we did identify that the reason for raising and subsequently cancelling council tax refunds were not always documented. <p>The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Payments by BACS</p> <p>Follow Up audit</p>	<p>April 2012</p>	<p>BACS (Banks Automatic Clearing System) is an electronic method of payment by which the system amalgamates all payments to the same creditor and batch processes straight through to the banks clearing system.</p> <p>This was a follow up audit and the objective was to give assurance that recommendations agreed at the conclusion of the original audit in March 2011 had been implemented. Our testing showed that both Priority 1 recommendations had been implemented. Out of the six Priority 2 recommendations, four had been implemented in full and two were not implemented. We reported that the risks associated with BACS payments had been identified and documented. The BACS failure form had been improved and a spreadsheet was maintained to capture the data. Monthly monitoring of the spreadsheet takes place and corrective action is taken within the month of where an errors occur.</p> <p>However, procedures for managing and controlling BACS payments, including roles, responsibilities and accountabilities for Financial Systems and the Payments team and any other parties needed to be formalised. An AP4 voucher was sent to the Financial Systems team to initiate or amend regular payments, but there was no standard format used when requests were made to terminate payments.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head Corporate Finance and Corporate Director, Resources.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homeless Assessments - Systems Audit	April 2012	<p>The objective of this audit was to provide assurance that the systems of control for managing homeless assessments are sound, secure and in accordance with the statutory requirements.</p> <p>From our review we noted that a five year Strategy for Homelessness was in place, which identified the Council's priorities and objectives. Written procedures were in place supported by process driven work flows incorporated within the Comino system used for homeless assessment. Homelessness assessments were being undertaken in accordance with the code of guidance.</p> <p>We also noted that between April and November 2011, 76% of cases assessed were decided upon within the recommended 33 day target. The Draft team plan included some key Performance Indicators viz. "% of cases aged 18+ completed within 33 days" with a target for 2011/12 of 90%, and "% of reviews resulting a variation to the original decision" with a target for 2011/12 of 15%. Information to measure these targets was being produced. However, these were not being reported to either the DMT or the SMT for monitoring purposes as agreed at an earlier audit.</p> <p>All findings and recommendations were agreed with the Homelessness Service Manager and Service Head Housing Options. The final report was issued to the Acting Corporate Director, Development & Renewal.</p>	Extensive	Substantial

Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Prosecution Case Management</p> <p>Systems Audit</p>	<p>April 2012</p>	<p>The objective of this audit was to assure management that the established processes for managing enforcement cases for Food Safety, Trading Standards and Licensing were followed by officers and that clear accountabilities were in place for effective decisions to be made at various stages so that the Council secured an effective prosecution for breaches in laws and regulations.</p> <p>Our review found there were well documented policies and procedures in place to guide officers. There was a comprehensive data base which was being shared by these services to record all information relating to each establishment. Each team was responsible for updating the establishment records following monitoring, complaints or information received. Case files were found to be following a structured format to ensure that there was consistency in case file lay out pending legal service review. Testing showed that only those officers with delegated authority had signed off and issued instructions to legal services for executing court proceedings.</p> <p>However, there was no service level agreement between Environmental Control and Legal Services. Therefore there were no agreed protocols to ensure that case files and correspondence were dealt with in a timely manner and that case conferences ensured that prosecution files fully met the standards required. It was noted that the services had a considerable success rate for cases brought to prosecution. These successes, performance and other related issues needed to be reported to the DMT and through various media channels, where appropriate to increase visibility and deterrence. During the course of the audit we highlighted an issue with the work load level within the Licensing Section, which could result in some important activities not being undertaken e.g. evening visits.</p> <p>All findings and recommendations were agreed with the Service Head, Community Safety and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	<p>Moderate</p>	<p>Substantial</p>

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stewart Headlam Primary School	Mar. 2012	<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 showed that the school has a Governing Body and Finance Committee. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; payroll management; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Copies of the Finance & Premises Committee minutes are not always signed or dated by the Chair of the Committee. • Declarations of business interest are not always completed by the governors. • The Health and Safety Policy and Write-Off Policy are not up to date and there is no evidence that the Acceptable Use Policy has been reviewed. • Official order forms for purchases are not always completed. • Whilst monthly payroll reconciliations are being undertaken, these are not signed by the Head Teacher to formally evidence the independent review. • Testing revealed that there was a lack segregation of duties between completing the leavers' forms and authorising the forms. • Inventory records are not fully complete and results of the annual inventory check was not presented to the Head Teacher or the Governing Body. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Arnhem Wharf Primary School	Apr. 2012	<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 showed that the school has a full Code of Financial Practice which includes financial regulations. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; personnel and payroll management; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Terms of Reference for the Resources Committee does not include details of the relevant financial limits, the frequency of meetings and the quorum requirements. The Terms of Reference in use dates back to 2008. • Terms of reference are not being updated and the outcomes minuted. • Results of the latest inventory check were not presented to Governors. In addition, there is no process of an independent check, sign off and certification of the check. • Equipment loans records are outdated and equipment is not returned in line with agreed timescales. The loan forms do not include details of the asset serial numbers, responsibility etc. • The Charging Policy has been subject to an annual approval process. . • Documentation used to support the costing figures of school journeys is not retained. Costing of school journeys is not presented to Governors. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cherry Trees Special School	Mar. 2012	<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 showed that the school has a full Code of Financial Practice that includes a Scheme of Delegation. Controls were adequate in updating the School Development Plan; control and monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; personnel and payroll management; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The School does not have Declarations of Business Interest forms for staff members with financial responsibilities. • The School currently reimburses staff cash amounts over the £50 threshold limit set by the Local Authority • The School does not bank the school meal income received from the only student to pay as a result of the small amount involved. Instead the school records the amount as received on the system and uses this amount for staff reimbursement. • The School does not have any record of the decision not to utilise a high interest bearing account to maximise the value obtained from surplus funds. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Plan for Continuous Improvement</p> <p>Systems Audit</p>	<p>March 2012</p>	<p>This audit sought to provide assurance over the procedures and controls in place for monitoring the Plan for Continuous Improvement which is a key planning document within THH. The Plan picks up improvement areas identified by management and the Audit Commission during their inspection.</p> <p>Our testing showed that there were 28 milestones, each with the measure of success, officer responsible for their achievement and expected dates for completion. THH developed a set of business critical indicators with which to monitor the progress of the Plan and reports were submitted to the SMT, the THH Board and the Council. The tracker and exception report were distributed to THH Heads of Services and the Strategic Management Team (SMT) monthly, and to the LBTH Client team (D&R) bi-monthly for their information and review. On a monthly basis, each deliverable was given a RAG status depending on its progress.</p> <p>Overall there were sound controls and monitoring in place. We made only one priority 3 recommendation to ensure that owners of milestones communicate all key changes in a deliverable to the Business Development Team within the agreed deadlines so that most up to date status regarding the progress of completing the deliverable can be made.</p> <p>The recommendation was agreed by the Director of Finance and Customer Services and final report was issued to the THH Chief executive.</p>	<p>Extensive</p>	<p>Full</p>

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	Mar. 2012	<p>To provide assurance to management as to whether the systems of control over the General Ledger functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • The Financial System Team has developed nine end-user manuals which have been updated within the last twelve months. • The coding structure is consistently adhered to and this is evident from the account code master directory. Amendments to codes, the introduction of new codes and deletion of old codes are controlled and co-ordinated strictly by the Financial Systems Team. • Feeder systems are run in a timely manner in accordance with the timetable. • The OneWorld GL system allows a user to notify a journal transfer, but will not allow the same user to post the journal to the accounts. The journal must be authorised for posting by a separate user and all journals are annotated with appropriate narrative. • A Closure of Accounts Group (CAG) has been established to facilitate the closure process, discuss and monitor ongoing progress and solve any problems arising. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • It is pleasing to report that no weaknesses were identified as a result of our audit testing. <p>The findings were agreed with the Chief Accountant and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Full

Summaries of Reports on Specific Commissioned Work by Corporate Directors

Appendix 3

Title	Date of Report	Comments / Findings
Bangladeshi Parents and Carers Association (BPCA)	May 2012	<p>This review was requested by the Corporate Director, Adults, Health and Wellbeing. The purpose of this audit was to provide assurance to the Council and Bangladeshi Parents and Carers Association (BPCA) that sound governance, financial control and financial management processes and systems were in place. The BPCA had been victim to financial mismanagement leading to fraud being committed.</p> <p>Testing of financial records showed that since April 2009, the reserve account had been depleted as at January 2012. A substantial amount of money had been transferred from the reserve account to the current account, from where a significant number of apparently unauthorised expenses and payments had been made with no audit trail being available. Severe financial mismanagement had occurred and the Management Committee had failed to take timely action. We recommended that both the police and the Charities Commission should be notified immediately. The organisation confirmed it had done so. The Chair of the Management Committee has now been replaced pending a possible appeal.</p> <p>The present Management Committee has undertaken to implement a series of 20 key recommendations to improve governance, financial control, personnel management, asset management and other areas of weakness identified by this audit.</p>

Title	Date of Report	Comments / Findings
Bancroft Tenant Management Co-operative (TMC).	August 2011 and March 2012	<p>The purpose of this audit was to provide assurance to the Council and Tower Hamlets Homes (THH) that appropriate governance and financial management systems were in place at Bancroft Tenant Management Co-operative (TMC). The audit was undertaken at the request of THH and Service Head, Resources - Development and Renewal.</p> <p>Testing showed that the TMC changed their bankers in 2008 to obtain favourable interest on deposits. The bank posted two cheques to the TMC; one for £100,000 and another for £50,000, so that these can be deposited into the new bank account. However, the cheque for £50,000 was not received by the TMC. The Police was eventually informed to investigate the matter. However, the Police have indicated that as the bank was not co-operating, the money would be unlikely to be recovered. Overall, the TMC has failed to react to this serious incident in a coordinated and vigorous manner.</p> <p>Our review showed that the governance of the TMC through the Management Committee was required to be improved significantly. Financial control and management needed significant improvement.</p> <p>We raised 24 key recommendations to improve governance and financial management. A subsequent follow up audit in March 2012, showed that 21 recommendations had been implemented. A new Management Committee had been established; a Finance & HR Sub-Committee had also been established – both with clear Terms of Reference. Financial systems and controls in some areas had been reviewed and improved. The TMC reported the bank maladministration to the Financial Ombudsman Service and anticipates that, if the Ombudsman finds Barclays were at fault, the bank will repay the stolen monies. The police have arrested an individual who has been charged and a trial is to taken place in a crown court.</p> <p>Overall, our follow up audit showed some improvement, but significant embedding of sound control was still required and THH needed to keep the TMC under regular review and monitoring.</p>

Title	Date of Report	Comments / Findings
Saffron Homes	Nov 2012	<p>The financial review was undertaken as part of the Action Plan for Safeguarding LBTH service users placed in supported accommodation with Saffron Care Homes. The action plan was prepared by the Team Manager, Community Learning Disability Services (CLDS), who requested the audit review. The audit was carried out at four different placements and the visits were undertaken with the support of the social worker - CLDS. Our detailed examination of financial records raised the following issues:-</p> <ul style="list-style-type: none"> • Cash drawings were made by a member of staff using a service user's cash card and PIN number over a period of time - none of these cash drawings were recorded in the cash book and accounted for. In total, some £7,910 of cash was withdrawn which was not accounted for and therefore, missing. • There was a practice prevalent in the homes for monies to be loaned from one service user to another without service user' knowledge and approval. • Financial record keeping was generally poor and in some cases expenditure recorded in cash book for each service user was not supported by receipts/invoices. Cash sums withdrawn from ATMs were not supported by ATM receipts. • Bank statements were not kept in order and were missing in some case which made the audit trail difficult to be established at the time of audit. • There was no regular checking of accounts and cash books by the proprietor and hence no early warning system was in place. <p>The loss of cash was reported to the Police for investigation. Reviews of service users in the three Homes were commissioned. Meetings were held with the proprietor to seek assurances that financial recordkeeping and security of cash cards is improved. Regular audits of accounts have also been introduced by the proprietor.</p>

Title	Date of Report	Comments / Findings
Raines Foundation School	Nov 2011	Following a series of allegations around impropriety within the financial function at the school an investigation was undertaken. The review found that there were a series of minor procedural weaknesses around the adequacy and transparency of audit trails. Collectively these weaknesses compromised the control environment .Following a disciplinary process revised controls were introduced and enhanced performance management was to be developed.

Title	Date of Report	Comments / Findings
Health and Safety Governance	April 2012	<p>This audit was requested to provide assurance that the systems in place for managing and controlling Health and Safety in the work place were sound, secure and adequate.</p> <p>The Council has a Corporate Health and Safety Policy dated November 2010. The governance of H&S is exercised through the CMT, the Corporate Joint Safety Audit Review Panel, the Corporate Joint H&S Committee, the Directorate Management Teams and the Directorate Health and Safety Committees. There is a Corporate Health and Safety unit within CLC whose role is to advise and support managers and staff across the Council to ensure that the Council is fulfilling its obligations under the Health and Safety at Work etc Act 1974 and associated legislation, and carry out programmed H&S audits. There are Directorate based H&S Champions nominated to perform the duties of lead DMT members for their respective Directorates to ensure compliance with the Corporate and Directorate Health And Safety Policy and Procedures.</p> <p>Our review showed that whilst there were both comprehensive Corporate and Directorate H&S policies and procedures in place, compliance with these procedures needed to be improved. Corporate and Directorate Joint H&S Committee meetings needed to be convened on a regular basis and in some cases regularly attended by officers who had key responsibility for taking Corporate and Directorate H&S issues forward. A separate review carried out by the Service Head, Community Safety highlighted similar issues and programme of action has already been implemented. The Corporate Director, CLC has requested audit to monitor the progress of the action plan by having monthly review meetings with the Service Head, Community Safety.</p>

Internal Audit Coverage – 2011/12

Audit Description	Significance	Assurance
Corporate Systems		
Control and Monitoring of Hospitality and Gifts	Extensive	Substantial
Asset Management and Disposal	Extensive	Substantial
HR Improvement – Self Service and Claims	Extensive	Substantial
Agency Staff and Consultants	Extensive	Substantial
CRB Checks	Extensive	Limited
Performance Management	Extensive	To be confirmed (TBC)
Management of Asbestos and Water Installations	Extensive	Limited
Leaver FU	Extensive	Substantial
Sickness Management	Extensive	TBC
Core Management Processes	Extensive	Substantial
Assistant Chief Executive's		
Members Enquiries	Extensive	Substantial
Members Allowances FU	Low	Substantial
Registrars FU	Extensive	Substantial

Audit Description	Significance	Assurance
Children, Schools and Family		
Schools Admissions and Exclusions	Extensive	TBC
Payments Control – S.17 of Children's Act 1989	Extensive	Limited
Quality Assurance Systems for Child Protection cases	Moderate	TBC
Contractors Final Accounts incl LAD's & Claims	Extensive	Substantial
Control of Special Education Fees Payments	Moderate	Substantial
Payments to Claims Based Staff	Moderate	Substantial
Purchases of Provisions Central Kitchen - FU	Moderate	Substantial
Raines Foundation School	Moderate	N/A
Youth Offending Team - FU	Extensive	Substantial
Common Assessment Framework - FU	Moderate	Substantial
Schools		
Beatrice Tate Special School	Moderate	Substantial
The Cherry Trees Special Primary School	Moderate	Substantial
Culloden Primary School	Moderate	Substantial
Globe Primary School	Moderate	Substantial
Guardian Angels Roman Catholic Primary School	Moderate	Limited
John Scurr Primary School	Moderate	Limited
St Luke's Primary School	Moderate	Limited
William Davis School	Moderate	Substantial
Arnhem Wharf Primary School	Moderate	Substantial
Holy Family Catholic Primary School	Moderate	Substantial

Audit Description	Significance	Assurance
Kobi Nazrul Primary School	Moderate	Limited
Lansbury Lawrence Primary School	Moderate	Limited
Lawdale Junior School	Moderate	Limited
Old Palace Primary School	Moderate	Substantial
Redlands Primary School	Moderate	Substantial
St Agnes Catholic Primary School	Moderate	Substantial
St Elizabeth Catholic Primary School	Moderate	Substantial
St Mary and St Michael Catholic Primary School	Moderate	Limited
St Peters (London Docks) CoE Primary School	Moderate	Substantial
St Saviours CoE Primary School	Moderate	Substantial
Stewart Headlam Primary School	Moderate	Substantial
Woolmore Primary School	Moderate	Substantial
Communities, Localities and Culture		
Case Management of Prosecution Cases for Trading Standards, Food Safety and Licences	Moderate	Substantial
Life Long Learning	Moderate	Substantial
Vehicle Removal – Contract Management	Extensive	Limited
Overtime	Moderate	Substantial
Control & Monitoring of PCN Income	Extensive	TBC
Parking Appeals	Extensive	TBC
Grant Certification	Moderate	Substantial
Health and Safety - Governance	Extensive	N/A
Highways Works - FU	Moderate	Substantial
Environmental Protection and Pollution Control	Extensive	Substantial

Audit Description	Significance	Assurance
Tower Hamlets Homes		
Bancroft TMO	Moderate	N/A
Housing Repairs	Extensive	Substantial
Financial Systems	Extensive	Substantial
Donegal and Sovereign Houses Current Contract Audit	Moderate	Substantial
Budgetary Control	Extensive	Substantial
Risk Management	Extensive	Substantial
Voids Management	Extensive	Limited
Plan for continuous Improvement	Extensive	Full
Caretaking Services FU	Moderate	Substantial
Probationary Tenancies FU	Extensive	Limited
Garages, Sheds and Parking Places FU	Moderate	Substantial
Health and Safety FU	Extensive	Substantial
Performance Management FU	Moderate	Substantial
Service Charges	Extensive	TBC
Development and Renewal		
Overcrowding Strategy	Extensive	Substantial
Community Building Portfolio Management	Extensive	Substantial
Homelessness Assessment	Extensive	Substantial
Cash Incentives	Extensive	Limited
Management of FM Contracts	Extensive	Substantial
Morpeth and Swanlea Schools BSF	Extensive	Substantial
Management of Climate Change FU	Extensive	Substantial
Homeless Payments and Placements FU	Extensive	Substantial

Audit Description	Significance	Assurance
Adults Health and Wellbeing		
Assessment and Income Control	Moderate	Substantial
Direct Payments	Extensive	TBC
Court of Protection (Receivership)	Moderate	Limited
Occupational Therapy Service	Moderate	Substantial
Older Peoples Day Centres	Low	Substantial
Framework I	Extensive	Substantial
Out of Hours Social Care - FU	Moderate	Substantial
Quality Assurance FU	Extensive	Substantial
Saffron Homes	Low	N/A
BPCA	Moderate	N/A
Resources		
Bank Reconciliation	Extensive	Substantial
Treasury Management	Extensive	Substantial
HR/Payroll	Extensive	Substantial
General Ledger	Extensive	Full
Creditors/R2P	Extensive	TBC
Debtors	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Council Tax	Extensive	Substantial
Capital Programme & Accounting	Extensive	TBC
Cashiers	Extensive	Substantial
Pensions	Extensive	Substantial
HB Overpayments & Recovery	Extensive	TBC
Housing & Council Tax Benefit	Extensive	Substantial
Housing Rents	Extensive	Substantial
Medium Term Financial Plan	Extensive	Substantial
Occupational Health	Moderate	TBC
Corporate Budgetary Control	Extensive	TBC

Audit Description	Significance	Assurance
Grant Claim - Teachers Pensions Return	Extensive	Substantial
Establishment Control – Follow UP	Extensive	Substantial
BACS Payments - FU	Extensive	Substantial
CHAPS Payments - FU	Extensive	Substantial
VAT FU	Extensive	Substantial
Value for Money		
Energy Payments	Extensive	Substantial
Asset Registers at Schools (CSF)	Moderate	Limited
Competitive Tendering	Extensive	Limited
Sickness Absence	Extensive	TBC
Computer Audit		
Council Tax	Extensive	Substantial
Chipside Parking	Extensive	Limited
Backup/Disaster Recovery	Extensive	Substantial
ISO Gap Analysis	Extensive	N/A
Network Security and FU	Extensive	TBC

Head of Audit Opinion – Summary

APPENDIX 5

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 2011/12

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 2012.

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 2011/12, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2011/12 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

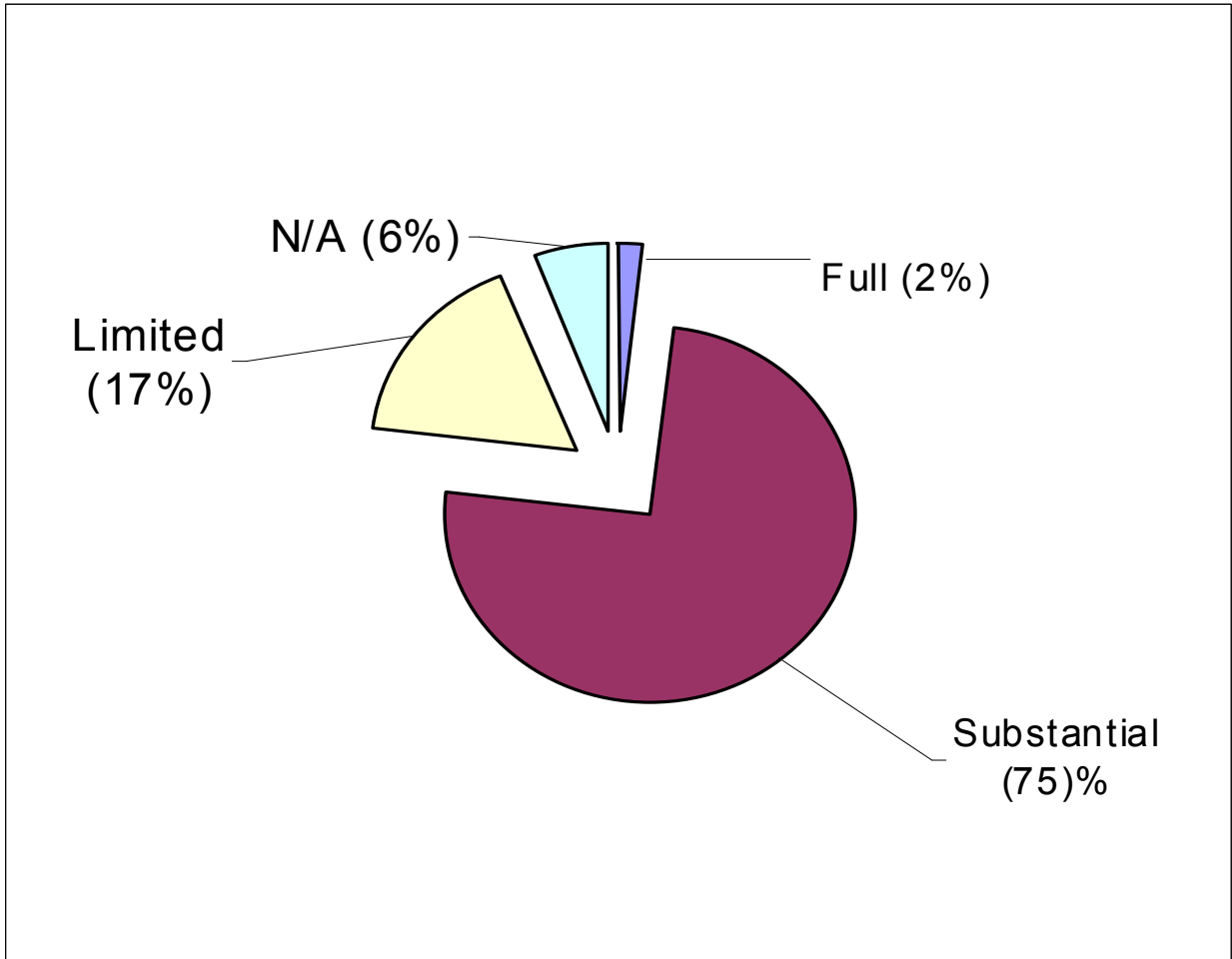
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at Appendix 4.

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.

99.7% of Internal Audit work for the year to 31 March 2012 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT in 2011/12 are depicted in Graph 1 below. This shows that 77% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 17% 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 fair performance by the Council, particularly given that 95% of priority 1 and 79% of priority 2 recommendations followed up had been implemented when the audit revisited the area. Escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

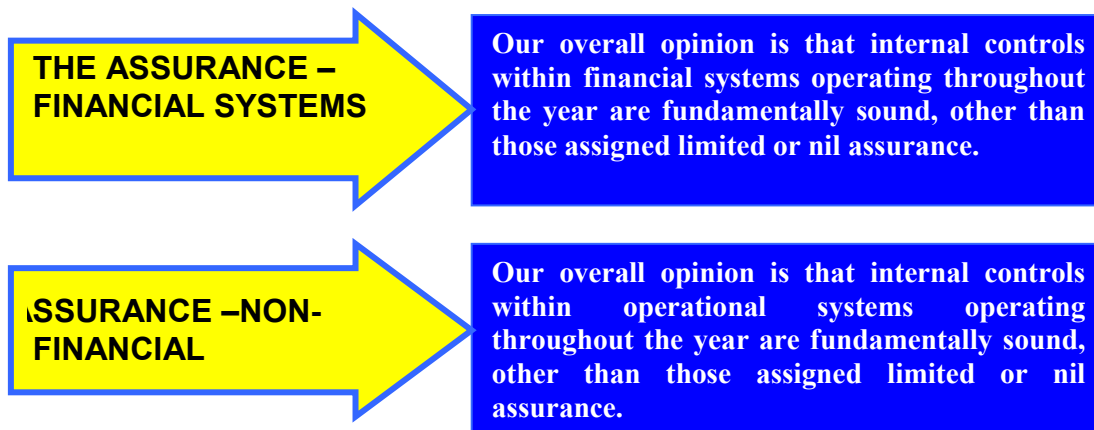
Graph 1



2011/12 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2011/12, 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 2012 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 59- 60**. 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:

- 1 In its Annual Audit and Inspection Letter 2009/10, 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.**

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.

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 – Head of Audit and Risk Management

June 2012

DETAILED REPORT

Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2011/12 year against the original Internal Audit plan; and
- 1 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 2011/12. Key issues included:

Asbestos and Legionella Management – Our review showed that the Council has both Asbestos and Legionella management policies. However, we noted that due to administrative errors, the implementation of these policies could not always be demonstrated. From a sample of 22 properties tested, we noted that in 13 cases, either surveys had been carried out, but not shared with the responsible building managers / attendants to action or surveys were due for survey re-inspection but this had not happened. For water installation, we tested a sample of 22 properties and in 7 cases, we were unable to obtain evidence of timely inspections.

We noted information of surveys and water risk assessments is held locally, and is managed locally by directorates. We have recommended consideration be given to holding information of surveys centrally to ensure all surveys are planned, coordinated or actioned in a timely manner. This will reduce the risk of survey re-inspections or full surveys not being carried out in a timely and organised manner and the consequential risk of the Council being in breach of HSE regulations.

We also noted each directorate has local arrangements for procuring a supplier to carry out surveys for asbestos and legionella. We have recommended consideration be given to the creation of a corporate contract and that a cost-benefit analysis be conducted, considered and discussed at an appropriate forum to deliver, possibly, better value for money. Finally, we also recommended risks associated with asbestos and water installation management be recorded on the Council's JCAD risk management system as none had been identified on the system

Contract Management and Monitoring – our audit of this area found that effective contract management and monitoring was required to ensure that there was clear corporate guidance and governance on contract management of revenue contracts so that benefits are derived from improved monitoring. Individual contracts were not risk assessed to ensure that monitoring effort was focussed on key risks. Monitoring meetings needed to be more effective and benefits e.g. efficiencies and savings emerging from each procurement needed to be clearly identified.

Management of Void Dwellings - we highlighted a number of key weaknesses which could undermine the quality of data in the system as key dates on SX3 system were not accurately recorded. Record keeping controls were weak and there was risk that the required legal documents such as V2 Termination of Tenancy forms and other records such as Void key record sheets, safety certificates etc, were accurately scanned to the Comino System to ensure that the integrity of key data was preserved. We also identified differing interpretations made by officers of the dates recorded on SX3 e.g. the notice received date differed from the actual date recorded on the V2 notice of termination. These inconsistencies increased the risk of the integrity of data within the IT system.

Management of S.17 Payments - This audit reviewed the systems for governing payments made under S. 17 of the Children's Act 1989 which are made to safeguard the welfare of children who are in need and, to promote the upbringing of such children by their families by providing a range of services appropriate to those children's requirements, including giving assistance in kind or in exceptional circumstances, cash. We found significant payments made to a company providing short-term accommodation for families assessed as having 'no recourse to public funds'. It was not clear how this company was sourced to meet the Council's procurement procedures. Corporate Director's Approval was completed to approve the waiver of procurement procedures for 2010/11, however the actual expenditure exceeded the approved amount. For 2011/12, approval was not obtained to use this company for accommodation. The policy on the use of S.17 was established in January 2011. However, we found a few examples of non-compliance with the policy. Payments made by cash should only occur in exceptional circumstances, but this type of payments appeared to be frequently used. Payments were also made outside R2P by using AP Vouchers. Recurring payments were made to the same creditor for long period of time without a review process.

Asset Management in Schools – Each school is responsible for the safeguarding and security of its assets. A register of assets should be maintained, kept up to date and subject to regular review. Our review identified that schools are failing to adequately record all their assets in their respective asset registers. Of the schools visited, a number did not have any policies and procedures in place in relation to the management of their assets. Although the Council has a dedicated software package for the recording of assets this is not being consistently used. Our testing also identified that the processes for recording and amount of details related to the assets differs significantly between schools. The school's assets are not always security marked and evidence of periodic assets checks was not maintained. Evidence of formal reporting of school assets to those charged with Governance was not routinely evidenced.

Implementation of Chipside Case Manager Parking System – The Council has been using Chipside since July 2011. Our review identified that the contract for the Case Manager application has not yet been signed despite requests from the Head of Parking for the prompt release of the contract so that it can be signed and the system licensed. In addition the Service Level Agreement (SLA) between Parking Services and Chipside Ltd has not been signed and does not have a start date. The SLA schedules cover standard and non standard services, service availability, problem resolution, service level reporting, support & service desk services, problem escalation, changes to the agreement and under schedule D, Change Control procedures.

Direct Payments - The Council uses direct payments for social care as part of the government's personalization agenda. The audit highlighted some weaknesses in the system around the need for direct payments Policy & Procedure to be updated; panel authorisation or Manager approval for the Service User Care Plan had not always been obtained; there is no system in place to undertake spot checking of service user expenditure and there was a backlog in Brokerage team in respect of monitoring of Service User expenditure.

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) Care Quality Commission
- c) 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:

- 1 Explains the Council's underlying approach to risk management;
- 1 Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- 1 Outlines key aspects of the risk management process; and
- 1 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 2011/12 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.

The Internal Audit plan was agreed at the start of the year and revised in December 2011. 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 is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 7.

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:

- 1 The work of external audit; and
- 1 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.

Benchmarking Club Results

1. Benchmarking Club Results

- 1.1. 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).
- 1.2. 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.
- 1.3. As part of the 2010/11 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.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £326 compared with the comparator group average of £367 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.